

THE NIZHNY NOVGOROD AGRICULTURE SECTOR

This chapter provides a brief description of the state of the agricultural sector in Nizhny Novgorod oblast at the time the project started in May 1997. It is based on readily available sources of information, which provide comprehensive data on the sector. Any concerns about the accuracy of the data are discussed under the appropriate headings.

The chapter's eight sections cover:

- the legal basis of agriculture in Russia;
- agricultural land and production in the oblast;
- the economics of agriculture in the oblast;
- the oblast government's involvement in agriculture;
- the farm reorganisation programme;
- the commercialisation of farming;
- vulnerable social groups; and
- the political context of agriculture.

The oblast's agricultural policy and expenditure on agriculture receive only limited attention because they were expertly described in two previous project reports.

1. The legal basis of agriculture in Russia

Since the late *perestroika* period, the legal basis of farming has steadily moved from state or collective ownership and central planning towards private ownership and commercial production and sales. This legal process, however, is not complete, while there remain strong economic, social and administrative obstacles to the development of agricultural markets.

The basic legal document governing business activities in the Russian Federation is the Civil Code, which was passed in its present version in two parts, in 1994 and 1995. Specific aspects of the law are amplified in federal laws and presidential decrees. Nizhny Novgorod, like other regions, has the right to pass laws in its own legislative assembly, while regulations with legal force are also issued in the Governor's name. A summary of the laws relevant to the project, written by the project's legal specialist, may be found in Appendix 1.

From the early 1930s to the early 1990s, farms in the Soviet Union belonged formally either to their workers ("collective farms" or *kolkhozy*) or less commonly to the state ("state farms" or *sovkhozy*). Private "peasant" farms were permitted in 1989, and private ownership of land in Russia in late 1990. The purchase, sale and inheritance of land are all permitted, as are land mortgages, but the failure to adopt a new Land Code since the collapse of Communist rule creates some legal confusion. Most farms have formally adopted the status of companies or partnerships, and on many farms in Nizhny Novgorod oblast, ownership of land and other farm assets has been distributed among the members (see section 3.5 below).

Small-scale private retailing of many types of produce - especially fresh fruit and vegetables, dairy produce, meat and poultry - was already permitted on the "kolkhoz markets" in Soviet times. The mass privatisation of industry and commerce between 1993 and 1995, along with other aspects of economic liberalisation, permitted the development of private processing and wholesaling. The full development of commercial relations in the agricultural sector is, however, inhibited by the lack of appropriate physical infrastructure (e.g. for wholesale markets).

Farmers' cooperatives are regulated under the Civil Code, the law on small businesses and three laws on cooperatives, including one specifically applying to agricultural cooperatives. These laws have various peculiarities. Under them, producers' cooperatives are effectively

obliged to register as *consumer* cooperatives (and may legally do so) if they wish to operate on a non-profit basis. Agricultural producer cooperatives, registered as such, must be commercial and profit-seeking, while only people who *work* for them may be full members with the right to vote on most matters.

Commercial banks have full freedom to lend to farms on commercial terms. They may take mortgages on land or agricultural equipment, while, where necessary, the law allows bankruptcy procedures to be pursued against agricultural enterprises like any other. An enterprise is legally deemed insolvent if its current assets are worth less than twice its current liabilities. The extremely limited use of bankruptcy proceedings so far arises from restricted practical knowledge of them and a reluctance to take action that would put people out of business and work. However, official statistics indicate that, at the end of 1996, less than one-third of the country's enterprises met the legal test of solvency.

Bankers in Russia, even more than elsewhere, tend to seek collateral for any loan they make. This partly arises from a provision in the Civil Code, according to which any loan must be backed by either collateral, interest penalties on default or third-party guarantees. Collateral is favoured because few borrowers and guarantors have enough cash for the other options. The failure of agricultural banking to develop arises not so much from the law as from the inexperience of commercial banks, the current weakness of agricultural markets, and bankers' reluctance to accept land mortgages in an illiquid land market.

Non-bank sources of finance may be inhibited by the fact that only banks have the general right to give credit. Other enterprises may only do so on certain conditions, and not regularly. This could at least complicate certain types of credit for input supplies. However, prepayment and post-delivery payment terms are not considered to constitute credit under this legislation.

In practice, however the legal framework may appear on paper, the social relations between farmers and government offices remain similar to what they were before the reforms of recent years. Officials at national, regional and local levels are used to a great deal of discretion over farmers' activities, and even independent farmers remain wary of officials. A similar conservatism is reflected in the laws which specify government interventions in agriculture. These have been somewhat reduced, but what remains is more of an evolution from central planning than any fundamental reform.

The most liberal legal changes have been in reducing the government's procurement of produce and its limitations on trade margins. In Soviet times, most agricultural produce (especially grain and red meat) was compulsorily acquired by the state at its own prices. State procurement still exists, but is now directed at regional level and, according to the law, the local state can acquire only what will satisfy its "own needs". (These are, however, broadly defined.) Farmers may sell the rest on the market. In Nizhny Novgorod, state procurement has been reduced to grains, pulses and flax only, and is ostensibly conducted through commercial channels. Supply contracts are reached by tender with farmers at the beginning of the season, stipulating minimum quality standards. Likewise, restrictions on margins have been largely removed in the oblast. However, procurement procedures remain far from transparent, with a state committee deciding upon a select group of traders to be involved in grain purchases.

The law provides for a wide range of state subsidies and inputs to agriculture. Most of these may be initiated and financed only below the federal level. Rather than developing proactive, targeted interventions, essentially the law has permitted the former system of across-the-board benefits to be maintained, although reduced in scale and to some extent in scope. The law provides for subsidies from federal, district or, most often, oblast funds, towards soil improvement, agro-chemicals, seed development, greenhouses, breeding stock, feed purchases, machinery leasing and new small farms. As shown in the project's first report on Public Expenditure Reform, 57 per cent of this oblast's 1997 budget allocations to agriculture were earmarked for farm subsidies and compensatory payments. Subsidies to the arable

sector amounted to \$17.50 per hectare, and animal feed subsidies to \$345,000 per livestock complex.

2. Agricultural land and production in the oblast

Statistical basis. This section describes the agronomic situation of the oblast's farming sector as it appeared in September 1997. The information is based on official statistics, mostly acquired from various oblast administration sources by the *Zerno* Fund. These provide comprehensive coverage of all aspects of agriculture, but the precise extent of their reliability remains unknown to the present project (examination of the statistical base has been proposed for addition to its Policy component). Two possible statistical weaknesses have been identified:

- the methodology, which requires all farms to provide detailed statistics to government on all aspects of farming, is essentially unchanged since central planning, and may lead to reduced accuracy or gaps in coverage as farmers feel less compulsion to respond to government requests;
- there may be some under-reporting of production and over-pessimistic presentation of financial results if farmers want to reduce their taxes and other obligations. If this does occur, it would bring the agricultural sector in line with the common Russian business practice of keeping two sets of accounts: an accurate one for a company's own use, and an "official" one to show to officials.

Either of these weaknesses, if present in the Nizhny Novgorod statistics, would seem likely to reduce reported production figures and make financial results seem worse than they are. This would partly offset the generally declining trend which the figures show. However, there can be no doubt that the tone of agriculture in Nizhny Novgorod oblast in 1997 is one of deep depression, with few signs of any major upturn.

Agricultural land. Nizhny Novgorod oblast has a total land area of 3.05m ha, of which 2.30m ha is available for agricultural use and 553,000 ha is forest. The oblast is large by Central Russian standards, and longer from north to south (430 kms) than from east to west (360 kms). In general, agriculture is more productive in its southern part than the north, for climatic and agronomic reasons. In the southern half, the soil quality is generally good, emerging into the extremely productive "black earth" (*chernozyom*) soil of Southern Russia. In principle, large-scale grain production can be expected to be profitable there. In the north of the oblast, the summer season is estimated to be two weeks shorter than in the south. Much of the northern area is forested; in agriculture, it might be most suitable for cattle farming or smallholdings.

However, according to Russian experts in Nizhny Novgorod, the regional differences in land quality have a paradoxical consequence in a period of reform: farmers further north are said to be more enterprising and capable of adapting to market methods. This is because they always had to find ways to supplement meagre agricultural incomes, while under central planning, the oblast's southern farmers were able to make a satisfactory living by sticking to administrative orders. Hence, farmers in the north are more ready to try out new sources of income. Some are said to be leaving agriculture altogether or becoming part-time farmers.

Table 1: Areas sown (hectares)			
	1996	1995	1991
Total sowings	1,410,000	1,430,000	1,790,000
Sown to grains	757,000	769,000	973,000

On November 1st, 1996, 1.77m ha of the oblast's land was officially classified as arable, a further 132,000 ha for haymaking use and 370,000 ha as pasture. Actual sowings of main crops in 1996 amounted to 1.41m ha, apparently leaving 360,000 ha of arable land fallow. Annual comparisons of areas sown are shown in Table 1.

	1996	1995	1991
Grains and pulses	1,190,000	832,000	1,540,000
Milk	434,000	522,000	894,000
Beef	37,400	43,900	90,600

Crop production. The 1996 grain and pulses harvest amounted to 1.19m tonnes, including 339,000t. of winter-sown grain and 828,000t. of spring-sown grain. This showed a sharp increase on the drought-affected harvest of 1995, while the average yield recovered to 1.6 t./ha (see Tables 2 and 3). Of the total production, 103,000t. was used on-farm for animal feed, 231,000t. retained for seed and 27,100t. paid in kind to farm workers. On-farm stocks increased by 162,000t. The total given for processing or sold (net of advances) was 754,000t. Deducting from this 82,200t. sold to farm workers and 106,000t. of grain purchases and acquisitions by the farms, we find a net marketed surplus of 565,000t. of grains and pulses. (This includes 420,000t. defined as "transferred for processing" rather than explicitly sold.)

	1996	1995	1991
All grains (t./ha)	1.6	1.1	1.6
Milk (kg./cow per day)	1.92	2.10	2.64

In feed crops, 523,000t. of hay, 616,000t. of straw, 1.31m t. of silage and 519,000t. of haylage were produced in 1996. Potato production was 96,300t. and other vegetables, 16,900t.

Livestock production. Farms at the end of the year owned 540,000 head of cattle, including 197,000 milch cows. The oblast milk herd averaged 226,000 head across the year, compared with 249,000 in 1995 and 339,000 in 1991. Milk production has fallen sharply in recent years, partly due to distress slaughterings of cattle.

Meat production likewise halved from 1991 to 1995, and fell further in 1996. Beef production fell to 37,400t. in 1996, and pork production was 8,800t. At the end of the year the oblast's pig population was 183,000, sheep and goats 9,271, hens 5.99m, including 3.11m layers, and there were 7,871 hives of bees.

3. The economics of agriculture in the oblast

Agricultural markets. This sub-section summarises the information available on market arrangements for cereals, meat, milk and fresh produce in the oblast, and the known potential for the development of farmers' cooperatives.

Farmers' sales of grain can take any of three forms. The first is by sale to traders operating under the government grain procurement system. Alternatively, farmers can sell either directly to mills and distilleries or to private traders, who sell the grain on. A small number of

farmers have installed their own mills, and a few have even established bread shops in order to be sure to receive the cash payments made for the bread.

In meat sales, a large role is played by the meat “kombinats” inherited from Soviet times. These may be either slaughterhouses or processing plants or both combined. However, the processed goods are sometimes packed elsewhere. In poultry, much of the production is ascribed to the Lindovskaya broiler unit, which has an installed capacity of 30,000 t./year and expects 1997 output of 5,200 t. Market demand for poultry is expected to amount to 30,000t., of which 20,000t. is imported and 3,000t. produced in other parts of Russia. The residual produced in the oblast would therefore be 7,000t. (Chicken production in 1996 was 12,700t., while 627m eggs were produced.)

Milk is generally processed at dairy “kombinats” in various places around the oblast. Milk is sold to them directly by the farms, which often complain that their payments for deliveries are among the least timely.

Farms’ fresh produce is sold directly at local markets which were built throughout the oblast in Soviet times. The farms either sell the produce directly or go through small-scale wholesalers, but there seems to be no assembly or shipping of produce to other oblasts. Likewise, there is no organised wholesale market. A KHF project which developed plans for one in Nizhny Novgorod city has yet to be implemented for budgetary reasons.

On the farmers’ side, there is some interest in the development of cooperatives. Two groups near Nizhny Novgorod have shown interest in forming a group for milk processing and sales; this is no doubt linked with farmers’ dissatisfaction with the performance of the existing dairy firms. There is also an embryonic cooperative for the general purchasing of agricultural inputs in the southern district of Arzamas. The potential for interest in a grain marketing cooperative will have to be assessed.

Farm profits and losses. The total net annual losses of the 775 farms in the oblast in 1996 amounted to nearly \$100m: the aggregated profit-and-loss accounts of all farms showed net losses of Rbs 546bn (\$98.1m) while the balance sheets showed them as Rbs 527bn (the two figures do not appear to have been reconciled). Only 170 farms were profitable while 605, or 78 per cent of the total, lost money (similar to the national average proportion). In 1995, 397 farms made net losses and the remaining 350 were profitable.

Farms’ aggregated turnover in 1996 was Rbs 1,520bn, while production costs were Rbs 1,925bn. In constant 1994 roubles, total agricultural production on the farms was stable at Rbs 610.2bn in 1996 against Rbs 610.1bn in 1995, according to the official figures. However, the balance between crops and livestock altered radically: in 1996 crop production rose by 23 per cent from Rbs 258bn to Rbs 318bn while production from livestock fell 17 per cent from Rbs 352bn to Rbs 292bn (in 1994 roubles).

Table 4: Aggregated financial data (all farms, bns of current RbIs)			
	1996	1995	Real % change
Net losses	546	137	+226.8
Turnover	1,520	1,185	+8.7
Production costs	1,925	1,192	+36.9
Total assets (end of year)	18,413	18,893	-17.4
Buildings, machinery and	13,037	14,537	-24.0

equipment			
Current assets (end of year)	232	159	+23.6
Total government subsidies	155.46	75.50	+74.5

Balance sheets. Not surprisingly, these developments were accompanied by a marked deterioration in the farms' balance sheets. Expressed in current roubles, the total assets of all farms in the oblast were little changed at Rbs 18,413bn at the end of 1996. But this masks a serious decline in constant terms, based on Russian food price inflation during the year of 18 per cent (a lower deflator than the 28 per cent implicit in the official statistics shown above). In end-1995 roubles, the total assets for end-1996 on this basis amounted to Rbs 15,605bn, a real decline of 17.4 per cent. The largest single component in this decline lay in buildings, machinery and equipment, the *current* value of which fell by 10.3 per cent, representing a 24.0 per cent decline in real terms. Current assets rose 45.8 per cent in current roubles to Rbs 232bn. Of this, as much as 92.4 per cent was in the categories of "accounts receivable" (67.8 per cent) and "other debtors", leaving only Rbs 12.5bn (5.4 per cent) in cash and liquid bank accounts. In practice, farmers say that many bad receivables are finally paid off in kind.

The largest percentage increase in asset values was in stocks, which rose 54.0 per cent in real terms to Rbs 1,678bn. Stocks of raw materials and supplies rose 71.7 per cent over the year to Rbs 754bn, while rearing livestock stocks rose 42.1 per cent to Rbs 615bn. However, economists of the *Zerno* Fund view the growth in stocks as a negative development: it indicates that the turnaround time for farm inputs and sale of goods has increased, while too much of farms' resources is tied up in inventory.

Debts, solvency and barter. Nizhny Novgorod oblast's farm sector, taken as a whole, appears to have been insolvent at the end of 1996, according to Russian legal and accounting criteria. There is, notwithstanding, a small minority of farms, both large and small, which have adopted a commercial approach to farming and remain financially liquid as well as (in many cases) profitable.

According to a recent analysis by economists of the *Zerno* Fund, current assets of all the oblast's farms taken together at the end of 1996 amounted to only 1.64 times their current liabilities. A Russian enterprise becomes legally insolvent if its current assets fall below twice the value of current liabilities. The analysis showed that that requirement had not been met in the sector as a whole in any of the four years 1993-96. However, the large differences from international accounting conventions make it hard to determine how close this comes to involvency according to international standards.

An acute shortage of liquidity is making many farms rely increasingly on barter trade. The indebtedness of the oblast's farms grew substantially during 1996, mainly in short-term loans from non-bank sources. It is not clear what these sources were. During the year, long-term bank loans outstanding declined from Rbs 16.2bn to Rbs 9.5bn and short-term bank loans from Rbs 22.6bn to Rbs 21.6bn. Long-term non-bank loans, however, increased from Rbs 127bn to Rbs 145bn, and short-term ones from Rbs 73.5bn to Rbs 274bn (partly due to a large increase in outstanding short-term arrears from Rbs 4.29bn to Rbs 48.0bn). Even netted of the arrears, this represents an increase in short-term non-bank loans of 179 per cent in constant roubles.

Farm visits have revealed barter transactions with partners as far away as Voronezh and Volgograd. The majority of large farm managers participating in a workshop in the south of the oblast said that barter accounted for about 30-40 per cent of their declared income and 20-30 per cent of expenditure. Typically, farm produce would be exchanged for fuel, fertilisers, pesticides or machinery spares. Their use of barter was closely linked with the failure of customers to pay for deliveries on time. The least reliable customers were large processing plants, especially dairies; one manager said he had waited for more than a year for deliveries

of milk to be paid for, under a contract giving one month's terms. Most of the other managers present responded by advising the use of barter instead of monetary sale; managers at another, similar workshop said they often accepted offers in kind instead of money when accounts were long overdue. The accountant of the only profitable farm represented at the first workshop, however, insisted that her approach was to ensure that contracts were properly drawn up and then take action against any customer who failed to observe their terms.

The extent to which liquidity problems in Russia are passed up the supply chain to primary producers such as farmers is illustrated in a recent report for the ICFTU¹, which estimated the average length of wage payment delays in 19 industries. The average in agriculture was 1.8 months, the same as in electricity generation and the wood, pulp and paper sector, and exceeded only by coal mining, gas and non-ferrous metals. The shortest delays were found in the "food" sector, averaging 0.6 month. The authors commented:

Enterprises closest to final consumers, such as those in the service sector or in the food processing industry, are the best able to pay wages, while those further up the chain have to wait their turn.

However, there appears to have been only one bankruptcy of a farm in the oblast to date: in 1995, a *sovkhos* was declared bankrupt in Semyonov district, north of the River Volga. Bankruptcy in general remains a rare instrument of business in Russia, but the DoALR is said to be contemplating three more farm bankruptcies. The *Zerno* Fund earlier did some preliminary work on insolvency, and is now planning to process two pilot bankruptcies, based on differing methods. There is no doubting the importance of developing bankruptcy procedures; nevertheless, it may be questioned how much of the solution they can provide to present difficulties when the great majority of enterprises are technically insolvent according to their official accounts, not only in agriculture but throughout the Russian economy.

Agricultural credit. As the description of farms' finances indicates, there are few creditworthy farms in Nizhny Novgorod oblast. A higher proportion of other types of agro-industrial firms are probably bankable, but still a minority. There are few creditworthy firms in most of the Russian economy, and farming is one of the least secure sectors.

On the other hand, the need for external finance on the farms is extreme. Where their finances can be sufficiently restructured to make them creditworthy, they are still likely to face acute shortages of working capital and funds for investment. Investment requirements are severe, as there has been little renewal of the capital stock in recent years. Machinery and equipment have fallen into a poor state of repair and much of it may be irrecoverable by the end of the present decade.

This project knows for sure of no bank which is giving genuinely commercial loans to farms. From the financial data reported above, it appears that a certain amount of bank credit has gone into the farming sector, but in 1996 the total outstanding was in decline. Some other types of enterprise related to agriculture, however, have recently received commercial credit. A bread shop and a grocery in working-class districts of Nizhny Novgorod, as well as a meat-processor-cum-grocer in a nearby town, are among the recent clients of commercial banks operating under the EBRD's Russia Small Business Fund programme.

Agroprombank, the ex-Soviet agricultural bank recently merged with Stolichny Bank to form the SBS-Agro group, has onlent soft loans to farms under a programme financed by the federal government. In August 1997 a national fund totalling Rbs 727bn. was announced for the latest tranche; Rbs 635bn. was to go through Agroprombank and Rbs 92bn. through Alfa Bank.

¹ *The Non-payment of Wages in Russia*, by Simon Clarke, Sarah Ashwin and Vadim Borisov (University of Warwick, for International Confederation of Free Trade Unions, Brussels), June 1997.

From the point of view of credit and mortgage potential, it is interesting to note that the total book value of agricultural land and forests on the 775 farms was no more than Rbs 4.38bn (about \$750,000) at the end of 1996, down from Rbs 4.99bn (in current roubles) a year earlier. With little trade in farmland actually taking place, land values are officially determined by rayon administrations according to a notional formula. By inhibiting the use of mortgages, the low stated value of agricultural land is as likely as the widespread use of barter to inhibit commercial lending to the sector.

The non-bank institutions with which this project will work in the credit field are all in need of considerable support before they can operate effectively in the market. Both the agricultural and banking qualifications of the ABF's present staff need to be improved. There is a company in Pavlovo, south of Nizhny Novgorod, which does leasing of Russian-made tractors and other equipment. It has indirect links with SBS-Agro Bank and may provide the basis for pilot leasing work, but it would also need a great deal of professional support. In Samara, further down the River Volga, the project has made promising contact with a German-backed commercial project which is investigating the leasing of agricultural equipment.

AKKOR, a state-inspired farmers' group, has shown interest in the development of an agricultural credit union or cooperative, although the financial basis and the extent of farmer support would have to be established. Potential difficulties under both the banking law and the laws on cooperatives would have to be investigated and, if necessary, overcome.

4. The oblast government's involvement in agriculture

As the legal survey demonstrated, the oblast's government can intervene in agricultural markets in various ways. For convenience, these can be divided between procurement of outputs, and subsidies. By 1996, state procurement had been reduced to a minority of production in grains, pulses and flax only, but the total value of subsidies increased markedly during the year.

Procurement of locally produced grains and pulses amounted to 71,800t. during the year, compared with output of 1.19m t. This represented about a 20 per cent increase in procurement since 1995, while the harvest was 43 per cent bigger. The largest volume of procurement was on the rye market, where it totalled 47,800t., while wheat procurements were 20,100t. and barley, 2,100t. Local state procurement amounted to 12.7 per cent of the net marketed surplus of 565,000t. of grains.

Table 5: Main government subsidies (Rbs billions, 1996)			
	Federal	Oblast	Total
Feed concentrates	27.2	19.1	46.3
Mineral fertiliser, agro-chemicals	8.7	28.3	37.0
Elite seeds	1.0	21.6	22.6
Pedigree herds and poultry	2.6	10.0	12.7
Land improvement	0.0	11.6	11.6
Total (all subsidies included)	53.9	121.5	175.4

The farms' aggregated profit-and-loss accounts show they received Rbs 155bn in state subsidies in 1996, an increase of 74.5 per cent from 1995 after taking inflation into account.

(The Administration's figures for actual expenditure, however, show subsidies to the sector little changed between 1995 and 1996, albeit with a large increase planned for 1997.) However, the official breakdown of farm incomes indicates total subsidies of Rbs 175.4bn, of which Rbs 53.9bn (\$9.7m) were from the federal government and Rbs 121.5bn (\$21.9m) from the oblast government (see Table 5). The largest subsidy item was for partial reimbursement of the costs of animal and poultry feed concentrates, while the largest financed from the oblast budget was the subsidisation of mineral fertilisers and agricultural chemicals.

On the taxation side, a total of 14 taxes are levied in 1997 on farms, farmers and farm workers in the oblast. These taxes are raised on or for: VAT, excise, company profits, land, forestry, company property, personal incomes, road users, vehicle ownership, vehicle purchases, transportation, education, housing, cash sales, water use, water resources, small businesses, retirement, social insurance, medical insurance, employment, and resales of cars and computers. Taxes can be payable annually, semi-annually, quarterly, monthly or three times a month, depending on the tax and the sums involved.

Farmers met by this project have complained about the complexity of tax requirements as much as their level. They reported that tax payments represented between 20 and 40 per cent of their expenditure. The perceived high level of taxation evidently leads to some hiding of resources in order to reduce tax liabilities, while the tax police's practice of sequestering or freezing liquid assets against tax claims is said to account for enterprises' reluctance to hold cash. Taxes are levied on numerous different aspects of farming, at the rates shown in Table 6. In some cases (e.g. payrolls), several taxes are levied on the same base. (All payroll levies for welfare and other requirements are defined as taxes for the purposes of this table.)

Table 6: Incidence of taxes affecting farms in the oblast		
Tax levied on:	Range of rates (%)	Exemptions
Sales of goods and services	10 - 25.9	
Personal income	12 - 46.5	New peasant farms and farm workers paid in kind
Company profits	13 - 35	Most farming exempt
Turnover	0 - 21.5	
Land	Variable	Waived for some farmers
Timber/forest	Variable	
Company property	1 - 2	Most farms exempt
Vehicles	Based on horsepower	Most farms exempt
Purchases	Petrol 25 Vehicles 0 - 25	
Payroll	Maximum 31.1	
Water	Variable	

Apart from general exemptions for farms which earn more than 70 per cent of their income from agricultural produce, special exemptions apply to new “peasant” farms in their first five years and to farms on the left (north) bank of the Volga (taking into account the latter’s greater tendency to have income outside agriculture).

There are, moreover, two exemptions from taxation of farm workers’ income which is paid in kind: no VAT is due even where the goods-in-kind are nominally sold to the workers (VAT on most foodstuffs is at 10 per cent), while the recipients are excused income tax on that part of their earnings. This incentive to farmers to make payments in kind will further reduce the circulation of money within the villages, as well as reducing farm workers’ freedom of manoeuvre. It is not clear how payments in kind are assessed for the various payroll taxes, if at all.

5. The farm reorganisation programme

Nizhny Novgorod oblast was the pioneer of farm reorganisation in Russia under a programme developed by the IFC and financed by the KHF, which was the precursor of the present project. This programme is now under Russian management with the name of “*Zerno* Fund”. Before the programme started in 1993, many farm units were formally privatised in that they had been converted from collective or state ownership into partnerships or limited companies. However, little else had changed in practice.

Under the IFC reorganisation, each member of a former *kolkhoz* or *sovkhos* may receive a share of the farm’s land or other assets under an auction system. The new owners are free to decide whether to farm their land individually, sell it or join with others to farm their land jointly. The outcomes have varied but in general at least one large farm has resulted from each auction; in many cases, the former farm units have not been divided at all. This is partly for the practical reason that the farms’ machinery and infrastructure were designed for the large scale of Soviet collectives, and only limited funds have been available for reinvestment. It is also reported that farm workers are fearful of setting up on their own because of the weight of debts inherited from the “parent” farms.

So far, 206 parent farms have been reorganised in four annual rounds, of which the latest was completed in July 1997 with the reorganisation of 75 farms. The first auction under the fifth round took place in August 1997. After the fourth round, the number of farms in the oblast had risen to 827.

The *Zerno* Fund has classified all farms under three categories, “strong”, “medium” and “weak”, according to their situation or that of their pre-reorganisation “parents” in 1994. This is based on criteria of profitability, total output of labour, and turnover per worker. Of 123 of the farms reorganised in the first three rounds of the programme, 31 were classified as strong, 63 as medium and 29 as weak (there is no information on the categories of the eight other “parent” farms which were reorganised in these rounds). The distribution between rounds is uneven. All five farms reorganised in the first, pilot round of reorganisation were in the strong category, while in the next two rounds, 26 were strong and 29 were weak. Of the farms reorganised in the second round, 80 per cent were unprofitable at the time of auction. Decisions on which farms to reorganise depend on the recommendations of rayon administrations, who seem to be most concerned about the poorest farms as well as fearful of conflicts arising over land division where the land is good. But there is some doubt over how much benefit this form of reorganisation can bring to farms which are insolvent at the time of auction.

6. The commercialisation of farming

Farm managers’ workshops revealed a sharp distinction between a small minority of farms which are run on commercial lines, and the majority in which these principles have yet to take hold. There did not appear to be degrees of commercial-mindedness. A small group of farmers saw a need to make profits, and organised their operations in order to find the best

market openings, maximise monetary incomes and reduce costs. The remainder demonstrated little understanding of market processes, and they included many farms which had been formally reorganised under the *Zerno* Fund.

The difference in attitudes did not necessarily coincide with size or forms of ownership. None of the 10 farms represented in the southern town of Sergach had been divided up, but one of them was markedly different in its approach to the rest. The other nine reported that 30-35 per cent of their income was received on time in cash, while 30-40 per cent was bartered. Their losses amounted to 20-30 per cent of turnover. The tenth farm, however, claimed it had been consistently profitable in recent years, while 90 per cent of its income was received on time in cash or by bank transfer and 10 per cent on barter terms, with no payment delays. This former collective farm was careful with the management of both its farm production and finances. (It was among the collective farms classed as “strong” by the *Zerno* Fund in 1994, before it was reorganised.)

At Krasnye Baki, in the north of the oblast, the 10 farms represented were more varied in character, and five of them could be said to take a commercial approach. Of these, two were new “peasant” farms, both set up from scratch in 1992 (one of them by a former industrial worker), while three were small or medium-sized farms resulting from the break-up under reorganisation of former *kolkhozes* or *sovkhazes*.

There are important economic and social obstacles to land reform and the commercialisation of farming in Russia. Farm units under the Soviet system were very large by international standards, with large fields, combines and other machines made to a large scale, and farm buildings and services usually located in one central place, serving numerous villages. It is physically difficult to break these up, especially when there is little money for re-equipment.

At the same time, the Soviet-style farm collective formed a complete community. Social facilities such as schools, kindergartens, hospitals and community centres depended on the farm itself, leading to a degree of social self-sufficiency which is unknown in countries of a different sort. Division of land also leads to social tensions of a different kind to those encountered in countries where land reform involves the redistribution of private landowners' land. Likewise, it is often said that agriculture under the Soviet system was severely overstaffed, leading to cost problems when profits become required. However, any loss of work or entitlement to land use to any member of a rural community can understandably be regarded as unfair by that community as a whole.

7. Vulnerable social groups

The project has not seen relevant data for Nizhny Novgorod oblast, but the report for the ICFTU quoted on p. 10 paints an alarming picture of poverty in Russia as a whole. It concludes: “Inequality has reached Latin American levels and poverty is close to the levels of South Asia if not, yet, Sub-Saharan Africa.” The report quotes the World Bank-sponsored Russian Longitudinal Monitoring Survey as reporting that in November 1996, 64 per cent of Russian households had a total income per head below the official subsistence minimum of \$66 per month; half of households had only one-third of the amount which they estimated they needed to live normally.

The ICFTU's report argues that “demonetisation” of the economy (and its linked problem, the non-payment of wages) has affected Russian households as well as enterprises. It points out: “People gathered and grew much of their food throughout the Soviet period, but in recent years there has been a mass return to subsistence agriculture. In 1996 about 90% of potatoes and 80% of vegetables consumed were home-grown.” The report does not give the source of the latter figures, but its researchers point to evidence that the collapse of the country's industries has forced many urban workers to rely on small *dacha* allotments for survival.

Evidence on where Nizhny Novgorod oblast's inhabitants fit into this picture is ambiguous. Another recent report by Troika Dialog Research² stated that the oblast's average income per head in 1996 was \$1,211, or 67 per cent of the national average (inhabitants of the city of Moscow enjoyed incomes of \$6,122). On the other hand, the ICFTU report implies that the oblast is among the most liquid in the country: it is placed 12th out of Russia's 89 regions, graded by the extent of non-payment of wages in January 1997, with its employees owed Rbs 384,000 worth of wages on average, or 49 per cent of monthly wage bills. However, these figures are sufficiently close to the national averages of Rbs 732,000 and 69 per cent, respectively, to coexist with the possibility of serious poverty - perhaps most acutely in the oblast's smaller towns and villages.

8. The political context of agriculture

A final comment is due on the political context of agricultural reform in Nizhny Novgorod oblast, based on certain observations of the *Zerno* Fund. One *Zerno* impact assessment report stated:

Most agriculture officials [in the oblast] received their professional training before the *perestroika* period, and they accord decisive weight to enterprises' production indicators and less significance to financial ones. They are therefore inclined to look critically on the changes taking place in reorganised farms, including their reorientation away from the maintenance of production volumes to profit generation. The majority of farms that officials deal with are not reorganised and the questions they have to sort out are not linked with reorganisation - acquiring fuel for sowing, seeking financial support, or attending general meetings of collectives... The reorganisation of farm businesses is associated in officials' minds with the weakening of agricultural departments' control.

The report points out that 13 of the 14 farms in Vad rayon, in the south of the oblast, were profitable in 1996. This rayon has consistently opposed farm reorganisation by the *Zerno* Fund. However, the report contrasts its commercially minded approach (which it describes as "socialism with a human face") with the more authoritarian approach it identified in a neighbouring rayon, reputed to be one of the most reformist in agriculture. Its author added that, *de facto*, Vad rayon reorganised its farms along similar lines to *Zerno* in 1996. The political characterisation of these two rayons was therefore more complex than their reputations would suggest. However, Vad rayon has the reputation of being conservative and its relative agricultural success tended to discredit the reform process, the report argued.

² Reported in *The Economist*, London, September 6th, 1997.