Reflecting Transformation
in Post-socialist Rural Areas
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Edited by

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The idea of a family farm has played an essential role in the economic and social development of the Nordic countries. The family farm was not only an enterprise; it was also a basis for a particular rural way of life. At the social structure level, family farmers acted as a stabilising force between the opposing classes of the industrial society. During the past decades, we have been witnessing a process in which the family farms have been gradually declining almost everywhere.

In the post-socialist transition period, the idea of a family farm was used again as a key political concept for deconstructing collective forms of agricultural production. Family farms were to be created as a basis for an enterprising middle class. This more general idea of a sacred middle class was culturally constructed in moral terms, which should remind us of the rhetoric concerning the previous avant-garde of the proletariat. The independent farmers were supposed to be law-abiding guardians of democracy and the common good.

This book is more or less a story of this most recent – and rather unfortunate – agricultural reform.

In many ways we can see in this book how the idea of the family farm did not work out in the post-communist transition period. We learn that the paths of the reform have been different but the basic lesson is clear. Much poverty and disorganisation has been caused in this process. At the end of the day, not many family farms exist and many of the key features of the previous times seem to prevail. This is especially the case in Russia, which is still dominated by large-scale farms and where the household plots are still very significant.

At this stage, the basic wounds of the radical decollectivisation are gradually healing. We do not want to propose any general key to agricultural problems in transition societies. However, we want to challenge the straightforward reasoning of the previous Western advisers from the World Bank and the IMF, who were so actively proposing the idea of a family farm. In this book’s articles many of the unintended effects of this programme are thoroughly analysed.

Within the Aleksanteri Institute, studies on agriculture in transition have been one of the research focuses for many years. This book is one step in the ongoing research process by several leading Finnish scholars in the field. It is based on the fifth Aleksanteri Conference in November 2005 attended by some of the most prominent specialists from the international research community.
We have previously dealt with issues of democratic transition and Western aid to Eastern Europe.

This book brings an essential viewpoint of our common intellectual effort when we want to face the most significant social processes in contemporary Europe.

Markku Kivinen
Director of the Aleksanteri Institute
INTRODUCTION

JOUKO NIKULA

The world's inherent complexity is a common cause of unintended consequences in social and economic action. This has been a classical theme in social sciences since the Scottish Enlightenment. Unintended consequences are more the rule than the exception in policy making. However, it is extremely difficult to take them into consideration in a real policy making process. Some years ago Markku Kivinen returned to this topic in his book Sociology and Russia. He analysed how the basic guiding principles and distinctions of the Bolsheviks, based on the spirit of the Enlightenment, resulted in a number of unintended consequences; certain issues became taboos, everybody knew about them, but nobody was aloud to talk about them. For example, instead of science prevailing over religion, reality was demonised when developments did not proceed in the way the Bolsheviks thought they should. Instead of a strong and powerful working class, the nomenklatura appeared, and instead of urbanization, the rural way of life continued.

In a similar manner, rural reforms in many post-soviet countries produced a number of unintended consequences. These reforms were guided by the ideal of a romanticized society of family farmers, living and working on their well-kept farms and enjoying a decent standard of living in rural communities. These farmers were to be the basis of a new rural middle class and – together with the owners of non-agricultural small and medium sized enterprises (SME’s) – the guardians of patriotism, democracy and the common good. Guidelines were set down by advisers from the World Bank and the International Monetary Fund (IMF), who preferred family farms or individual farms to collective enterprises (Lerman et al., 2001, Chapter 2, 1). To their way of thinking, all corporate forms of agriculture were inherently disadvantaged economically and socially, and just a transitory stage on the way to efficient family farming. There were certain differences in the adoption and realization of rural reform amongst post-socialist countries: in some countries reformers adhered firmly to the rules and recommendations set down by their advisors, while in other countries more independent decisions were in evidence.

In most countries the results were nothing like those envisaged by reformers. The “creative destruction” of the rural sector was evident in the struggle that
agricultural companies had just in order to survive and indeed many of them went bankrupt. Instead of efficient and productive family farms, the result was the almost complete de-capitalization of agriculture and a collapse of production. For example, the level of production in the late 1990s in Latvia was less than one third of its pre-reform level. At the same time in Russia, production had “only” halved, but the result would probably have been worse, if the direction of reform had not been revised, after the initial stage, away from complete decollectivisation towards the reconstruction of the collective sector. Most of the rural population relied on household plots for their survival. Reform was destructive not only as far as production was concerned, but more importantly, for rural communities. Social ties, which had been based on the collective farm as the main economic and social resource for the local community, were eroded, unemployment and general uncertainty sowed anomie, which in turn resulted in increasing social problems, alcoholism, and criminality.

Given the absence of economic resources in most villages, all sorts of organizations and cultural activities either disappeared completely or were much reduced. No modern public sphere or civil society emerged to fill this void, or replace the collectivity once provided by the collective farm. Local communities were characterized by the disintegration of social relations outside the family network. Considerable difficulties were met in creating local party organizations, interest organizations, and the third sector in general. Organized civic activity was effectively confined to study circles, the distribution of humanitarian aid and leisure activities.

Only since 2000 have the early signs of some developments in economic and social life in post-socialist rural areas become evident. In many of the Central European and Baltic countries this has been the result of joining the European Union, the accession funds and support programmes that membership has brought and revised agricultural and rural policies in these countries. In Russia, a slow recovery began shortly after the rouble crisis in 1998, which greatly improved the competitiveness of agricultural producers and the food industry in Russia. Another, even more important factor for development has been the arrival of external investors, who have seized the chance to invest in agriculture and created the necessary conditions for a general increase of agricultural production. The result is that now, more than fifteen years after the beginning of these agricultural reforms, the key agricultural producers in Russia, the Baltic countries, and elsewhere are very large capitalist farms or large agricultural holding companies.

This anthology is based on presentations given at the Aleksanteri Institute’s the fifth Aleksanteri Conference on 10 – 11 November 2005, in Helsinki, Finland, and it is devoted to the analysis of some of the above mentioned issues.
The volume is divided into two parts. In the first part, the focus is on the patterns and problems of transformation in post-socialist agriculture and agricultural policies, while the second part is focused mainly on efforts to revitalize rural communities and issues of local development.

The first two articles discuss developments in and the distinctive features of Russian agriculture from the early 1990s until now. Eugenia Serova analyses these issues from the perspective of the agrarian economy and agricultural policy, while Alexander Bedny’s study is based on the institutional approach of economic sociology, where institutions, understood as formal and informal constraints, play a central role.

Both authors point to failures in Russia’s agricultural reforms as the main cause for the current state of Russian agriculture, along with, until quite recently, inconsistent and faulty agricultural policies. These failures have contributed to the perennial problem of loss-making agricultural enterprises, which only manage to exist with the help of artificial respiration in the form of soft-loans and debt restructuring by regional authorities. The shoots of a successful transformation of the Russian agricultural sector have gradually withered away due to an insufficient and misplaced agricultural policy and the lack of necessary institutions of finance, training, regulation and interest representation.

Leo Granberg analyses the reasons for the survival of some of the key features of Russian agriculture, namely, the dominance of large-scale farms, the durability of household plots and the marginal role of family farms. According to Granberg, popular explanations – resistance, rational calculation or deficient skills – provide only a partial and, therefore, unsatisfactory answer. Instead, he focuses attention on other factors such as paternalistic management and the symbiotic relationship between large-scale farms and household plots, which preserve existing structures, even though they are disadvantageous for the company farm. Together with a deficient institutional environment, these factors prevent new paths of development from evolving in Russian agriculture.

In his article Ivaylo Vassilev takes a critical stance towards both the simplified liberal understanding of rural transformation and towards the simplified interpretation of path-dependency theory. According to Vassilev, an “emphasis on path-dependency suggests that nothing can change because past trajectories re-assert themselves, and a one-sided emphasis on path-shaping leads easily into a voluntaristic position that radical change is always possible.” For him, there are no identifiable paths in post-socialist Bulgaria, but the notion of legacy is more satisfactory for capturing the complex interrelationship of continuity and discontinuity in political, economic and legal processes. Legacies are “influences from the past that are only actualised by their coupling with certain presents, yet with largely unpredictable, and therefore, often unintended
and contradictory outcomes.” From this starting point, Vassilev analyses the difficulties structures and practices from the socialist past face in adapting in the current stage of transition and how these difficulties are influenced by present policies and practices, such as mechanisms for land restitution, lost markets and reduced subsidies.

Katalin Kovács reports on land use and ownership structures in three Central European countries, Hungary, Slovakia and the Czech Republic. After introducing the patterns of late socialist ownership and land-use systems and the scale and nature of the duality of large-scale and small-scale farming in these countries, she makes a short comparative analysis of privatization approaches to landed and non-landed assets and present land-use patterns. The second part of the paper focuses on the role of small-scale farming in the livelihoods of families living in rural areas and considers the impact of the dramatic fall in agricultural employment and the break up of formerly operating integration channels for dwarf-farm products.

Irina Râmniceanu and Robert Ackrill analyse the European model of agriculture and rural development policy choices in the new member states. They identify the policy choices made by the eight Central and Eastern European New Member States by classifying measures as either primarily competitiveness-oriented measures or primarily multifunctionality-oriented measures. The balance of these measures is then analysed in terms of the public funds attached, allowing a judgement to be made about the extent to which the New Member States are promoting multifunctionality and the European Model of Agriculture. Economic and policy factors that might explain the policy choices made are examined, and conclusions are drawn as to what policymakers can do if they wish to promote rural multifunctionality in the area.

Maarit Heinonen in her article evaluates the role of multifunctionality in post-socialist agriculture. According to her, multifunctional agriculture is a new concept in the new EU Member States of Central and Eastern Europe (CEE). However, even now very little is known about the role of different farm strategies in multifunctionality, their relevance, the degree to which multifunctional activities are taken up by farm households and used in rural policies, and their contribution to economically, ecologically and socially sustainable rural development. There is a need to challenge current analytical frameworks on multifunctional agriculture and rural areas, which are based mainly on the farm structures and other characteristics of Western agriculture.

The second part of the anthology begins with two articles on the village movement in Lithuania. After a short overview of developments in Lithuania over the last ten years, Arunas Poviliunas analyses the main features of the Lithuanian village movement. The dynamics that have geared the growth of the movement include rural policies adopted by the government which emphasize
only the development of agriculture, not rural areas as such. This political exclusion of rural communities is reflected in the growth of social transfers, poverty and in the lack of the necessary investment. On the other hand the dominant view in social policy is one where poor people are seen as an underclass rather than active members of the local community. Poviliunas argues that an effective rural inclusion policy must be based on an interactive interpretation of social exclusion. Empowerment and destigmatization are also necessary preconditions for effective strategies of social inclusion.

Aine Macken Walsh in her paper analyses the factors that make a village movement a success. She compares two rural villages and identifies historical and current social, economic, cultural and traditional factors. According to her, success is based on positive previous experiences with collective farms. These experiences include a trusted leader and good leadership which promoted the welfare of the village. This has helped preserve the feeling of community. The continued presence of local professionals – especially female – who had played a prominent role in social activities before was also crucial for a successful movement.

In her article Ingrid Oswald analyses rural life through the concept of an industrialized village. According to her, the concept contrasts with the “old European village of family farms” concept, and her analysis starts with the basic elements of the socialist and post-socialist rural way of life and then proceeds to compare them in Bulgaria, Russia, Estonia and the former GDR. Oswald argues that the peasant village no longer exists and that it will not be revived. Instead, new rural ways of life are emerging which are different from those in the West and those found in the pre-Soviet period.

Karina Lukin presents a study about the changing attitudes of the Nenets-people to nature and the village, beginning with Soviet efforts to settle nomads and create a new way of life for them. According to Lukin, rapid and often violent reforms from the 1930s through to the 1970s left little room for the Nenets to adapt to their new circumstances. However, they did adapt and shape the life in the village. Over the years, the village became part of the Nenets structure of places, and therefore the abolishment of the kolkhozes⁠¹ has been an attack against these “imagined communities” that have become very real.

Nathalie Ortar analyses the social differentiation of Russia’s rural community through an analysis of dachniki⁠² and their social relations. Some dachniki have stable roots in rural communities but there is also a large number of “newcomers”, urban workers with different habits. These newcomers maintain social networks with other dachniki and other villagers on the basis of

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¹ Collectively owned, large agricultural enterprise.
² Summer cottage owners.
an active family network and reciprocal exchanges of services amongst the *dachniki* themselves and between the *dachniki* and other villagers.

Maria Djakonova’s article concentrates on the problems of youth employment in Russian Karelia. In contemporary Russia, the rural youth is particularly exposed to the pressure of social and economic problems. The article highlights the main factors which influence changes in the labour market and describes the youth’s position on the rural Karelian labour market. She also identifies features of youth employment and unemployment and makes some recommendations how to mitigate social exclusion on the rural labour market and suggests some ways of solving youth employment problems.

All in all, the common tone of the articles in this book is a questioning of the merits of ultraliberal reforms in the countryside. In most post-socialist countries, the reconstruction of a new peasantry from former members of collective farms was a delusion. This delusion had very severe and unintended outcomes socially, economically and ethically. The articles also show that conclusions about a deepening destitution and anomie in post-socialist rural areas are premature. Indeed, rural people are innovative, adaptive and even entrepreneurial. A necessary precondition for success in the transition of rural areas in post-socialist countries is the adaptation of a consistent policy of rural development in its widest sense. In addition to developing agriculture, alternative forms of employment have to be created, such as tourism or small-scale non-agricultural entrepreneurship. It is especially important to support local communities in promoting development from below.

Current global tendencies suggest an increasing degree of concentration and vertical integration in agricultural production, both in Europe and in Russia. However, recent experiences have proved that it is not possible to “fabricate” a future based on western models, nor are future developmental patterns predestined by history. This means that the rural transition, transformation and restructuring of rural production, social and community structures, and cultural and normative patterns, is still very much an uncompleted process. Therefore the *Agrarfruge* will be with us for many years to come.
PART I

INSTITUTIONS AND TRANSFORMATION OF AGRICULTURE
CHAPTER ONE

RESULTS OF TRANSFORMATION OF RUSSIAN AGRI-FOOD SECTOR

EUGENIA SEROVA

Introduction

In order to assess the progress of agrarian reform in post-communist Russia one should consider not only the final point that has been reached but also the distance covered in the course of its implementation. Unlike in Central and Eastern European (CEE) countries, in Russia agriculture had experienced severe problems for long periods. Nevertheless, it had been the granary of Europe before 1917; 50% of the value of all Russian exports was in grain. In addition to this historical backwardness, seventy-four years of communism had left a deep imprint on the perceptions of the population, on the spatial and sectoral structure of production and on the rural infrastructure. Inevitably, Russia’s reforms took much longer than, for instance, the reforms in Hungary or Slovenia, and even in these countries not all the problems associated with the reforms have been overcome.

Russia’s reforms faced a communist legacy which not only considered the private ownership of land a crime but even outlawed the possession of a private tractor. The state was in charge of agriculture and fixed the parameters of the agricultural sector, and entrepreneurial activity was invariably prosecuted as a crime. Only if one considers this legacy, can one fully understand the new agricultural structure and system of land tenure that has emerged in Russia over the past 15 years and realize the achievements and limitations of Russia’s attempt to introduce a market-oriented agricultural system.

The most complicated task was simply to change the state’s agrarian policy from one based on a central plan to one based on the market. This change was strongly affected by the federal structure of the state and the degree of independence given to regional administrations in implementing agrarian policy. Another problem was the inexperience of policy makers and the agricultural establishment in regulating an agri-food sector in a market environment. In CEE countries, this lack of experience was partially overcome by accepting an EU
rules and regulations as a precondition for their accession as new member states. In Russia, a new political concept emerged only after a series of continuous contradictions and failures.

The evolution of Russia’s new farm structure

The evolution of a new farm structure in Russia was the product of several social and economic developments over the last decade. In fact, it also bore the impact of Russia’s history as a whole, but in this particular paper, I shall not examine, to any great extent, the historical background. In this section, I shall only consider the most important developments which affected the new farm structure.

As is generally known, Russia’s land reform and the restructuring of farms were based on a procedure called land sharing. The workers of the kolkhozes and sovkhozes as well as pensioners and employees in social service sector (teachers, doctors, etc.) received equal conditional shares of the landed property of their particular parent farm. These conditional shares were not marked out on the ground. Rather, they can be considered as a kind of option: the shares gave the holder the right to withdraw from his/her parent farm with a physical plot of land at any time without the permission of the other shareholders. Only the location of the plot had to be agreed with them. These land shares were legally transferable. In the reform of 1992-1994, around 12 million such shares were allotted to rural residents.

About 300,000 households used their right to withdraw from the parent farm enterprises and set up their own family farms. The remaining rural residents preferred to retain their original status as members of the collective farm. In the majority of cases they leased their land shares back to the farm enterprises. There was also the option of contributing their land shares to the equity of the parent farms, in which case the shareholder lost his/her right to claim a plot and instead became a shareholder in either a joint stock company or a co-operative. In practice, this option was rarely used.

Due to Russia’s poor legal culture, weak law enforcement, and the federal structure of the State, the land share arrangements were not registered properly: shareholders were unaware of the benefits and responsibilities involved in

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3 Collectively owned large agricultural enterprise.
4 State owned large agricultural enterprise.
5 Each member of collective farm received a certificate of ownership of parcel of land, which they could transfer for establishing their own farm or lease back to the large-scale farm. The shares were not converted into physically demarcated plots of land.
6 Land tenure issues are a subject of both federal and regional legislation, and a number of regions did not offer land sharing arrangements.
possessing shares. The agricultural enterprises which used the land did not actually pay for doing so. Besides, land which was leased in the form of shares was not identified on the map.

The situation changed somewhat after a presidential decree in 1996, which obliged all land users to enter into legal contracts with the owners of land shares. Since then, the average size of individual farms has grown due to the leasing of land shares. There is no official data, but only anecdotal evidence on the land share transactions that were made between farm enterprises. Obliged to enter into formal lease contracts, land shareholders were encouraged to choose more preferential lease terms. In this way a kind of market in land shares sprang up.

There was a further development concerning land shares after the crisis of 1998. The rouble’s devaluation led to a noticeable increase in import substitution, and to a significant growth in agriculture over the following three years (see below). Due to this growth, there was a sudden demand for land and its value increased. In these circumstances, the conditional character of land shares played a positive role in the development of the land market. Attracted by a high net return in agriculture and enforced for a vertical integration due to high transaction costs in food chain, external investors began to acquire farmland for their own farming operations. On the other hand, land shareholders had become aware of the rising value of their land and were not eager to sell their shares. Therefore, the leasing of land shares had become a major way to acquire land in this period.

If farmland as a result of land reform were divided into physical plots, the big companies, which now lease up to 300,000 hectares each in several regions, would have been obligated to invest in land consolidation and divert financial resources from their productive investments for this consolidation. Now they could accumulate a big number of the leased shares and only afterwards claim the lands in the corresponding farm enterprises for allocation in the physical terms and allow them to get these lands in big fragments.

On the other hand, the shareholders, who remained the owners of these shares, can claim a plot of land on the edge of the land used by the tenant after the expiry of the lease. In the case of physical land shares, this might result in a situation where someone’s plot was in the middle of a crop rotation of a tenant. Such a situation could release the land shareholder from the terms of the lease.

Thus, after 1998 the market in land shares developed very rapidly. In accordance with our estimate, 5-6% of the land shares changed hands annually. This large market required a sound legal basis, and for this reason a new Land Code and a Law on Farmland transactions was passed easily in the Duma in late 2001 and the spring of 2002, after several years of heated but unsuccessful public debate.
The evolution of farmland tenure

In the former USSR, all the land belonged to the state and was allocated to the kolkhozes and sovkhozes for use free of charge and without any time-limit. The kolkhozes and state institutes (such as factories, research institutions) also used to allot small plots of land to individual households for domestic subsistence production. There were several attempts to reform land tenure in the Soviet period but a radical reform of land tenure in Russian agriculture only started with the break-up of the USSR at the end of 1991.

In accordance with the Russian Constitution (1993), land regulation is simultaneously within the competence of both federal and regional authorities. The relevant part of the Constitution is not very precise and clear and has, therefore, created a certain contradiction in land legislation. In general, this provision concerning the various authorities’ competence in this matter is taken to mean that the federal power has the right to impose the principles of land legislation, while regional (level of the subjects of the Federation) administrations are authorized to issue detailed land laws. This legal ambiguity led to a situation where several regions used to have laws which contradicted federal legislation, and furthermore, the federal authorities have no real power to prevent regions adopting such laws.

All the land in Russia is divided into several categories such as farmland, municipal land, industrial land, land used for transport and other non-farming purposes, land for nature conservation, forest lands, land under water, and other land. Each of these land categories has its own legal regime. The most profound land reforms were carried out in relation to farmland, while other categories of land remained mostly in state ownership.

For the first time since 1917, private ownership of land was introduced by the Constitution of the Russian Federation in 1990. This property right was limited by a moratorium on the sale of land for ten years after the acquisition of land plots by individual citizens. Only the state was allowed to sell land freely. In the autumn of 1990, two laws were adopted which detailed the private ownership of farmland: the Law on Peasant Farms and the Law on Land Reform. These laws allowed citizens to have in private ownership a plot of land for household production, for gardening, for house construction, and for some other purposes. These two laws also envisaged land sharing by kolkhozes and sovkhozes, which meant that kolkhoz and sovkhoz workers could get a plot of land as their private property for individual farming. However, these laws did not make such arrangements obligatory. The terms of these laws were further

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7 Free right to sell was restricted by the right of first refusal provided to other employees of the enterprise and the restriction to sell only for agricultural use (see Wegren 2005, 67).
consolidated in the Land Code of the Russian Federation, adopted in the spring of 1991. This Code was limited by the Constitution and did not allow free land transfers between enterprises or between individual land owners.

Farmland reform in Russia was accelerated by the break-up of the USSR in late 1991. A Presidential decree and Government decision in December 1991 started the process of farm restructuring and land privatization. In accordance with these two pieces of legislation, the employees of kolkhozes and sovkhozes received land and assets in collective ownership. They were stipulated to share received lands into the conditional shares of workers and pensioners (lands were allotted also for social workers in the villages). The shareholders had a right to transfer these shares to their personal use for setting up individual farms. The shareholders could sell and rent their shares to the members of the same collective, pass them to their heirs, or realize them in the form of landed property when withdrawing from the collective farm.

A new Russian Constitution, adopted by referendum in late 1993, provided for the complete and unfettered right to own private property. So, the previous moratorium on the sale of land was lifted. In accordance with the new Constitution and endowed with a temporary extraordinary power to issue decrees equal in force to laws, the President issued a decree which abolished most of the articles of the acting Land Code of the Russian Federation. The remaining ruins of this Code became the most liberal land legislation in Russia in so far as it does not prohibit almost any type of land transaction. Only two restrictions remained in this piece of legislation: (1) the purpose for which the land is to be used cannot be changed voluntarily, and (2) regional authorities could impose upper size limits for individual land ownership.

At the same time, the incomplete nature of Russian federal land legislation coupled with the weakness of the federal powers and political uncertainty prevented the proper implementation of this land legislation. In addition, incomplete and inaccurate information created in the public’s mind the impression that legal prohibitions on private land ownership in Russia still existed and caused endless discussions as to whether it should or should not be introduced.

On the other hand, a plunge in agricultural production that lasted several years led to a lack of demand for farmland in the majority of Russia’s regions with inevitable repercussions for the land market. Consequently, obtaining a mortgage to buy land became rather problematic.
The structure of farmland ownership has not been monitored properly so here we can only present estimates. As can be seen from Fig. 1-1, 65% of farmland in Russia today is in private ownership (if land shares are considered as private ownership) with 32% of farmland owned by the state and municipalities.

Land transactions were very rare before the crisis of 1998. So, in accordance with federal legislation, almost all types of transactions (excluding mortgages since 1998) were permitted after 1998. Moreover, since the rouble’s devaluation and the start of a recovery of the agri-food sector, demand for farmland rose and a rather energetic agricultural land market emerged. However, the economic agents (farms, refining industries and trade) were in a constant state of uncertainty regarding the stability of the current land tenure system, due to the perpetual public debate on whether the sale and purchase of land was legal. This uncertainty has become a substantial impediment for the development of the agri-food sector.

This was the state of farmland tenure in Russia on the eve of new land legislation in late 2001 when a new Russian Land Code was adopted. However, the issues concerning farmland turnover were excluded from this code in order to make its passing through the legislature easier. In the spring of 2002, a special Law on Farmland Turnover was adopted.

Bearing in mind the system of land tenure in Russia before 2002, one should admit that the new land law does not herald a revolutionary change either in Russia’s agriculture or agrarian structure. The new law, coupled with the earlier adopted Land Code, codifies, normalizes, and completes Russia’s land legislation. This is the first significant aspect of this new land legislation. The

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8 A totality which consists of agricultural enterprises, food-processing and production input (fertilisers, machines, etc) industries and trade.
second significant aspect is that it sends a clear message to the economic agents
that the current land tenure system is here to stay.

The new law on the farmland turnover has imposed a ban on the non-
residential ownership of farmland. Foreign persons, legal entities with more
than 50% foreign participation in equity can only rent farmlands on long-term
(up to 49 years) leases. In this way, the new law sends a message to the
substantial number of Russian citizens who were concerned about the
acquisition by foreigners of Russian land. It also means that non-residents can
only own urban and industrial lands.

It is worth noting that in almost every East European post-socialist country
(excluding Latvia and Estonia) the ownership of farmland by non-residents is
restricted. In this respect the new Russian law is no exception to mainstream
developments in other transitional countries. On the other hand, under current
Russian economic and legal situation this restriction will have circumstance no
serious effects on the status quo. First of all, the ownership of farmland by legal
entities is permitted in Russia, and it is almost impossible to trace the real
ownership relations of affiliated holdings. Therefore, through several affiliates,
foreigners can control the final entities which own farmland. Also the ban on
ownership by foreigners provides a reason for foreigners to enter into formal
marriages with Russians to get access to farmland in Russia.

The law on farmland turnover envisages a right for subjects of the
Federation to put an upper limit on the amount of land in the ownership of one
owner. However, this limit cannot be less than 10% of the total amount of
farmland of rayon (the smallest administrative unit in Russia). This norm has an
anti-trust nature: it prevents the monopolization of access to land for agricultural
production.

The new law announces land shares  a right in a common property. It means
de facto the prohibition of land shares renting; now only collective renting is
possible. The sale of a share involves such a sophisticated procedure that it
becomes impossible for rural people. Therefore, under the new legal conditions
land share holders will tend to contribute there shares into equities of their
parent agricultural enterprises and lose their property rights to the land. It is a
result, which reformers of agriculture tried to avoid throughout the years of the
reforms, because it deprives people of their right to own land.

Both the collective rent and the rent from agricultural enterprises will
increase the price of land for outsider investors. This in turn will result in a
reduction of productive investments, which agriculture is in so much need of
nowadays.

\[9\] See footnote 3.
Other consequences of this norm are linked with the social support of rural people. The land shares were rather often given for rent with a life-long support: elderly rural residents usually passed their shares on to new owners, who in return undertook some life-long services and payments to these people. This was a significant social guarantee for the elderly rural residents, who have much less social security services than urban residents. With the new law this mechanism was also abolished.

It can be concluded that the new law (1) gave society a clear message about the long-term development strategy of private land ownership in agriculture; and (2) provided a legal ground for farmland turnover. It did not cause any revolutionary change either in agricultural production or agrarian structure. At the same time, the law may lead to a certain reduction of investment flowing into the primary sector and reduce the level of social protection of the rural elderly.

The structure of agricultural production

The current structure of agricultural production in Russia has an ambivalent nature. Farm enterprises worked an overwhelming majority of Russia’s farmland and accounted for 86%, whilst private farmers accounted for 8% and households for 6% in 2000 (Calculated from the Russian Cadastre Service’s data). This despite the fact that since 1991 the total area used for farming fell by 7.5% while the area worked by farm enterprises fell by almost 20%. However, less than half (40% in 2003) of gross agricultural output (GAO) originated from farm enterprises while the households’ share was 55% (Calculated from the Russian Statistic Service’s data). The deepest point of recession in Russian agriculture was in 1998 when the whole sector produced only 56% of the GAO of 1991, and the GAO of farm enterprises represented just 35% of the pre-reform level.

At first glance, it seems that farm enterprises held onto most of the land, while actual production was concentrated in individual farms. However, the data on household production (Fig. 1-2) shows that this sector has not significantly increased its output; potatoes, vegetables and fruit constitute a certain exception. In the pre-reform period, household plots mainly produced for self-consumption, and official data confirms that only 13% of their total output went for sale (Serova 1999, 7). Therefore, the noticeable fall in the contribution of farm enterprises to GAO simply reflects the equally noticeable fall in food consumption in the Russian Federation since the beginning of the reforms. Demand for agri-food products contracted due to a drop in the purchasing power of the population: the output of commercial (market oriented) farm enterprises fell to the same extent, whilst households kept on producing for their own
subsistence at the same level as before the reforms or perhaps with an even stronger orientation towards producing food for their domestic needs. The contribution of individual farms to GAO increased.

Fig. 1-2 Production of selected products by households in Russia, in mln tons

Source: Calculated from Goskomstat data.

The second reason for the remarkable growth in the share of households in GAO is linked to changes in relative agricultural prices: crop prices rose much more slowly than prices for livestock product. Households are more involved in livestock husbandry and the cultivation of high value products like fruit and vegetables, while farm enterprises specialize in cereal crops, oilseeds, and fodder crops. Thus, given these price ratio changes, the share of households in GAO has grown.10

The growth in agriculture which has occurred since 1998 resulted in an increase of the contribution of farm enterprises to GAO. This means that this type of farm unit was the first to react to changes in the market. Individual farms also reacted to the market positively and their share in GAO has also increased since 1998.

This period of growth in agriculture caused acceleration in farm differentiation in Russia. On the one hand, a certain number of farms fully utilized the window of opportunity opened by the rouble’s devaluation in 1998. Their revenues increased, they managed to pay back debts, they re-invested profits, and they attracted external capital. On the other hand, a certain number of farm enterprises and some of the area used in the past for agriculture were marginalized in terms of production and profitability. Some farms continued to

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10 The shares of various types of farms in the GAO are computed in current prices.
record losses over a period of several years, other farms accumulated hopeless
deaths, assets were depreciated, and land abandoned.

On the role of the most prosperous farms, one can observe not only a trend
towards concentration, but also a trend towards new ownership structures. These
farms are very different from collective enterprises (co-operatives) and are
usually organized as a joint-stock company. Although production co-operatives
are still the predominant form of farm enterprise (around 46% of total farm
enterprises), the best farms are usually either a joint stock company or have a
very strong manager who runs the farm almost as if he was the owner. A lot of
farms (especially in the most profitable sectors) are bought by outsiders, such as
mineral oil companies (Gazprom) or financial companies.

Farm enterprises have experienced not only a process of differentiation, but
also increasing specialization. Fig. 1-3 depicts the products which farm
enterprises currently produce. One can see that farm enterprises have specialized
in extensive crops: cereal and oil crops, and sugar beet. The first two types of
crops are exported and are the cash crops with the highest profitability level.
Farm enterprises produce hardly any potatoes or other vegetables, honey or
wool. As for basic livestock products, they produce less than half of total
production. However, the line on Fig. 1-3 indicates the loss in the share of
production of selected products by enterprises since 1991 in percent age points.

The most significant losses in production share for farm enterprises were in
milk, meat, vegetable and wool production. This was a natural result of the
irrational agricultural policy of the Soviet period. There were plenty of huge and
highly specialized greenhouses, milk and fodder farms (mostly sovkhozes
around big cities). They were operated on the basis of cheap energy, subsidized
grain feed and negligible transport costs. Naturally, price liberalization made
these farms heavily insolvent. During the reform these farms were subsidized
(subsidies for heating green houses, subsidies for grain feed for huge feed lots),
but in vain. On the other side, the consumption of meat and dairy products was
adversely affected by the much reduced purchasing power of the population.
Therefore, the biggest greenhouses and feedlots, faced with a rapid rise in costs
and reduced demand, went bankrupt. At the same time, households maintained
and even increased their level of production.
However, after the rouble’s devaluation demand for livestock products from the domestic producers was gradually regained, which made feedlots profitable again. They became attractive for external investors and are now booming. The contribution of households in GAO exceeded 50% whereas earlier, since 1998, its share had been falling. As noticed earlier (see Fig. 1-2) the production of selected products in subsistence farms remained quite steady during the period of the reforms and has not very significantly grown since the Soviet period.

In the middle of the 1990s, various studies of Russian agriculture began to register the emergence of a new organizational form in farming which was quite different from the main type of agricultural production unit in all the other post-Soviet economies (E.g. Rylko 2005, Serova & Khramova 2002, Uzun 2001, Koester 2003). This process has become especially evident since the crisis of 1998 when growth in the agri-food sector began to recover. There is no commonly accepted name for this type of farm in the literature: Rylko calls them “New Agricultural Operators” (NAO), Serova and Khramova “vertically integrated companies”, and in Russian official practice the term “agroholdings” is used. Whatever the name it unites a number of quite different kinds of agricultural companies, established in different ways and motivated by different incentives. Moreover, sometimes the structure of these forms differs dramatically. They are not necessarily organized as holding companies and not every firm is vertically integrated into a supply chain. In this respect the term “new operators” reflects the essence of the phenomenon in the most adequate way – something new in a seemingly traditional, large scale form.