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## Conference Paper

# Development of the Agrarian Reform in Russia

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**DEVELOPMENT OF THE AGRARIAN REFORM IN RUSSIA****Anna Anfinogentova****Evgeny Labaznov****Institute of Agrarian Problems,****Russian Academy of Sciences,****Moskovskaya, 94****Saratov, 410600, Russia****Fax: 845 2 24 25 38****E-mail:apk@mail.saratov.ru****Introduction**

The agrarian reform, taking place in Russia, is a part of the all-system economic transformations aiming to increase the efficiency of utilization of resources. The essence of the transformations is the search for the shortest way to an effective market-oriented economy. It was supposed in the late 80's that the Russian economy could be reformed in 500 days. However, almost 10 years have passed since the time the prices were set free, and the result of the period is the gravest crisis ever experienced in the last years.

We shall try to follow the progress of the agrarian reform since 1992 by employing transitional period indicators proposed by the European Bank for Reconstruction and Development (EBRD).<sup>1</sup> The above indicators were developed for the purposes of evaluation of the transitional processes in Eastern Europe, Baltic Republics and Community of Independent States. Judging by the majority of the indicators, Russia is just in the very beginning of the transitional period. Studying the situation in the agrarian sphere of Russia, we shall also apply general estimates in order to compare the situation in the agrarian sector with that in Russia in general. We intend to size up the private sector's contribution to the gross agricultural product, view the privatization and price liberalization processes, consider the competition and external economic policies, estimate the financial institutions' position and focus on the legal statutes formulated to facilitate the attraction of investments in the agrarian sector. Our scientific analysis of the present economic situation will be complemented by examples, which is expected to make the situation more clear and predictable for our scientific and business partners.

**1. Privatization****1.1. Privatization of Large Enterprises**

As on the year 1995 the situation with large-scale privatization in Russia was rated by EBRD 3 on the 5-point scale. That means that more than 25% of the large state-owned companies' assets had been either privatized or put on offer. But the problems related to the corporate management of such companies still remained.

Privatization is defined as conveyance of the state property into private possession or turning of the lines of business formerly conducted by the state over to private business.<sup>2</sup>

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<sup>1</sup> European Bank for Reconstruction and Development. Annual Report, 1995, p. 11-13.

<sup>2</sup> Dictionary of McMillan's Modern Economic Theory. General editing by David U. Pierce. Translated from English. Infra – M., 1997, p. 400.

Privatization brings along the introduction of private ownership and personification of the ownership rights and is essential for the development of competition and anti-monopolist legislation. So, what was and is going on in the agrarian sector of Russia beginning with 1992?

The basic features of privatization in the agrarian sector of Russia – privatization of large food processing companies and granting of the people engaged in agricultural production with property and land shares – were predetermined by the nature of the agrarian relations then existing in Russia. Evaluation of the above changes from the viewpoint of agricultural production efficiency, food market and security development will take the employment of such criteria of efficiency like the regional agricultural systems' final produce growth, decrease of the transaction costs and availability and sustainability of the food market.

But first of all we shall attempt to characterize the process of large-scale privatization in the agrarian sector of Russia following the measures taken in the 90's by using the above mentioned indicators of transition to a market-oriented economy complemented with indicators reflecting the regional agricultural systems' specific features.

There are about 20 thousand enterprises and associations currently operating at the Russian food market. One third of them are large companies. In the beginning of the 90's dominating in the sector were state-owned companies with their 90% contribution to the gross product operating under the system of centralized distribution of raw agricultural produce and basic food products. The latter means that every year the higher economic council would approve the annual farm product distribution plan with little distribution powers in relation to a limited number of minor products delegated to the regions. The prices of food products were fixed, and the subsidies applied to keep the retail prices unchanged amounted more than one third of the expenditure part of the budget.

Large-scale privatization in the sphere of food processing took place in the period between 1992 and 1994. The scheme of privatization applied to big food processing companies was such that the controlling interest in the company privatized was retained by its personnel and never by the agricultural commodity producers – suppliers of raw farm produce. As a result, the meat processing and dairy plants and other companies of the kind started to dictate the prices of raw materials, increased their wage funds and almost gave up making investments. This in turn led to a sharp decrease in the amounts of raw farm products delivered to big processing plants - the agricultural producers would prefer to start up their own small processing units. The amount of imported raw products grew.

Successful privatization in the agricultural sector takes observance of a number of general rules. First of all investment competitions should be held with banks encouraged to take part, which would make the process of privatization more market-oriented. A most important thing is to make the company to be privatized as attractive as possible, strengthen the competitiveness of its products and maintain and increase its technical potential by renewing the production equipment all along the production chain. And, finally, privatized companies should enjoy the support of the government extended by means of secondary issues of shares, restructuring and attraction of foreign investments.

Food producing branches are highly attractive – 11,5% of the overall amount of foreign investments in 1996. Quick turnover of capital, effective renewal of equipment and practically inexhaustible market are the factors that can make the amount of foreign investments increase. However, the overall financial instability, difficult political situation and still existing monopoly make investing in food production a quite risky undertaking.

More than 50% of the large state-owned food processing companies' assets are now privatized. The rate of large-scale privatization in the food processing industry is thus higher than the Russian average and

corresponds to some 4 points according to the EBRD scale. Notwithstanding this, food corporation management issues, raw material supplies, and competitiveness of domestic food products still remain burning problems.

Privatized food processing companies found themselves in the position when they could influence the prices of raw materials and final products. Not being shareholders to the processing companies, agricultural producers were in no opportunity to protect their interests. The previously existing normal economic relations within the food chain were to the largest extent broken up just following the privatization of large companies. The volume of food processing sharply reduced. Trying to improve the situation, the authorities granted the agricultural producers with the right to purchase the shares of food processing companies and attempted to arrange for «more fair» prices of raw materials and decrease the number of intermediaries, but all those measures did not bring any noticeable results. By 1997 the amount of the industry's gross product has dropped almost 2 times as against the 1990 level. The decline was the gravest for the meat and dairy industries. At the same time the 1997-1998 period was marked by a certain improvement of the situation with the food and specialized food industries (see Table 1).

Table 1

*Food Processing Volumes by Industry for the 1990-1997 Period, per cent of the base-year volume<sup>3</sup>*

Industry	Years					
	1990	1991	1992	1994	1996	1997
Food	100	91,0	76,4	57,8	51,0	54,6
Food, specialized	100	97,0	86,3	64,0	57,1	57,5
Meat and Dairy	100	87,0	65,2	50,5	36,8	32,5
Fish	100	96,0	77,8	54,7	60,3	59,7

Privatization in the agrarian and food sectors must embrace and harmonize the interests of all participants in the production chain and restrict the monopoly of large food processing companies at the internal market of Russia. In 1997 seven Russian privatized agricultural-food enterprises were included in the list of 200 largest industrial companies, their share in the overall volume of domestic food sales being about 70%. Among 20 Russian industrial companies with the highest labor productivity there are seven food processing plants. For instance, the volume of sales achieved by «Baltika» Brewery equals US\$145 000 per year per worker.

The years prior to the crisis of 1998 were marked by constant growth of food import from the countries outside of CIS. Thus, by 1997 the volume of import of vegetable oil, sugar, butter and poultry from Western countries increased 3,8, 2,5, 2 and 1,5 times, respectively, if compared with the corresponding period of the previous year. However, the quality of the imported goods was getting worse: more than 40% of the tested fish products and sausage, 27% of the poultry and more than 50% of the vodka and other alcohol drinks imported in 1997 did not match with the standards.

Privatization has strengthened the vertical integration of food companies and encouraged the establishment of dealer networks, regional marketing representations and own raw material base.

The Russian food processing industry has a high rating of investment attractiveness. Four huge companies – «Baltika» Brewery, «Rossia», «Babayevski» and «Krasni Oktyabr» confectioneries – show the highest profitability rate in the country (40%). The general situation in the industry is such that the available

<sup>3</sup> Data taken from

production capacities are utilized just some 30%. Thus, the rate of utilization of meat production capacities dropped from 57% in 1992 down to 25% in 1996, that of butter and margarine production capacities respectively fell from 67% to 29% and from 71% to 40% during the same period. Additional amounts of investments in the industry could bring about a rise in food production already in the nearest years.

## **1.2. Privatization of Small Companies**

The considerable transformations in the ownership relations that took place in the small business sector of Russia in the 90's were connected with the introduction of private land ownership, establishment of independent farms and development of small enterprises in the food industry.

There are 14 million owners of land and property shares in Russia today. However, the question of private farmland ownership has no sufficient legal grounding on the federal level, since the State Duma refused to adopt the submitted Land Code. In spite of this, there are local Laws on Land in force in some Russian regions, which permit to purchase and sell the agricultural land. Land auctions and rents of land shares are becoming a usual practice, but any effective market turnover of land has not been set going yet. The existing multi-layer agricultural system includes collective farms of various types of ownership, independent farms and personal land plots. The most part of the agricultural land has been formally privatized and is now owned by agricultural workers. More than 70% of the farmlands are in private or collective ownership. So, we can speak of a small progress on the way to new land relations in Russia, as a result of which a considerable part of the formerly collective farms' land and property has been privatized. However, the progress in land relations cannot be clearly estimated today, because the mechanism of trade in land has not been constructed yet.

The financial support extended by the state to independent farmers is not sufficient, making the latter decrease in the number beginning with 1998. The number of newly started independent farms is less than that of the farms that have seized their activities.

Small business first started to emerge in the agrarian sector in the first years of the agrarian reform. By the middle of the 90's the total number of small business representatives reached 800 thousands. However, after 1994 this number tended to reduce together with the number of small food processing companies, whose current contribution to the overall amount of the food processing industry's output is estimated to make up some 30%.

Food products in Russia are produced by small workshops, mini processing lines and independent small companies. Big companies are active in implementing the policy of merging small regional plants and factories, many of which are on the verge of bankruptcy. About 40% of the existing food processing companies are unprofitable. Most of them are small enterprises, which are still too weak to compete with big specialized plants in terms of quality of products. In 1996 small companies produced 10% of the total amount of meat products and almost 30% of that of bread, they contribute certain amounts of dairy, macaroni and confectionery products, but the technological level of production they apply and qualification of their personnel are lower than that at big enterprises. As a consequence, the processing they perform is less deep, the assortment of their products is poor as well as the control over the quality of the products.

However, small agricultural companies have certain advantages: they have their own raw material base, and lower production costs enable them to set lower prices. Small companies facilitate the development of competition at the food market. The rate of monopoly in the sphere of food production is on a decline in some regions, and a slight decrease in the prices of the food products produced by both big and small companies is observed.

Another advantage small, well technically equipped food-producing companies have is that they are more flexible in reaction to consumer demand fluctuations and easier to adjust to seasonal nature of production. A very important thing is that small companies create additional jobs and improve the social and financial situation in the area.

The current taxation system, unavailability of cheap credit resources and August'98 events pushed many small agricultural companies to the bankruptcy. In spite of all the hardships small business can still be revived in the agrarian sector. The more so, that the Russian government and many regional leaders consider support to small business one of their urgent tasks.

There is an increase in the number of intermediate marketing and service-providing enterprises currently taking place in the sphere of small business. According to the official statistics, such enterprises take almost a half of the Russian small companies' gross output. However, there also exist many expolar structures of various kinds, which stay out of the bounds of statistical surveys. Experts believe that no less than 30% of the Russian economy are controlled by criminal structures. For small agricultural business the percentage is considerably higher, exceeding 50% in some regions. Thus, the Governor of the Saratov Oblast D.Ayatskov is sure that as much as 80% of the total amount of financial resources are placed with the shadow economy<sup>4</sup>.

Privatization in the agrarian sector is an instrument to stir a fair competition among small companies operating in the food industry. At the same time small business should enjoy legal and financial support extended through a special agricultural enterprises support foundation.

Small agricultural business should also be provided with adequate support from the state, which is essential to reduce its transaction costs and make food products more competitive. In the meantime interference of numerous intermediaries and administrative control authorities on a good's way to its final consumer makes the price of that good increase many times.

EBRD notes that the process of privatization of small companies has been completed in Russia, and that the owners of such companies are granted with the right to sell their property. This is the only achievement Russia was awarded 4 points for, while all the rest of the indicators featuring the Russian transitional economy (5 out of 9) were rated 2. However, 3 points seems a more appropriate rating for the rate of privatization of small food processing companies in the situation when weak state support or no support at all cause the independent farms and private processing enterprises to run unprofitable and finally collapse.

Underdevelopment of the present market mechanisms and the lack of natural market restrictions for various market-related institutions led to that the privatization failed to produce the expected effects. It only caused a sharp rise in transaction costs and pushed the prices of final food products up too high for almost a half of the potential buyers to pay. We believe that it would never have happened if the market participants' ownership rights were adequately protected by the state. And we also think that the situation can still be improved given that small private companies are permanently provided with sufficient economic, administrative and legal support from the state.

## **2. Restructuring of Agricultural Enterprises**

The need for restructuring is explained by high percentage of unprofitable companies in the agrarian sector. Thus, in 1998 the share of unprofitable agricultural and food processing enterprises respectively reached 80 and 40 percent. The principal cause of this situation is the lack of an economically grounded combination of market-oriented mechanisms of regulation with state support. The system of management on the regional level

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<sup>4</sup> Saratovskiye Vesti of February 26, 1998

is generally based on administrative methods. As a result of this, unprofitable companies continue to function. The bankruptcy legislation is very rarely applied. The incomes of directors and many workers of such companies do not depend on the results of their activities, but are generated in ex-polar economic spheres. Non-formal relations on all levels within and between the companies and widely practiced barter exchange of goods and services make it so that most of the loser companies, which will hardly ever be able to pay off of their debts, continue to operate, instead of being declared bankrupts and included in the restructuring program. The people in such companies go on working in spite of permanent long delays in the payment of wages.

The Russian agrarian sector is just at the initial stage of restructuring, although the general situation in Russia in terms of restructuring – according to the EBRD rating – is more advanced. The policy of squeezing the credits and subsidies implemented in Russia, EBRD experts believe, forces the unsuccessful companies to restructure. However, the bankruptcy legislation is not always observed, and no efforts are made to close down large insolvent companies. Meanwhile, restructuring of agricultural enterprises is one of the priorities of the Russian agrarian policy. Thus, Saratov and a number of other Russian regions will be covered by a program of restructuring of agricultural companies formulated by Russian economists and their colleagues from the European Union.

This program is based on the principle of decreasing the budget support and making the methods of management more efficient. It is projected that large collective farms will be split into independent farms and that unprofitable farms will be affiliated to successful ones. However, it is not for some economic reasons that most of the Russian bankrupt collective farms cannot be liquidated, but because there is no opportunity for the population of the majority of Russian rural areas to find alternative jobs. Restructuring in rural regions always brings about the necessity to solve serious social problems. In view of this the only program acceptable for rural areas is the federal program of restructuring consisting of similar programs adopted on the level of subjects of the Russian Federation.

The core of this federal program is the restructuring of production, services providing, food processing and marketing organizations by using market-oriented mechanisms. At the same time the program is expected to aim at the development of the social infrastructure, first and foremost education and medical care.

### **3. Liberalization of Prices**

The economic reform in Russia began with the overall liberalization of prices, which brings about such an economic regime that is known to be typical of advanced industrial market-oriented economies. However, liberalization of prices in such countries is always accompanied by measures taken to remove the negative consequences of taking no control over the prices.

The overall liberalization of prices, which took place in Russia in 1992, when there were no any economic means designed to influence the prices and when monopolist companies were the dominating power in the leading branches of the economy, caused a serious crisis. Five years have passed since the liberalization, and the foreign experts rated this process 3 points and marked that a considerable progress had been achieved in relation to the prices of fuel which is currently mostly supplied at market prices. However, it soon turned out that domestic companies could not sustain in the free-price environment. This is one of the most negative consequences of the price liberalization, which constantly remind of themselves in both the production and social spheres.

The agricultural sector suffered the most – the increasing disparity between the prices of industrially made goods and that of agricultural raw produce was aggravated by economic and administrative restrictions

imposed on the prices of final products. As it was mentioned already, the result was 80% of agricultural companies going bankrupt with an almost 80% reduction of the rate of domestic food production, which in turn led to a substantial increase in food imports.

Liberalization of prices in the agricultural sector should be backed up by subsidies differentiated by regions and products. It is a general practice in all developed countries that food production always employs a precise mechanism of harmonization of the effective demand, retail prices, production costs and producers' revenues. Development of such a mechanism should just be the essence of reforms in the agrarian sector.

#### **4. External Trade**

The foreign experts came to the conclusion that the majority of restrictions imposed on the external economic connections in Russia had been removed. Indeed, liberalization of external trade crashed all the export-import barriers, which placed the Russian economy in a rather difficult situation.

The domestic food producers suffered severe losses. When discussing the possibility to remove the export-import restrictions, agriculture and the related branches are normally viewed as a special case, and strict economic and administrative measures are usually taken in order to protect the internal food market and facilitate the export of domestic products. But this is not the case for Russia. The liberalization of external trade was an unforgivable mistake, the traces of which we are now trying to smooth by imposing import duties and attempting to promote the exports.

An optimal model of external food trade relations presupposes employment of economically grounded import tariffs that could make the domestic products stay competitive. That does not mean, of course, that the internal market should be closed for the rest of the world. But at the same time it is completely inadmissible to have no any restrictions on the import of food products, the quality of which is almost uncontrolled and often leaves much to be desired, and to have no state monopoly on trade in alcohol drinks. All these and other negative features faced at the initial stage of formation of the Russian food market are currently being removed. In this respect the aim of the government is to protect the domestic commodity producers, ensure adequate control over the quality of food products and make the trade – especially that in alcohol drinks – more streamlined. The introduction of the sales tax is one of the measures intended to put the trade organizations under adequate control.

The Russian external trade acts as a guarantor of firmness of the national currency. In 1992-1997 Russia used to have an active settlement balance and considerable currency reserves, which enabled to maintain the ruble/dollar exchange rate steady. However, following the crisis, which burst out in August 1998, and the resulting devaluation of the ruble, the exchange rate shows no trends of getting more or less stabilized and, in the opinion of many experts, depends upon social and psychological factors rather than on economic ones.

The agricultural system of Russia should be subject to external economic regulation, the methods of which should differ from that applied to the economy in general. The projected coming of Russia into GATT/WTO does not mean removal of the majority of tariff barriers for the agriculture and related branches. None of the countries participating in that international trade organization ever make concessions if there is a danger that it can negatively affect the domestic agricultural producers' interests, the situation at the internal market or limit the access to the world's food markets. The same principles should be applied when formulating the external economic agrarian policy of Russia.

#### **5. Competition Policy**



The transition period in Russia brought along legalization of competition. A number of anti-monopolist laws have been adopted on both the federal and regional levels, and special institutions have been established with the responsibility to expand the access to the market for companies of all sizes and types of ownership and to restrict the monopolist position of the leading companies. Unfortunately, it was to the smallest degree that the legal and institutional promotion of competition involved the agricultural sector of Russia. The national food market is still governed by large domestic commodity producers and imports. Owing to the weak competition environment, the prices of food products are artificially kept high, which makes every regular Russian buyer lose up to 20% of his income.

Another feature that makes the normal access to the market difficult is that most of the Russian markets are controlled by criminal structures.

At the present time the food market of Russia is in the very beginning of the way to the competition standards typical of the leading industrial economies. There are no institutions that could effectively facilitate the development of competition yet, and the majority of small and middle companies still have to face numerous obstacles on their way to the market. Beside the pressure exerted by the criminal structures mentioned above, among such obstacles are administrative restrictions imposed on the export of food products from many Russian regions, quotas and licenses.

However, the state-owned companies operating in some certain sectors of the food market now begin to regain the positions lost during the reforms, occupying almost 80% of the market for dairy products, for instance. Such companies can produce and sell larger amounts of perishable products than their foreign competitors do, and can carry out deeper processing of agricultural products to leave behind their rivals from the small business sector.

Russian food processing enterprises have certain advantages over the foreign companies, since they have the opportunity to better react to demand fluctuations, spend less on the transportation and produce traditional products containing minimum of preservatives and additives.

It is also obvious that large food processing companies are stronger than the small ones in terms of technological and financial potential and completeness of the technological cycle. In addition to that they are usually better equipped, have better infrastructures and their own trade marks and are well known at the market.

There are three principal types of large food processing companies currently dominating at the Russian food market. The most powerful are the companies of the federal level having their own raw material base and wide chain of representations in most of the regions and producing high quality products. The companies of the inter-regional level orient themselves towards the demand in large economic zones – the Volga Region, Siberia and etc. The companies of this type rule the regional markets and develop by pooling their resources. And, finally, local non-specialized enterprises occupy their specific niche, adjusting their production to the peculiarities of the local markets.

Competitiveness of the Russian products at both the domestic and world food markets requires diversification of production, which would make the food producing companies more flexible and financially sound.

The experts believe that the competition potential of the Russian food processing industry has not been exhausted and can even be at least two times increased by implementing an efficient competition strategy and expanding the sales markets.

Development of the competition at the Russian markets takes adequate protection of the ownership and consumers' rights, observance of the already existing anti-monopoly laws and implementation of a flexible policy of overcoming the negative market trends.

## **6. Financial Institutions**

### **6.1. Reform of the Banking System and Liberalization of the Interest Rates**

The economic reform in Russia was accompanied by considerable changes in the national banking practice. There appeared many commercial banks, the entire banking system was reformed, the crediting system was liberalized and interest rates set free. But unfortunately, the revised banking system was not oriented towards the real sector of the economy and direct investments. High rates of inflation would make long-term investments ineffective. Commercial banks would concentrate their efforts on speculations with securities – mostly promissory notes issued by the state. After the crisis of 1998 large commercial banks found themselves in no opportunity to repay the foreign credits and release the deposits of the population, let alone the interests. As a result, Russian commercial banks ran out of credit, although the majority of them continue to struggle for existence.

It is a widespread point of view in Russia that the domestic commercial banks cannot even be compared with the banks in developed countries. However, the consequences of the August crisis give a better understanding of how persistent private capital can be in fighting for its rights. The bankruptcy of Tokobank – once a «European thermometer for the Russian economy» – can serve as an example. The cause of the bankruptcy is quite simple – credits without reliable guarantees and huge expenses for internal needs amounting US\$ 10 millions per month. Just these very peculiarities of operation placed the majority of the Russian banks on the verge of bankruptcy. However, the case with Tokobank shows that there are those who can protect their interests in Russia by using although imperfect, but already existing legal instruments. During the four months before the bank was declared bankrupt the temporary administration of Tokobank managed to return huge financial resources to the bank by winning dozens of claims, holding public promissory note auctions, returning the obligatory reserve funds from the Central Bank, selling the bank's shares, evaluating and putting the buildings and property of the bank on offer and by taking over measures. The bank's assets were not embezzled as were the cases with Tveruniversalbank, Kredo-bank and Moscow Inter-regional Commercial Bank. As a result, Tokobank managed to accumulate the resources sufficient to satisfy the claims of at least a part of its creditors. The situation is such that the Russian bankers have to learn how to survive<sup>5</sup>.

Forced by the government structures, private Russian banks started to extend credits to agricultural companies on a security of the former. In order to facilitate the process of crediting Agroprombank and regional commercial agricultural banks were established. Unfortunately, the agricultural companies' property the banks had to accept under administrative pressure was, as a rule, unmarketable. As a result, when most of the agricultural companies – debtors failed to pay off of their debts, many regional banks had to seize their activities.

Agroprombank owing 9 billion denominated rubles was purchased by the Capital Savings Bank, and its name was changed into SBS-AGRO. During a number of years the bank was receiving payments from the agricultural companies – debtors, which were in fact the money allocated from the state budget. Thus, huge

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<sup>5</sup> A Lesson in Bankruptcy. Rossijskaya Gazeta, February 26, 1999, p.24.

budget resources did not reach the agricultural producers, which fanned the flames of crisis in the agricultural sector.

Privileged crediting of the agricultural and industrial complex, the introduction of which was marked by the allocation of 3 billion rubles from the budget, was first carried out by two banks – SBS-AGRO and Alfa-bank. However, by 1997-1998 the number of such banks grew up to twelve. Inclusion of commercial banks in the system of revocable privileged crediting led to a considerable rise in prices of credits, which was not only a result of participation of intermediaries, but also owing to the strict measures applied to the companies that failed to repay.

The system of privileged crediting with the participation of commercial banks was not supported by Russian commodity producers. Some of the latter tried to obtain credits from foreign companies. The Dutch company «Sebeko» offers credits to vegetable and potato growing companies for the purchase of the whole set of machinery and equipment. But the Russian agricultural producers usually do not succeed in finding reliable guarantors, while the obligation to repay the credit in five years is unreal to fulfill for the majority of the farmers.

We believe that Russian agricultural producers should be supported by the programs similar to the one that was implemented in the Kolomna Region of the Moscow Oblast in the 1996-1997 period. The program provided for free allocation of US\$ 20 millions from the Dutch budget for the purchase of agricultural machinery, equipment and seeds to be delivered to Moscow farmers – potato producers. The payments for the above deliveries were low and were expected to be in kind. Such conditions would be quite acceptable for most of the Russian farmers.

## **6.2. Securities Markets and Non-bank Financial Institutions**

Stock exchanges appeared in Russia in the first years of the economic reform. By the mid 90's the necessary environment was created allowing companies in all Russian regions to issue and trade in securities, and it was in that very period when the first transactions with government securities and promissory notes were carried out. In 1996-1998 state treasury promissory notes were introduced into the securities market. Non-banking structures started to emerge – investment foundations, private insurance foundations, non-state pension funds and leasing companies. Private companies started to issue their own securities. Foreign commercial banks and private investors began to pay interest to the securities issued by the Russian government, therefore, the events which took place in August 1998 were a severe blow experienced not only in Russia, but in the majority of the European countries as well. It was a popular saying in Europe in the beginning of September that one had to always have an umbrella at hand to shelter himself from the rain coming from Russia.

Securities, promissory notes and non-bank financial organizations became a common feature of the Russian agrarian sector more than five years ago. Permanent debts to the federal budget forced the government structures to arrange for the issue of the so-called «agrarian» bonds with the maturity of 3 years, which were issued by the subjects of the Russian federation under the pressure from the federal authorities. Several times the «agrarian» bonds were put up for auction and arouse a certain interest among commercial banks. However, nothing is reported of what happened to the bonds next.

It is a usual practice today that agricultural companies make payments to their suppliers of industrially manufactured goods by using promissory notes and tax exemptions. For a number of years commodity credits were widespread, that means that agricultural producers were supplied with fuel on account of tax payments. In

order to facilitate the purchase of agricultural machinery special leasing budget funds were established. Now farmers are often supplied with the inputs they need - fuel, mineral fertilizers and seeds – provided that they repay in kind after the next harvest at fixed or market prices. Exchange with goods is usually performed in the agrarian sector today on barter terms.

## **7. Legal Protection of Investors**

Attraction of investments remains a burning problem for all the regions of Russia and all the branches of the Russian economy. However, there is no any legal base capable of protecting the investors' interests created yet. The existing legal provisions are formulated quite vaguely, especially in parts of raising of investment resources, arrest of securities and repatriation of profits. So, investments in the Russian economy can only be supported at the present stage by using preliminary legal instruments. Considering attraction of foreign investments to be of utmost importance, the Russian government declared its deepest concern about the provision of guarantees to foreign investors, introduction of insurance against risks, adoption and strict observance of the legal regulations complying with the universally applied international legal standards.

The legal basis for investing in the agricultural and food processing spheres is directly connected with the development of the land relations and land market, the possibility to use land and property as a mortgage, and development of the legal instruments applied to protect the land ownership rights. It is a shortcoming that the land code has not been adopted in Russia so far, and the land relations are regulated by regional laws on land that vary considerably by the region in terms of acceptance of private land ownership.

The legal base of the agrarian reform requires further improvement. The laws protecting the investors' rights must be strictly observed, especially in relation to the projects connected with property in land. It is essential that both the ownership rights and the investors' interests are adequately controlled and protected.