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# The State of Agrarian Reform in the Former Soviet Union

MAX SPOOR & OANE VISSER

A DECADE AFTER THE BREAK-UP of the Soviet Union in 1991 this article presents an overall review of the state of agrarian reform in the new states that were formed in its demise. It will show that the development of a new, economically viable agricultural sector, based on private farm enterprises, is still a far cry in most parts of the former Soviet Union (FSU). Agrarian reform (including land privatisation, restructuring of the collective and state farms, market liberalisation and particularly institution building) has not been at all comprehensive.

The reasons behind the stagnation of reforms in the agricultural sector will be discussed. First, we shall contrast the current state of agrarian reform in most of the former Soviet Union—leaving aside the Baltic states<sup>1</sup>—with the original ‘blueprint of reform’ (World Bank, 1992). Second, we shall analyse the linkage between the performance of the agricultural sector in the various FSU successor states and the agrarian reforms, within the context of the overall macroeconomic development of the countries involved.

The objective of this exercise is to investigate two main propositions. First, it was assumed that a family-based private farm sector would emerge rapidly, as the panacea for agricultural development. On the basis of currently available data for this sector, its still limited contribution to output, the increased importance of household plot production, and the continued predominance—in terms of acreage—of large agricultural enterprises in many countries and regions of the FSU, this assumption will be questioned.

Second, initially the predominant idea was that rapid and profound reform, focusing on land and asset privatisation, market liberalisation and deregulation, would lead to less contraction and speedy recovery (World Bank, 1996b). We shall test whether this was valid for the agricultural sector in the FSU countries by linking reform policy implementation, measured by a specially developed ‘privatisation index’, with overall performance as measured by growth of GDP and agricultural gross value added (GVA). This will show that the supposed relationship is not supported by empirical data.

## *A ‘blueprint’ for agrarian reform in the early 1990s*

The original outline for agrarian reform was conceptualised within the Bretton Woods Institutions, in particular by the World Bank, as part and parcel of the then prevailing

'Washington Consensus'. In a textbook set-up of strongly market-based agrarian reform, the World Bank (1992, p. 77) advised rapid land and asset privatisation, market liberalisation and deregulation. The report argued that privately-run (family) farms by definition would be more efficient and productive than the existing large-scale state and collective enterprises (*sovkhozy* and *kolkhozy*).

The advice, as Lerman (1998) recently stated, was—in hindsight—partly based on a rather superficial analysis of the successes of (post-socialist) land reforms in China and Vietnam. It did not take into account the much higher capitalisation of the large agricultural enterprises in the FSU, which in the reform process would lead to problems of indivisibility of capital assets and dependency on well-functioning backward and forward linkages. Equally, the idiosyncrasy of intensive peasant production in Asian rice-producing economies cannot be compared with most of the FSU, where 'farmers', during more than 70 years of socialism, have been converted into workers in farm enterprises.<sup>2</sup>

While Lerman (1998) correctly states that the expectations were highly optimistic and even 'naive', in the initial reform strategy of the World Bank (adopted by the reformers in various countries, such as the Russian liberals) a near sacrosanct belief was expressed in the linkage between market-oriented reforms and economic performance:

The strategy of reform of the food and agricultural sector, if applied fully and consistently, will not only lead to higher living standards and sustainable consumption levels ... but will also minimise hardship during the transition (World Bank, 1992, p. 10).

Until at least the mid-1990s this idea was practically undisputed and any divergent reform road was seen as a 'muddle through scenario' (World Bank, 1993; and, for an early critique, Spoor, 1993). In the World Development Report, *From Plan to Market* (1996b), a systematic effort was made to show a linear causal relationship between rapid and profound economic reforms and reduced contraction followed by relatively quick economic recovery. It was a macro-based study and therefore did not touch upon specific sectors, such as agriculture. Unfortunately, more 'puzzling' cases such as Uzbekistan (with little reform and relatively small economic decline) were simply ignored.<sup>3</sup> Furthermore, in the comparison between Central and Eastern Europe (CEE) and the former Soviet Union (FSU), the report did not take sufficiently into account the very different initial conditions of these two regions at the outset of transition. Therefore it remains far from evident that the overall better performance of the CEE countries is primarily attributable to their rapid economic reforms.

Major differences between these two regions, such as the proximity to Western Europe, the shorter duration of communist rule and the degree of marketisation of the economies under state socialism, might explain as much of the relative success of the CEE countries as the speed and degree of reform. While with the data of the World Development Report (until 1995) the supposed relationship was already hard to show, with the Russian crisis of 1998 and its aftermath the original analysis even becomes problematic (UNDP, 2000).

The 'blueprint' clearly did not take into account the particularities of the Soviet political economy at the moment of the break-up in 1991, but was more an expression of theoretical—textbook based—consistency. After a full decade of reform this

critique can be made relatively easily, observing the profound contraction of most of the FSU economies in spite of the reforms. However, in the earlier stages of reform and transition any such argument 'against the grain' was seen as unacceptable.

Actually, the experience of structural adjustment programmes in Latin America in the 1980s greatly influenced the market transition strategies (MTS) in the transitional economies during the 1990s. There too the agricultural sector was given only residual importance, while privatisation and market liberalisation were assumed to create an important supply response from producers. The latter has been questioned, as structural rigidities and, in particular, institutional market development are often more important than the structure of relative prices.

Furthermore, while previously it was popular to see peasants as subsistence producers, in the 1980s (with structural adjustment programmes) they suddenly were seen as inserted in markets, as a homogeneous smallholder sector (for a related discussion see Wuyts, 2000). Neither assumption was correct, although economic policies were based on them. It was similarly assumed that a peasant sector would emerge in the transitional countries as soon as privatisation of land and assets, liberalisation of markets and deregulation had been implemented. As we will show in the following section, this did not occur.

#### *The state of agrarian reform after a decade of transition*

In most of the FSU, with only a few exceptions, such as in Armenia, Georgia and, most recently, Moldova, the agrarian structure after the first decade of reforms is still dominated by large-scale farm enterprises, the heirs of the *kolkhozy* and *sovkhozy*. Certainly, they now show very different forms of ownership and management, leading to a large variety of agricultural enterprises, such as joint-stock companies, co-operatives, producers' associations, work-groups and agricultural companies. Some of these were only nominally transformed, changing merely their name (Spoor, 1999). Many of them have retained centralised management as before (Lerman, 1998). However, there are many more changes beneath this level, as greater financial autonomy is given to smaller units and land is sub-contracted and leased to households, creating a great variety of company structures.

The original expectation that large numbers of small and medium-scale private peasant farms would emerge as the basis of a viable and dynamic agricultural sector in the FSU countries has not materialised (see Tables 1 and 2). Only in a few countries, such as Armenia, Georgia (and part of the Baltic States), was parcelisation of the land pursued, which led to a predominant peasant farm and household plot sector. This can be at least partly traced to product specificity, as many of these producers are in intensive vegetable, livestock and fruit production, which requires smaller units for greater efficiency. However, some governments decided for internal political reasons to break up the large farms and pursue a distributional land reform to win popular support.

It seems that the growth in number and acreage of private peasant farms (private can include long-term usufruct rights, as is the case in many countries) is stagnating.<sup>4</sup> In most countries the growth of the total number of peasant farms has slowed down considerably (Table 1), and the main agricultural producers (such as Russia and

TABLE 1  
NUMBER AND SIZE OF PEASANT FARMS IN FSU, 1992–1999 (hectares)

		1992	1993	1994	1995	1996	1997	1998	1999
Armenia	<i>n</i>	165200	238300	298100	312900	316400	319300	320900	333800
	Size	1	1	1	1	1	1	1	1
Azerbaijan	<i>n</i>	100	300	400	1000	3200	11600	22800	25600
	Size	47	30	28	23	19	11	7	6
Belarus	<i>n</i>	800	2400	2700	3000	3000	3000	2700	2600
	Size	17	46	54	63	63	63	62	68
Georgia	<i>n</i>	–	–	–	–	–	–	–	–
	Size	–	–	–	–	–	–	–	–
Kazakhstan	<i>n</i>	3300	9300	16300	22500	30800	42500	51300	58400
	Size	238	533	406	348	412	452	542	386
Kyrgyzstan	<i>n</i>	4100	8600	12800	17300	23200	31000	38700	49300
	Size	25	44	67	43	63	48	25	20
Moldova	<i>n</i>	0	500	3100	14000	16100	41200	65800	80200
	Size	2	3	2	3	–	2	2	2
Russia	<i>n</i>	49000	182800	270000	279200	280100	278600	274300	270200
	Size	42	43	42	43	43	44	48	51
Tajikistan	<i>n</i>	0	0	0	200	1800	2300	8000	10200
	Size	0	0	0	9	18	64	136	286
Turkmenistan	<i>n</i>	100	100	300	1000	1000	1400	1800	–
	Size	10	11	8	6	6	9	8	–
Ukraine	<i>n</i>	2100	14700	27700	32000	34800	35400	35900	35500
	Size	19	20	20	22	23	24	26	29
Uzbekistan	<i>n</i>	1900	5900	7500	14200	18100	18800	21400	23000
	Size	7	8	9	14	15	15	16	19

Source: Statkom SNG (1999); Lerman (1998, p. 317).

TABLE 2  
SHARE OF PEASANT FARMS IN AGRICULTURAL LAND 1992–1999 (%)

	1992	1993	1994	1995	1996	1997	1998	1999
Armenia	11.8	17.0	21.3	22.4	22.6	22.8	22.9	23.8
Azerbaijan	0.1	0.2	0.3	0.5	1.4	3.0	3.7	3.6
Belarus	0.2	0.5	0.6	0.7	0.7	0.7	0.7	0.7
Georgia	–	–	–	–	21.7 <sup>a</sup>	–	–	–
Kazakhstan	0.3	1.8	2.4	2.9	4.7	7.4	10.3	12.9
Kyrgyzstan	0.9	3.4	7.9	6.8	18.1	13.6	8.6	8.6
Moldova	0.0	0.1	0.2	1.6	2.3	3.1	4.5	5.8
Russia	1.0	3.8	5.4	5.7	5.7	5.8	6.3	6.6
Tajikistan	0.0	0.0	0.0	0.2	0.4	1.5	3.2	6.6
Turkmenistan	0.0	0.0	0.0	0.02	0.02	0.03	0.04	–
Ukraine	0.1	0.7	1.4	1.7	2.0	2.1	2.3	2.5
Uzbekistan	0.1	–	–	0.8	–	–	–	1.7

Note: <sup>a</sup>This figure includes a large share of household plots.

Source: Statkom SNG (1999, 2000); World Bank (1996a); author's calculations.

Ukraine) even show a decline in the number of farms. However, the apparent stagnation in the emergence of farms conceals significant new entry and exit numbers. The number of new peasant farms created on a yearly basis (by for example breaking

away from existing collective structures that do not function, such as in Moldova; see Lerman, 1998) is still sizeable.

However, the circumstances in which new farmers have to operate, with a lack of proper institutions, credit and extension services, 'rent-seeking' tax authorities, inefficient and fragmented markets, and high fuel and fertiliser prices, cause many private farmers to abandon their newly created farms. While numbers, acreage and share in agricultural land therefore present a picture of stagnation, in a country such as Russia every year thousands start up as private farmers but a near equal number disappear again because they were not able to survive in the inhospitable economic and institutional environment.

Table 2 presents data on the share of agricultural land held by peasant farms. Apart from Armenia, Kazakhstan and Kyrgyzstan, in most countries this is less than 10%. This is of course much less than was expected after a decade of transition. The data in Table 2 need to be qualified somewhat. First, in countries like Uzbekistan (and also Kazakhstan) the comparison should be with arable land, as large tracts of agricultural land are desert (or steppe). In the Uzbek case this changes the percentage to 7.3% (Spoor, 1999). However, for most CIS countries it is unknown how much of the land of peasant farms is actually cultivated, so we have used the share of agricultural land. Second, the heirs of the *sovkhozy* and *kolkhozy* have entered into sub-contracting and leasing of land to families, while such farms have not been formalised as peasant farms.

In spite of these qualifications to the official data, which present an underestimate, the final result is nowhere near the original expectations. One of the main reasons is that markets did not appear spontaneously, and when they did they were most frequently monopolistic ones, where political connections prevailed. They are dominated by the local or regional power elite, and remain fragmented and high-cost markets. They lack proper institutions that contribute to the construction of a new 'interlocking' rural market system. These 'missing markets' prevent participation by many of the new peasant farms and induce a tendency to barter trade and retreat into self-sufficiency production. Following Ellman (2000), these 'mutant' markets are certainly not the agricultural markets that were expected to emerge.

The share of privately produced output in total agricultural gross value added is much higher than the above phenomenon would suggest (Table 3). However, the current predominance of privately produced output in the sector is taken to reflect a high degree of privatisation of land and the emergence of a private peasant farm sector. What is ignored is that before the break-up of the Soviet Union an estimated 30% of agricultural output (GVA) was already produced on household plots and *dacha* gardens, which represented not more than 2% of the land. This was made possible through a symbiotic (and even parasitic) relationship between private household plots and the collective or state farms, based on cheap inputs and labour. The privately owned household plots, located within the boundaries of the (former) collective or state farms, have increased somewhat in size, but remain small. The peasant farms—to clarify the difference—are registered as independent enterprises. The land comes from former collective and state farms or established land reserves. The owners can be former workers or urban dwellers. Peasant farms are generally much larger (10–20 hectares on average or more), except in countries such as

TABLE 3

SHARE OF PRIVATE FARMS AND HOUSEHOLD PLOTS IN AGRICULTURAL PRODUCTION, 1989–1999 (%)

	1989	1991	1992	1993	1994	1995	1996	1997	1998	1999
Armenia	35	77	96	95	95	98	98	99	99	–
Azerbaijan	36	38	42	48	57	60	64	77	92	97
Belarus	25	33	35	36	41	48	49	37	40	–
Georgia	44	35 <sup>a</sup>	–	–	–	65 <sup>a</sup>	–	–	–	–
Kazakhstan	29	32	35	39	38	48	50	53	73	–
Kyrgyzstan	30	38	47	54	59	78	80	85	87	–
Moldova	19	24	29	38	42	44	51	50	61	–
Russia	22	31	33	43	45	48	49	50	55	–
Tajikistan	25	–	44	49	50	51	56	54	58	–
Turkmenistan	17	17	22	24	30 <sup>b</sup>	–	42	–	–	–
Uzbekistan	25	33	36	38	41	42	52	53	–	–
Ukraine	26	30	37	40	43	46	53	56	59	60 <sup>c</sup>

*Note:* The output (volume indices) data of the private agricultural sector for Russia only include the household plots and peasant farms. In the Central Asian states ‘peasant cooperatives’ are most likely included, over-representing ‘private production’.

*Source:* Statkom SNG (1999); World Bank (1992); <sup>a</sup>Lerman (1998, p. 318); <sup>b</sup>Lerman & Brooks, p. 172 in Wegren (1998); <sup>c</sup>TACIS (2000).

Armenia and Georgia, where parcelisation policies have been implemented and the boundaries between household plots and peasant farms are fuzzy.

Table 3 shows that all FSU countries registered an increase in the share of private (peasant farm and household plot) production in gross agricultural output during the 1990s. This is most notable in Armenia, Azerbaijan, Kyrgyzstan and Kazakhstan (ranked in descending order). The difficulty in interpreting the CIS Statistical Committee (Statkom SNG) data is that the definition of ‘private production’ is not always fully clear, although it mostly refers to production from peasant farms and household plots (see Delahanty & Rasmussen, 1995). It does not include the large-scale ‘reformed’ companies, which, however, in some countries are considered as private enterprises. For example, it was estimated by OECD (1997, pp. 108–109) that in Russia, by the end of 1996, 58% of the land was ‘private’ and 42% ‘public’. In the former category 3% represented household plots, 6% peasant farms and 49% was ‘owned by workers’ and pensioners’ collectives’.

During the first decade of reform household plots increased in size, number and contribution to the domestic food market. This should, however, not be confused with the creation of a peasant farm sector. The latter, in average size and overall contribution to (marketed) output, is still quite small. Moreover, it seems that governments have lost interest in peasant farms. While several market-oriented governments, such as in Russia, actively supported and stimulated private farmers in the beginning of the 1990s, e.g. with privileged credits, state support for peasant farms is dwindling, despite their difficult position (Wegren, 1996, pp. 128–133). In 1994 only 2% of the agricultural funds in Russia went to peasant farms, while a share of 15% was allocated in 1990 (Wegren, 1996, p. 128).

Although Table 3 does present an interesting picture of great diversity in the development of private production in agriculture, it also raises questions. We will discuss a few examples here in more detail. As it appears in Table 3, the private sector

of Armenia is very productive if we compare the share of the private sector with the share of private farms in total agricultural land (Tables 1 and 2). At first sight it is surprising how the private farms and households in Armenia are able to produce 99% of gross value added on less than a quarter to a third of the agricultural land (in 1997). Is the private sector much more efficient than the collective farms (or to pose the question in a different way, are the collective farms really so inefficient?) This issue requires a closer look.

First, the share of the private sector in arable land is much higher than in agricultural land. The private sector accounts for 67.8% of the arable land, with farms and household plots accounting for respectively 60.7% and 7.1% (Statkom SNG, 1999, 2000). Second, more than 70% of the agricultural land in Armenia which is not held by individuals is also not completely owned by the collective farms—as one might assume it was. At least 20% of the land in each village has been set aside by the village council to allow for further expansion of the village settlement. Third, the remaining agricultural enterprises are disintegrating. Of the 800 or so initially existing agricultural enterprises, less than 70 remained in 1995 (World Bank, 1995, pp. 32–34). Although it is difficult to weigh the various causes, the decrease in the collective sector as a consequence of land reform was probably also stimulated or even spurred by the war over Nagorno-Karabakh. In the situation of disintegrating communications and infrastructure, the private sector with its subsistence character and informal, short-distance marketing channels proved to be more successful. Fourth, the share of total livestock held by peasant farms and households is substantially higher than their share in agricultural land. In 1993 more than 60% of the cattle and nearly 75% of the sheep were already owned by these producers (World Bank, 1995, p. 165). Privately held livestock traditionally grazes not on private land but on state and collective land or communal pastures.

For Georgia Statkom SNG data on the emergence of farms and their share of agricultural land are unfortunately lacking for most years. But it is clear that the number of farms in Georgia has not increased so rapidly as in Armenia. Land reform in Georgia started ambitiously in the early 1990s but slowed down considerably after 1992 (Gurgenidze *et al.*, 1994, p. 267). Although the official reforms stagnated, the land in private ownership increased rapidly. This was not because of the formation of peasant farms, but as a consequence of the expansion of private plots. The share of the private plots in agricultural land increased from 12% in 1989 to 54% in 1998 (World Bank, 1992; Statkom SNG, 1999). The share of land held by private plots in Georgia is by far the largest in the FSU. It is much more than the 16.7% that private plots account for in Moldova, which has the second largest share of private plots in the FSU.

Moldova shows a pattern that forms a mix of the types of land reform in Armenia and Georgia. In the first phase land reform lagged behind and the private sector expanded only through a rapid expansion of the private plots. In the second phase, after 1996, land reform advanced and the private sector expanded through the emergence and expansion of private farms. Meanwhile, the share of private plots in arable land decreased from 18.3% in 1995 to 16.7% in 1997, as farm employees who wanted to increase private production left the collectives and began operating their own farms, instead of expanding their private plots.



After the first decade of transition several countries indeed show a high share of the private sector in agricultural production, although the speed of the official reform policy was rather different. In the countries where regulations on private farming developed slowly, spontaneous development of the private plots caused the expansion of the private sector, if the private sector had played a large role during state socialism. In countries such as Russia and Ukraine slow development of the peasant farms also coincided with an expansion of private plots, but their growth is not comparable with the rapid growth in countries like Georgia or Moldova. Therefore, behind the overall increase in private production lies a great variety of reform processes.

*Agrarian reform and the 'privatisation index'*

As a part of our overview of the current state of agrarian reform in the FSU countries, we present a composite 'privatisation index' for the decade of reform, according to which the CIS countries are ranked (Table 4). Several authors have introduced reform

TABLE 4  
COMPOSITE PRIVATISATION INDEX AND RANKING OF CIS COUNTRIES, 1991-1999

	1991/92	1994/95	1998/99	
	Armenia	Armenia	Armenia	
HP	Kyrgyzstan	Kyrgyzstan	Kyrgyzstan	HP
↑	Georgia	Georgia	Kazakhstan	↑
	Belarus	Russia	Azerbaijan	
MP	Kazakhstan	Kazakhstan	Georgia	MP
↑	Azerbaijan	Azerbaijan	Moldova	↑
	Tajikistan	Ukraine	Russia	
	Russia	Belarus	Tajikistan	
	Uzbekistan	Moldova	Ukraine	
NP	Ukraine	Tajikistan	Uzbekistan	NP
↑	Moldova	Uzbekistan	Turkmenistan	↑
	Turkmenistan	Turkmenistan	Belarus	

*Note:* The ranking is a weighted average of three indicators: (a) the share of private production in total gross agricultural output; (b) the share of the acreage of private peasant farms in total agricultural land and (c) the number of peasant farms per 1000 rural inhabitants. The weights used are 2:1:1 in order to arrive at the final ranking.

*Sources:* See Tables 1, 2 and 3.

indices in an attempt to understand the relation between agricultural reforms and performance (Csaki, 2000; Macours & Swinnen, 1999). Csaki (2000) presents an agricultural reform index with five sub-indices, of which land reform is one. Other indicators are presented for trade and price policy, processing and inputs, rural finance and the public institutional framework. The index covers a number of relevant aspects of reform, although it remains unclear on what data the final ranking is based, except that World Bank estimates are used. Macours & Swinnen (1999), who in earlier work had already introduced a 'farm individualisation index' and a 'de-collectivisation index', link output performance with a number of the above indices, distinguishing three main 'patterns of reform'. Although their analysis only deals with the first five years of reform, they contribute an interesting piece of analysis in which initial conditions as well as economic reform policies are weighed.

The privatisation index that is used here is different in several respects. First, it is a composite index. Besides the share of peasant farms in total land, which is commonly used, we include two other indicators: the output of these farms and household plots as a share of overall output, and the number of peasant farms per 1000 rural inhabitants. Second, the ranking is mainly based on one set of CIS quantitative data (Statkom SNG, 2000). Of course, the reliability of the data can be questioned, but Statkom SNG provides a very interesting source for the type of comparative study that is presented here. Thirdly, the 'privatisation index' is not static, but presented for three points in time during the first decade of transition.

The privatisation index tries to measure the privatisation process in agriculture by focusing on actual outcomes of reforms, rather than formal changes. Legal recognition of private ownership is not enough to cause widespread emergence of private landholdings. Turkmenistan, for instance, is the only Central Asian country that recognises private ownership of land in its constitution, but it has done little to stimulate land reform. Land markets do not yet exist in Turkmenistan and land reform there is least developed amongst the Central Asian states. Not only is a legal framework not sufficient to spur agricultural reform, but it appears that the latter can proceed even if the legal framework is hardly developed. The actual reform outcome is a result of the interplay of reforms initiated at national level and resistance or support at regional and local levels, within an overall economic environment that is liberalised to a greater or lesser extent. The composite 'privatisation index' measures the emergence of private peasant farms, as this is generally seen as the cornerstone of agricultural reform in the transition countries, and the contribution of the individual private sector in agricultural production (peasant farms and household plots).<sup>5</sup>

The 'privatisation index' is constructed using the following indicators: (a) the share of private production in overall output (see Table 1); (b) the acreage of peasant farms in the total agricultural land (see Table 2) and (c) the number of peasant farms relative to the rural population. At three moments in time, namely at the beginning (1991/92), in the middle (1994/95) and towards the end of the first decade of transition (1998/99) the composite index has been used to rank the 12 countries, the highest indicating the most advanced in terms of privatisation, the lowest the least.

This ranking is presented in Table 4. It is assumed that there is a continuum that runs from non-privatised (NP) or at least minimally privatised, towards medium privatised (MP), and finally highly privatised (HP). A number of striking observations

can be made from the outcome of this exercise. First, the group of main reformers (HP) is rather uniform, with Armenia, Azerbaijan, Georgia, Kazakhstan and Kyrgyzstan. With the exception of Kazakhstan, these are smaller economies in the CIS, which, in terms of agricultural production, focus on fruit, vegetables and meat and less on bulk products.<sup>6</sup> These countries do indeed represent the more reform-oriented ones in the CIS. Second, the largest agricultural economies, namely Russia and Ukraine, belong to the middle group, with the former representing more reforms in terms of the privatisation index but both showing stagnation in the second half of the 1990s. Belarus, which belonged to the same category of economies, dropped from the top group in 1991/92 (representing initial conditions and early reforms) to the bottom rank in 1998/99 because of the consistent lack of reforms in the agricultural sector.

Third, Moldova is moving up the scale, as in the most recent years it started a rapid programme of land distribution (in part because of the complete non-functioning of the large-scale enterprises and their break-up). Fourth, from the Central Asian countries Turkmenistan and Uzbekistan belong to the 'tail group', in part because of a lack of reforms (Turkmenistan) or very gradual ones (Uzbekistan) (Spoor, 2000). The fluctuating rank of Tajikistan is most likely to be due to the influence of the civil war, which also affects the reliability of the data.

Initial conditions did play a role in the privatisation process. In fact, the composition of the top group of reformers (measured by our privatisation index) is not really surprising, when the nature of their economies during state socialism is taken into account. The private economy already played a large role in these countries during the 1980s. If one wants to compare the ranking with the situation at the end of the 1980s, World Bank (1992) actually provides—for 1989—one of the indicators of privatisation, namely the share of private production in gross agricultural output (mostly formed by the household plots and *dacha* gardens, as private peasant farms hardly existed then).

As was shown in Table 3, in 1989 it was the same group of countries, Armenia, Azerbaijan, Georgia, Kazakhstan and Kyrgyzstan, which already had a relatively high share of private output in agriculture, i.e. from 29% (Kazakhstan) to 44% (Georgia). It is interesting to note that the countries from the Caucasus and Central Asia, which are also the reform-oriented ones, already had an important private economy (in many cases supported by peasant (*bazaar*) markets at the very start of the decade. Other countries, such as Ukraine, Belarus and Russia, the main agricultural producers in the European part of the FSU, originally had smaller shares of private production in overall output (Russia, 22%, Belarus, 25% and Ukraine, 25%).

In conclusion, returning to the first of our two propositions, in the main agricultural countries of the FSU, that represented most of the cultivated land and agricultural population, there has not been a comprehensive agrarian reform, in particular not in Belarus and Ukraine. Only in the Caucasian and some of the Central Asian states has agrarian reform been rapid and profound. Even when some aspects of the reform policy in these countries were conservative, as in the case of Armenia after 1992, where the policy on the break-up of the collectives was slow, the private sector evolved quickly in practice (Armenia's 'spontaneous privatisation'). In the CIS countries that remain outside the top group the reverse was mostly the case. The actual privatisation process was considerably slower than the reform policies allowed,

owing to resistance at the farm and local level. In summary, the emergence of a viable peasant farm sector has been much slower than was expected. The gradually increased private share in overall production hides the continued dominance of large-scale companies in the main agricultural economies of the FSU, in particular in terms of their share in total agricultural land.

*The performance of the agricultural sector*

Having reviewed the agrarian reform in the various countries, we will now deal with the question whether the differences in performance can be linked to reforms that took place in these countries. A decade after the start of the reforms, the dramatic free fall of the economy of the former Soviet Union on the whole seems to have come to an end. The same can be concluded for the production fall in the agricultural sector. In 1999 both GDP and gross agricultural output for the FSU on average slightly increased, by 3% and 2% respectively (Statkom SNG, 2000, p. 7).

However, huge differences in performance exist within the FSU, with most countries showing positive growth towards the end of the 1990s and some still confronted with a downward trend in GDP growth (Table 5). In comparative terms, countries such as Azerbaijan, Georgia, Moldova, Tajikistan and Ukraine did worst in terms of GDP growth, showing economic contraction to a level of around half of the 1990 GDP or less. The first four were actually confronted with internal and interstate wars that caused destruction of the economic infrastructure and widespread human suffering. Azerbaijan, Georgia and Tajikistan recovered from their profound economic contraction in the second half of the decade, as conflicts have been contained and economic reforms have been implemented. Moldova and Ukraine, however, are still showing negative economic growth.

In Table 6 growth indices are given for gross value added in the agricultural sector for the same period. A similar picture emerges, namely with Azerbaijan, Georgia,

TABLE 5  
GDP GROWTH INDICES OF THE FSU, 1992–1999 (1991 = 100)

	1992	1993	1994	1995	1996	1997	1998	1999
Armenia	58.2	53.1	55.9	59.8	63.3	65.4	70.1	72.3
Azerbaijan	77.4	59.5	47.8	42.2	42.7	45.2	49.7	53.4
Belarus	90.4	83.5	73.0	65.4	67.2	74.9	81.2	83.6
Georgia	55.1	39.0	34.9	35.8	39.8	44.1	45.4	46.8
Kazakhstan	94.7	86.0	75.2	69.0	69.3	70.5	69.2	70.4
Kyrgyzstan	86.1	72.8	58.1	55.0	58.9	64.7	66.1	68.5
Moldova	71.0	70.1	48.5	47.6	44.7	45.5	41.6	39.7
Russia	85.5	78.1	68.1	65.4	63.1	63.7	60.6	62.5
Tajikistan	100.0	83.7	65.9	57.7	48.1	48.9	51.5	53.4
Turkmenistan <sup>a</sup>	89.0	90.3	74.9	67.4	67.5	50.0	52.5	60.9
Uzbekistan	88.9	86.9	82.3	81.6	83.0	87.3	91.1	95.2
Ukraine	90.1	77.3	59.6	52.3	47.1	45.7	44.9	44.7
CIS-12	86.1	77.7	66.7	63.2	61.1	61.7	59.6	61.3

Sources: Statkom SNG (1998, 1999, 2000); <sup>a</sup>For 1997–99: EIU (2000).

TABLE 6

GROSS VALUE ADDED, AGRICULTURAL SECTOR, 1991–1999 (1990 = 100)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Armenia	88.3	51.4	46.9	49.4	52.8	55.9	57.7	61.9	63.8
Azerbaijan	99.3	76.9	59.1	47.5	41.9	42.4	44.9	49.4	53.0
Belarus	98.8	89.3	82.5	72.1	64.6	66.4	74.0	80.2	82.6
Georgia	78.9	43.5	30.8	27.5	28.2	31.4	34.8	35.8	36.9
Kazakhstan	89.0	84.3	76.5	66.9	61.4	61.7	62.7	61.6	62.7
Kyrgyzstan	92.1	79.3	67.0	53.5	50.7	54.2	59.6	60.9	63.1
Moldova	82.5	58.6	57.8	40.0	39.2	36.9	37.5	34.3	32.8
Russia	95.0	81.2	74.2	64.7	62.1	59.9	60.5	57.6	59.4
Tajikistan	91.3	64.7	54.5	42.6	37.3	31.1	31.6	33.3	34.5
Turkmenistan	96.0	87.4	96.1	83.5	69.1	68.7	–	–	–
Uzbekistan	99.5	88.5	86.5	81.9	81.2	82.6	86.9	90.6	94.7
Ukraine	91.3	82.3	70.6	54.4	47.7	43.0	41.7	41.0	40.8

Source: Statkom SNG (2000); Spoor (1997).

Moldova, Tajikistan and Ukraine showing the largest contractions, with negative growth still continuing in the cases of Moldova and Ukraine. However, the contraction in the agricultural sector was more dramatic than in the overall economy.

In Tables 5 and 6 two indicators are presented, GDP growth (a macro-level indicator) and GVA (a sectoral-level indicator), in order to search for possible relationships between reform implementation and agricultural sector performance. As the expectation was that the transition would be quick, and in particular the supply response in the agricultural sector would be decisively positive, 10 years seem to be sufficient to measure the impact. The problem is that most of the countries suffered a prolonged macroeconomic crisis and severe contraction (and some countries even faced a war), which makes this exercise more complicated.

In Table 7 the performance of the 12 FSU countries (presented in Tables 5 and 6) is linked to the privatisation index of Table 4. The countries are ranked according to

TABLE 7

PERFORMANCE OF CIS COUNTRIES IN 1998/1999 (1990 = 100)

	< 50%	50–70%	> 70%
GDP	Georgia (HP5)	Kyrgyzstan (HP2)	Uzbekistan (NP10)
	Ukraine (MP9)	Russia (MP7)	Belarus (NP12)
	Moldova (MP6)	Turkmenistan (NP11)	Armenia (HP1)
		Azerbaijan (HP4)	Kazakhstan (HP3)
	Tajikistan (NP6)		
GVA	Ukraine (MP9)	Armenia (HP1)	Uzbekistan (NP10)
	Georgia (HP5)	Kyrgyzstan (HP2)	Belarus (NP12)
	Tajikistan (NP6)	Kazakhstan (HP3)	Turkmenistan (NP11)
	Moldova (MP6)	Russia (MP7)	
	Azerbaijan (HP4)		

Note: Countries are placed in descending order (highest performance at the top)  
Privatisation index is for sub-period 1998/1999

Sources: Tables 6 and 7.

general economic performance (GDP) and performance in agriculture (GVA). Each country is linked to its rank on the privatisation index in 1998/99. A similar exercise (not shown here) was done for 1994/95. The picture that emerges is not consistent with the assumption that there is a positive relation between degree of land reform and performance, meaning moderate contraction and rapid recovery.<sup>7</sup> The group of highly privatised countries (HP), with the Caucasian republics and some Central Asia states (Kyrgyzstan, Kazakhstan), shows a differentiated outcome. Some countries have a relatively better performance on the GDP index (Armenia and Kazakhstan), others have a moderate performance and Georgia even has a GDP index for 1999 below 50%. If we rank them according to the GVA index we see that none of the reformist countries is represented in the category of best performers.

On the contrary, this group consists only of the non-privatised or at least minimally privatised countries. The situation with regard to the performance of agriculture is less pronounced. The group with the best performance is a mix of highly privatised and non-privatised countries. This relatively straightforward and simple exercise thus shows that simple linear causality between rapid reforms and high performance is far from evident. Actually, no significant correlation is shown when countries are ranked according to the privatisation index and the GVA. For 1994/95 the result is:  $\rho = -0.29$ , and for 1998/98  $\rho = -0.25$ . Correlated with the ranking according to GDP growth, the results are almost similar,  $\rho = -0.31$  and  $\rho = -0.03$ .

If the speed and depth of the land reforms is not a direct explanatory factor, what other factors could then explain the differences in success, or have complicated the envisaged positive effect of agrarian reform on performance? First, the chaos caused by wars and internal conflicts seems to be a major cause for low performance. At least some of the rapid reform countries have faced internal and interstate war. Moldova suffered from the conflicts over Transnistria. Georgia was confronted with the secession war over Abkhazia. Armenia and Azerbaijan were severely affected by the war over Nagorno-Karabakh. In general, the agrarian sector of the war-affected countries has done worse than the overall economy. Nevertheless, the disintegration caused by this war, in some cases, 'stimulated' privatisation of the agricultural sector, particularly in Azerbaijan. The private sector expanded because the private farmers, with their low degree of mechanisation and inputs and informal marketing, were better able to adapt to the problems caused by the destruction of infrastructure. However, apart from the fact that most of the conflict areas have done worse than others, the performance indicators for GDP and GVA present a rather diverse picture.

Second, the stagnation of reforms in the agricultural sector, measured by the degree of privatisation and in particular the formation of private peasant farms, is part and parcel of a specific—transition-related—political economy of most of the FSU. Three factors are intertwined here: (a) provincial and local authorities do not want to relinquish powers which they maintain through economic and political control over large companies. They oppose reforms that would create an agricultural sector with a great number of small peasant farms; (b) the newly established 'reformed' enterprises (however nominally this was done) continue to operate in a similar manner as before, providing a 'safe' environment for the rural population with regard to 'risky' markets, with (slightly larger) household plots still operating in a symbiotic manner with large farms; (c) the private peasant farms operate in inhospitable markets

and are hardly supported by governments. Therefore, incentives to start private peasant farms are rather limited. Interestingly enough, only when the large farms really crumble (such as in Moldova) do these incentives improve, as no other alternative exists than to 'go private'.

Third, and clearly related to the previous issue, the institutions needed for the development of rural markets, essential for the survival and the accumulation of peasant farmers (and other enterprises), are still very weak and politically manipulated. Markets have high transaction costs and in particular rural financial structures have hardly been developed during the agrarian reform (Csaki, 2000). In the overall emphasis on privatisation and market liberalisation in the early stages of reform, this essential aspect of the construction of markets and appropriate institutions was largely ignored.

### *Conclusions*

The overall 'blueprint' framework for transition of the agricultural sector was indeed unrealistic and naive. It included a package of reforms that focused on rapid privatisation of land and other assets, liberalisation of markets and deregulation. As the World Bank (1992) maintained, as long as these measures were implemented, it was expected that newly established private peasant farms would emerge rapidly and soon dominate the sector. In drawing up this vision, too little account was taken of how interdependent private and collective production were. With regard to the first proposition we discussed, the speedy creation of a new, viable and dominant private peasant farm sector (such as followed the reforms in China and Vietnam) was based on the wrong premise of the existence of a land-hungry peasant farmer class that just needed land and market liberalisation. In reality, in most countries the growth of private farms was much slower than envisaged and is actually stagnating, while in some of the main European countries (Russia, Ukraine and Belarus) the number of farms is even declining somewhat.<sup>8</sup> The emergence of peasant farms in these countries might even be more disappointing than official statistics indicate. Field research in Russia shows that private farms sometimes exist only on paper (Wegren, 1996, p. 113). Some private owners of land have stopped farming or did not use the land at all, using their position as a registered farmer mainly to apply for the privileged credits that were available at the beginning of the 1990s. Interestingly enough, the contribution of private production in overall agricultural output has increased substantially, mainly because of an expansion of private household plots. This has, however, hardly ever lead to the establishment of viable private peasant farms, as the household plots are much smaller and still rather dependent on their existing (or re-established) symbiotic relationship with the large farms that are the heirs of the *kolkhozy* and *sovkhozy*.

As part and parcel of the original reforms it was assumed that the private (family-based) peasant farm would be more productive and efficient. However, the supposed efficiency of the peasant farm versus the large enterprises has not been shown. Studies at country level also show that the expectation of more productive peasant farms has not materialised (Lerman, 1998, p. 317). Moreover, some studies even state that peasant farms are less efficient than the collective farms (Wegren,

1996, p. 115). This phenomenon seems to be largely due to the continuation of political privileges for the large enterprises, the political interference of regional and local elites, and the inhospitable market environment for newly established private peasant farmers.

By compiling a composite privatisation index that measures the share of private production in agricultural output, the acreage of peasant farms as a share of agricultural land and the incidence of peasant farms per capita of rural population, this article has presented a dynamic picture of the real changes in agricultural privatisation. This was done in order to avoid the trap of defining privatisation in purely formal terms and to focus on the outcomes, whether inspired by legislation or by spontaneous changes at the grassroots level. It is interesting to see that the countries that are in the top group of reformers are mostly smaller economies on the periphery of the FSU, while all of these countries had initial conditions (with more specialised agricultural production) that already showed a larger share of private production at the beginning of the decade. The main agricultural countries (Russia, Ukraine and Belarus) showed stagnating agrarian reform processes, and Belarus has even dropped to the bottom of the ranking according to the privatisation index.

In conclusion, the current state of agrarian reform leaves a complex picture of a—stagnating—balance between new forms of large (often internally decentralised) enterprises, the sector of private peasant farms and household plot production. The failure of the private farms to grow is understandable if one takes into account the state of the agricultural market environment. After a full decade, agricultural markets still remain inefficient and fragmented and are often simply ‘missing’. Barter trade and withdrawal into self-sufficiency are persistent tendencies.

The second proposition that was discussed in this article is that rapid and profound reforms would lead to less contraction, followed by speedy recovery. On the one hand this proposition cannot be confirmed with the data presented, as non-reformers (represented as non-privatised (NP) countries) in some cases have done better (Uzbekistan). Other factors, such as war and civil conflicts, seem to be more important in several countries. No significant correlation can be shown between rapid reform, high degree of privatisation and market liberalisation, and positive economic performance (whether at macro or sectoral level).

It remains clear that there are structural factors which hamper agricultural development. A private sector, with a mixture of enterprises, amongst which the peasant farms are most likely to be only a smaller section, needs to be further stimulated by focusing particularly on institutional development, rural finance, infrastructure and communications. Economic policy should not return to the simple assumptions of the early reform path, with its overall emphasis on privatisation and liberalisation as such. It should be based on integrated sectoral development and rural markets, in order to stimulate dynamic growth of a sector that, after a decade of reforms, in many cases is still backward and stagnating.

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<sup>1</sup> The Baltic States are omitted because of theoretical and practical considerations. First, there are some important differences between the Baltic region and the rest of the FSU, such as the proximity and orientation of the Baltic region to the West and the shorter period under communism (50 years instead of more than 70 years for most of the CIS). Second, Statkom SNG, which forms an interesting data source for comparison within the FSU, publishes no data about the Baltic countries. In this article we will use the term 'FSU', as it has become common to use the term to refer to the remaining 12 states.

<sup>2</sup> This apparent proletarianisation of the agricultural workforce did however hide the importance of the privately based household plot and dacha garden production, and the dependence on income from other (non-farm) resources.

<sup>3</sup> The term is borrowed from IMF (1998), 'The Uzbek Growth Puzzle'.

<sup>4</sup> World Bank (1992) expected that by the end of 1992 around 300,000 private farms would occupy 5% of the FSU agricultural land. It also estimated that, with a yearly doubling of the number of farms (*sic!*), by the end of 1995 this would be 40%. In reality, it had reached 6.6% by 1999 (see Table 2).

<sup>5</sup> Restructuring (sometimes called privatisation) of agricultural enterprises is not included as the privatisation of collectives that stay intact is generally seen as a cosmetic process that has little direct effect on restructuring. Data on internal farm restructuring would be much more relevant, but they are difficult to find and contradictory.

<sup>6</sup> With the exception of Kyrgyzstan, where grain production is also important.

<sup>7</sup> The GVA index has generally contracted more than the overall GDP index, counter to expectations.

<sup>8</sup> Partly to be explained by a slight tendency to concentration of land.

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