

Agriculture in Transition:  
Land Policies and Evolving Farm Structures  
in Post-Soviet Countries

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## Abbreviations

The common abbreviations used throughout the book are defined in Chapter 1:

- FSU – Former Soviet Union (16 republics, including the Baltics)
- CIS – Commonwealth of Independent States (12 former Soviet republics, excluding the three Baltic states)
- CEE – Central Eastern Europe (without the Baltic states up to 1990; including the Baltic states thereafter)

In addition, the following country abbreviations are used for reasons of space in some figures and tables:

CEE		CIS	
Alb	Albania	Arm	Armenia
Bul	Bulgaria	Az	Azerbaijan
Cz	Czech Rep.	Bel	Belarus
Est	Estonia	Gru	Georgia
Hun	Hungary	Kaz	Kazakhstan
Lat	Latvia	Kyr	Kyrgyzstan
Lit	Lithuania	Mol	Moldova
Pol	Poland	Rus	Russia
Rom	Romania	Taj	Tajikistan
Svk	Slovakia	Tur	Turkmenistan
Svn	Slovenia	Ukr	Ukraine
		Uzb	Uzbekistan



## Chapter 1

# Introduction

The Iron Curtain lifted in 1989, and more than twenty nations spanning half the globe broke out of the isolation that had largely hidden them from the rest of the world for more than four decades. And yet despite the momentous political and social changes that swept the entire region in the wake of this event, there is sometimes a feeling that the old Iron Curtain has been replaced by another “East/West divide”, which now lies further east and extends along the borders of what has become known as the Commonwealth of Independent States, or CIS, a political entity comprising the 12 successor republics of the former Soviet Union (excluding the Baltic states).

The divide is felt both in politics and in the media. On the political arena, the countries west of the divide, which include the former Comecon members in Central Eastern Europe (CEE) and the Baltic states, are applying for accession to the European Union and are making plans to join their former adversaries in modified NATO frameworks. The CIS countries east of the divide are more inward-oriented and relatively isolated from the rest of Europe. In the media, Western journalists paint the events in CEE in rosy, optimistic colors, writing of great successes and encouraging achievements. In contrast, the colors used to describe the events in CIS are dark, bleak, and pessimistic: the tone in the Western media is gloomy, depressing, sometimes apocalyptic.

This striking difference in the popular Western perception of the two components of the former “communist” bloc in Europe—CEE (including the Baltic states) and CIS—has prompted us to explore the possible existence of a similar divide in agriculture, a traditionally prominent sector in most countries in the region and thus an

important component of their transition strategies. The post-World War II regimes imposed far-reaching commonalities on the societies and economies of all these countries in general, and on their agriculture in particular. Yet deep cultural, social, and economic differences remained, even if hidden under the surface. While starting from a common heritage and aspiring for a common goal of a marked improvement in their economies, different countries adopted different implementation strategies and in fact reached very different outcomes. Our book examines the factors that have shaped the divergent transition paths from plan to market in these countries since the early 1990s.

### **Setting the Stage: What the Book Does and What It Does Not Do**

This book is primarily about land policies and farming structures as components of institutional change in the rural sector in transition countries. The transition countries in our story are the former socialist countries of Europe and Central Asia (conveniently abbreviated as the ECA region), which embarked between 1989 and 1991 on a transition from a centrally planned command economy to a more market-oriented economy. Worldwide, transition from plan to market is also taking place in a number of Asian countries, including Mongolia, China, Vietnam, Cambodia, and Myanmar. These “other” transition economies remain outside the scope of our book.

The ECA transition countries span eleven time zones from Prague in the west to Vladivostok in the east and stretch from the shores of the Arctic Ocean and the Baltic Sea in the north to the Adriatic Sea, the Black Sea, and the borders of Iran, Afghanistan, and China in the south. Geopolitically, these are the former Soviet republics, the former Comecon countries in Central and Eastern Europe, plus Albania and the components of the former Socialist Federal Republic of Yugoslavia in the Balkans (Table 1.1). All (except Yugoslavia) were behind the Iron Curtain, when the Iron Curtain existed. The main focus of our story is on a large subset of 22 transition countries: the twelve former Soviet republics that are today members of the Commonwealth of Independent States (CIS countries) and ten countries in Central, Eastern, and South-Eastern

Europe (CEE countries) that include six of the former Comecon members (Poland, Romania, Bulgaria, Hungary, Czech Republic, Slovakia), Albania, and the Baltic states (which are former Soviet republics, but are not part of the CIS). East Germany—the former German Democratic Republic—and the components of former Yugoslavia are discussed only in passing: the former because its present fate is totally different from the rest of the region, and the latter because its past always deviated from the common patterns characterizing the rest of the region (and also because political instability throughout most of the 1990s was not conducive to data collection and analysis).

Transition from plan to market is driven by a mixture of political and economic objectives. The desire to declare independence and to break with the Soviet past has shaped much of the transition agenda in Central Eastern Europe and even in parts of the former Soviet Union. A strong drive for independence characterized not only the Baltic states, which sought to regain the status they had enjoyed before the Soviet takeover in 1940, but also the original founding republics of the USSR, such as Ukraine, Armenia, and Georgia, which took the opportunity in 1990-91 to break away from Moscow after centuries, not decades, of Russian central controls that had begun with the czars. Yet, despite the strong politicization of the process, politics cannot overshadow the importance of the economic objectives of transition. After all, the trigger for the disintegration of the Soviet bloc—the real launch of the transition—came when Mikhail Gorbachev realized the unsustainability of the economic policies, subsidies, and transfers within the empire he had inherited. The socialist economic system in general, and socialist agriculture in particular, were notoriously inefficient, and the transition to a market-oriented system, emulating the economic order of the more successful capitalist countries, was regarded by many as a strategy to cure the chronic inefficiency.

In this book, we focus primarily on the economic objectives, and the systematic treatment of political factors is left to authors who are more qualified to discuss them. We moreover concentrate on transition in the rural sector, in agriculture, and not in the national economy as a whole. While this choice of focus is naturally determined by the authors' personal preferences, it is fully justified in view of the exceptional importance of the rural and agricultural sectors in CEE and CIS before the beginning of transition. In the

1980s, the rural population in the transition countries averaged nearly 45% of the total population, while the share of agriculture in gross domestic product and in employment exceeded 20% on average. In the USA and the European Union, agriculture's share of the economy is much smaller: about 2-3% of GDP and employment in the USA, about 5% in the EU.

**Table 1.1. Transition Countries in Europe and Central Asia**

Country	Geographic location	Pre-1990 geopolitical affiliation
<b>CEE: Central Eastern Europe</b>		
1 Albania	Balkans	Non-Comecon
2 Croatia	Balkans	Non-Comecon (Former Yugoslavia)
3 Macedonia	Balkans	
4 Slovenia	Balkans	
5 East Germany	Central Europe	Comecon (DDR—German Democratic Republic)
6 Hungary	Central Europe	Comecon
7 Czech Republic	Central Europe	Comecon (Czechoslovakia)
8 Slovakia	Central Europe	
9 Bulgaria	Eastern Europe	Comecon
10 Poland	Eastern Europe	Comecon
11 Romania	Eastern Europe	Comecon
12 Estonia	Baltics	USSR
13 Latvia	Baltics	USSR
14 Lithuania	Baltics	USSR
<b>CIS: Commonwealth of Independent States</b>		
15 Belarus	“Russian” Europe	USSR
16 Moldova	“Russian” Europe	USSR
17 Russia	“Russian” Europe	USSR
18 Ukraine	“Russian” Europe	USSR
19 Armenia	Transcaucasia	USSR
20 Azerbaijan	Transcaucasia	USSR
21 Georgia	Transcaucasia	USSR
22 Kazakhstan	Central Asia	USSR
23 Kyrgyzstan	Central Asia	USSR
24 Tajikistan	Central Asia	USSR
25 Turkmenistan	Central Asia	USSR
26 Uzbekistan	Central Asia	USSR



Transition to market is a multifaceted, multidimensional process whose objective is to improve the notoriously poor productivity and efficiency of socialist agriculture. Essential dimensions of transition in agriculture are not restricted to changes in agricultural sector policies, and they also involve general changes in the macroeconomic environment. Relevant macroeconomic changes include abolition of central planning, reduction of government intervention, elimination of central controls, price and trade liberalization, and economic stabilization. Appropriate sectoral policies to support improved productivity and efficiency include development of monopolized, competitively functioning market services (both upstream for input supply and downstream for product marketing and processing), establishment of rural credit institutions, technological improvement, new capital investment patterns for agriculture, and creation of alternative employment opportunities to allow out-migration of redundant agricultural labor. Yet the most visible and widely debated components of transition in agriculture are land reform and restructuring of the traditional socialist farms.

Land reform in the context of transition implies establishment of private property rights in land in countries where land was nationalized (e.g., Albania, the Baltic states, the rest of the former Soviet republics) and restoration of the primacy of ownership rights over use rights in countries where private ownership was never abolished, but privately owned land was inducted into collective use. Farm restructuring implies transformation of large-scale cooperatives and collectives to operations based on market-oriented principles, including emergence and proliferation of individual farms alongside corporate organizational forms. The twin processes of land reform and farm restructuring are both affected by, and impact on, all other dimensions of transition. They are moreover interrelated with political forces, democratization of society, and other profound adjustments that accompany the transition from the pre-1990 reality to the world of the 21st century. This book will not attempt to cover all these factors and dimensions. Its main goal is to analyze the land reform and farm restructuring components of rural transition.

The book's focus is the ongoing transition from plan to market that began in 1989-91. The book does not consider the "second transition" that begins with the opening of the negotiations for accession of Central Eastern European countries to the European Union. This important issue is the subject of specialized literature.

## **The Structure of the Book**

To understand the substance of land reform and farm restructuring in transition countries, we need to understand the common structure of socialist agriculture that dominated the region for decades. The book accordingly starts with a description of the common heritage in former socialist countries—centrally planned agriculture with a sharply dual structure based on very large commercially oriented collective farms and very small subsistence oriented household plots. We then recall evidence of the persistent inefficiency of this agriculture—inefficiency that burst out periodically in annoying manifestations of food shortages and long lines for food, and that in countries that controlled some of the most fertile soils in the world. We try to understand the sources of this inefficiency by setting the structure of socialist agriculture in the context of the world experience: could it be that the socialist model of agriculture, so different from the market agriculture in its main attributes, was inherently inefficient, thus ultimately leading to its own collapse? Finally, we combine the features of common heritage with the evidence from the rest of the world to explain the conceptual framework for transition that crystallized for most countries in the region at the beginning of the 1990s.

Having set the stage for transition, we proceed to discuss the inseparable twin topics of land reform and farm restructuring. Privatization of land is the natural starting point for land reform in countries with decades of state ownership and collectivized farming. But is land privatization sufficient to create an efficient farming structure? The evidence of market economies suggests that farmers do not always own all the land that they cultivate and that successful agriculture can even evolve in countries with state ownership of land. What additional elements, beyond privatization, are necessary to achieve improved agricultural performance? The discussion of land policies in transition countries accordingly advances to issues of transferability of ownership and use rights and their impact on the development of land markets. It is through land markets that land resources can flow from less efficient to more efficient users, allowing farmers to adjust their holdings to optimum size subject to their managerial capabilities.

Because of the heritage of collectivization throughout the region, all productive resources—including land and other assets—had been locked for decades in large-scale farm enterprises, and collectivized use rights had primacy over private ownership rights even in countries that had never nationalized land and property. Collective agriculture was characterized by high levels of mechanization and high use of technology and purchased inputs. Land reform therefore could not be restricted to mere privatization of land or distribution of land use rights to the rural population, as had been done in the much less mechanized communes in China. Land reform in CEE and CIS had to be combined with a thorough program of farm restructuring designed to distribute all productive resources, and not only land, to new market-oriented users. Our discussion of land reform and land policies is accordingly followed by a discussion of farm restructuring efforts in transition countries.

Farm restructuring in transition countries is essentially a process of decollectivization: it is intended to reverse the harmful effects of Soviet-style collectivization that embraced the region. Farm restructuring proceeds in two fundamentally different modes. One mode can be characterized as individualization: it involves creation of individual family farms through exit of former collective members and, more drastically, dismantling or fragmentation of the large-scale collective farm into a multitude of relatively small individual farming units. The other mode involves internal reorganization of former collective farms into relatively large corporate operations, sometimes one-to-one, without significant downsizing, and sometimes one-to-many, usually with some downsizing. We refer to this mode as corporatization.

In any discussion of corporatization, the crucial issue is to determine what really constitutes market-oriented restructuring. The old collective and state farms have practically disappeared throughout the region, to be replaced by joint-stock companies, limited-liability partnerships, and other corporate forms with familiar market-sounding names. But has this been more than just a change of name? What real internal changes have been implemented to transform the organization of production from the old collective mode to a new business-oriented mode? Is it surprising that in many empirical studies the new “restructured” farms do not come out as more efficient than their “non-restructured” counterparts? Perhaps much of the restructuring effort has been largely misguided and misplaced?

Just as we distinguish between the two distinct paths of farm restructuring by individualization and corporatization, we probably have to distinguish between two distinct strands among the newly created corporate farms: “token restructuring” that involves privatization without meaningful internal reorganization of operations and “genuine restructuring” that involves radical internal changes in managers’ and workers’ attitudes to ensure profit-driven operation.

Having reviewed the land reform and farm restructuring attempts during the 1990s, we focus on their impact on the well-being of the rural population and on agricultural performance. Sociologists and anthropologists working on transition issues have a tendency to stress the dramatic deterioration in the standard of living and the level of provision of social services throughout the region. This is inarguably so. But has there been an alternative? After all, the Soviet system was living beyond its means for decades, as Gorbachev realized with stark clarity in the second half of the 1980s. We must not forget that the high level of social services and standard of living for the rural population was maintained through budgetary transfers that masked the gross lack of profitability and inefficiency in collective agriculture. The transition was supposed to change the economic context, and the damage to social conditions was probably an unavoidable price that had to be paid. But is the situation in the countryside uniformly bleak and bad in transition countries? Or are there perhaps glimmers of change that signal future improvement? And finally, are there signs that the long decade of transition is beginning to have a positive effect on growth, which is the ultimate recipe for improvement in standards of living and poverty alleviation? In addition to the impacts of reform on the micro level, focusing on farms and rural households, we also examine the changes in agricultural output and GDP during the transition period and their relation to land policies.

Our analysis leads to a clear conclusion: despite the common heritage, the common starting point, and the common aspirations for a transition to a more efficient economic system, the transition countries adopted different implementation strategies for their land reform and farm restructuring programs. As a result there has been a significant divergence between “leaders” and “laggards”, which is quite obvious at the end of the first decade of transition. We conclude with a discussion of possible explanations of the factors and

forces that have produced the observed divergence. What have the “leaders” done right? Where have the “laggards” gone wrong?

## **The Approach and the Data**

The book draws on the actual work of the authors in the transition countries, work that began in November-December 1991 with the first World Bank agricultural mission to what then was still Gorbachev’s USSR. It is primarily a synthesis of the authors’ experiences during a decade of transition. The issues are treated in a broad regional perspective, and more specific country details can be found in the country monographs listed in a separate section under Sources and References at the end of the volume.

The data used to illustrate the discussion derive primarily from two kinds of sources. General country data were obtained, whenever possible, from official statistical yearbooks of the various countries. Comparative data for market economies were usually taken from the World Bank’s World Development Indicators database, which also provided some general indicators for the transition countries (such as per-capita GNP in dollars). For USA and Canada, the latest agricultural census data were used when appropriate. Eurostat yearbooks were the main source for the countries of the European Union.

In addition to general country data, we have relied extensively on micro-level data for farms and households. These data are unique in the sense that they derive from a long series of farm surveys in transition countries. The World Bank began conducting such surveys as early as 1991-1992 in an attempt to monitor the progress of land reform and farm restructuring across the region. Later, the World Bank was joined in these efforts by the European Union, which has been financing farm surveys in CEE through the Policy Research Group at the Catholic University of Leuven, Belgium. The results of these surveys, as well as empirical data from other survey-based sources, fill the gaps in official statistics and often provide unique insights into the micro-functioning of farms and households during transition.

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All errors and omissions naturally remain the authors’. Moreover, the opinions expressed in this book are the professional opinions of the authors and in no way reflect the opinions, views, or policies of the World Bank and its management.