

EC4NR Agriculture Policy Note No. 9, The World Bank, Washington, DC
January 1997

Land Reform and Private Farming in Moldova

Csaba Csaki, Zvi Lerman, and Antonio Nucifora

Preface

EC4NR is engaged in a process of updating the current developments in land reform and farm restructuring in four republics of the FSU region. The present publication is an interim report, reflecting the status of land reform and farm restructuring in Moldova on the basis of two small-scale surveys conducted in 1995 and 1996 and a critical assessment of the relevant legislation. The final report will include an analysis of the situation in Moldova based on an extensive farm-sector survey currently being conducted by the World Bank and FAO.

The empirical base for this publication is provided by two recent rural-sector surveys carried out in Moldova with support from international donors. The first survey (referred to as the “social survey” in this report) was designed to present a grassroots perspective on land privatization in Moldova. It was organized by the Dimitrie Gusti Foundation in Chisinau under the supervision of O. Badina and S. Radulescu, and conducted in June 1995 with financial support from the World Bank. The study consisted of two complementary modules: a questionnaire-based attitude survey and a series of in-depth interviews. The questionnaires were administered to about 450 respondents in 22 villages all over Moldova. The respondents included individuals farmers, members and employees of collective and state farms, professional people, pensioners, shareholders of joint stock societies, local officials, and elected representatives. Supplementary information was collected by conducting in-depth interviews with 52 individuals of similar profiles in 13 additional villages. The interviews provide a wealth of anecdotal evidence about what is happening in the countryside. The survey questionnaires provide a qualitative picture of the process of reform in the village, without attempting to quantify the progress of reform and the problems of the rural sector in transition. The combination of the findings produced by the two methodologies presents a view of the process of reform “through the farmers’ eyes.”

The second survey was conducted by V. Moroz, F. Bajura, and I. Popazov from the Institute of Agricultural Economics in Chisinau in the early 1996 under the aegis of the EU TACIS Project for the Creation of a National Federation of Farmers in Moldova. This survey, referred to as the EU TACIS survey throughout the report, used a small sample of 31 private-sector farming enterprises (26 farmers associations and 5 individual farms) in nine districts in Moldova. All units surveyed were new in the sense that they had been created in the process of farm restructuring since 1992, and the total number of members in the units surveyed was 5,937. The survey provides quantitative information about farm activities, as well as more generic information on organizational structure, decision making procedures, and accounting systems. Unfortunately, the survey is not representative because of the small sample size and the high incidence of missing information in the questionnaires.

The information from the two surveys was supplemented with recent data provided by the Ministry of Agriculture and Food Supply in Chisinau at the request of the World Bank, as well as data from previous World Bank studies of the agricultural sector in Moldova. The report was written by Csaba Csaki, Zvi Lerman, and Antonio Nucifora, taking into account comments from colleagues at the World Bank. Alan Zuschlag provided valuable editorial assistance.

Executive Summary

1. Major changes have been made in the ownership of agricultural land in Moldova since 1992. These changes became possible when members and workers in large-scale farm enterprises began to receive individual rights to a share of land and farm assets and were allowed free decision between keeping their share in the collective or exiting from the collective to establish a private farm. This choice was intended to initiate internal restructuring of farm enterprises, and yet, despite formal changes in land ownership, the agricultural sector is still predominantly collective. Independent private farms and associations of private farmers are beginning to emerge, but they are confronted with many difficulties and often encounter hostility on the part of local village authorities and collective farm management. It is therefore important to examine the reasons for the moderate progress in land reform and farm restructuring, and to analyze the difficulties that face the slowly emerging new forms of agricultural production.

2. The present report analyzes the process of land reform and farm restructuring in Moldova between 1992-1996, with a focus on the emergence of private farms and their associations. The report is based on a critical assessment of the legal framework and on an analysis of data from two farm-level surveys: a survey of the process of agricultural privatization in Moldova and a survey of peasant farms and farmers associations in Moldova. Additional data for the report were provided by the Ministry of Agriculture and Food Supply of the Republic of Moldova.

The Difficult Evolution of Land Reform

3. The process of land privatization and farm restructuring in Moldova has not been straightforward. Political support for the process has been moderate and the process has been characterized by a continued struggle between conservative and pro-reform forces in the Parliament. After a promising beginning in 1992, the process came to a standstill in November 1994 and effectively resumed only in the first quarter of 1996, when serious legal difficulties were resolved by the Constitutional Court. Since then, the process has significantly accelerated. Several pilot projects have been started with the help of international donors and with the full support of the Government. These projects are progressing very well and provide a model for mass restructuring of traditional farm enterprises. The Agricultural Restructuring Agency (ARA) has been established by the Government as of October 1996 to oversee and facilitate land reform and farm restructuring.

- *Limited land privatization.* Land privatization has had a very limited impact in practice. Although 90% of agricultural land is now formally privatized, nearly 75% of the land remains in some form of collective farming, typically in joint-stock societies. Only 3.4% of agricultural land is in the independent private farming sector, and 12% is in household plots.
- *Less than 1% of new landowners have received a title to their land.* Although certificates of entitlement to shares of land have mostly been distributed, less than 1% of landowners have received a final ownership title to a specific plot of land. At the current rate of titling, it would take over than 35 years to complete the process of land reform in Moldova.
- *Farm restructuring has been minimal.* Less than 10% of large-scale farms have been fully restructured into operations based entirely on individual private ownership. The number of

independent private farms, however, has been increasing rapidly, and is estimated at over 60,000 in mid-1996. The number of outstanding applications to withdraw land from former collective or state farms and establish a private farm is estimated at between 75,000 and 250,000.

Independent Private Farming is Still in Its Infancy

4. Independent private farming is doing relatively well, although it is still in its infancy. Private farms in Moldova accounted for less than 1.6% of crop production and less than 0.5% of livestock production in 1994. Most common products were cereals, grapes, fruits, and vegetables. Livestock production is very limited among private farmers, mainly because of the high setup costs for livestock operations.

5. *Limited diversification of commercial production.* Small individual peasant farms sell only cereals and vegetables, which provide about 60% of farm revenue. Other products are mostly consumed in the household. Medium-size and larger associations market a more diverse range of products, including grapes, fruits, grain, and sunflower.

6. *Private farmers receive higher prices for their products.* Independent private farmers sell mostly in local markets, instead of selling to the state-affiliated processors that offer low prices and pay after long delays. As a result, they receive higher prices than the national average. Yet the prices received by independent farmers are still considerably below border prices, reflecting the underdeveloped level of marketing channels, lack of own means of transportation, and low product quality.

7. *Independent private farming is profitable.* Revenue from commercial sales is sufficient to cover the total production costs of private farms. Since much of the output is used for household consumption and is bartered for essential goods and services, commercial sales represent only a small part of the value of farm production. Private farming therefore appears to be profitable, which is also confirmed by direct interviews with farmers.

What Needs to be Changed?

8. *High prices of farm inputs.* The high cost and short supply of basic farm inputs, such as seeds, fertilizers, pesticides, and fuel, are a major bottleneck to the development of private farming. The expenditure on fertilizers is by far the single largest item, representing 64% of production costs. The input markets need to be liberalized further to allow farmers to purchase the necessary inputs at non-monopolistic prices.

9. *Inadequate provision of credit for agriculture.* Another critical issue hindering the development of independent private farming is the shortage of farm machinery and trucks. Yet private farmers are constrained in their ability to borrow for investment in machinery and equipment, because the interest rates charged by commercial lenders are prohibitively high, between 28% and 60% per annum. Access to credit at acceptable interest rates would also ease the constraints on the purchase of seeds, fertilizers, and other inputs.

10. *The problem of large-farm debt.* The accumulated debt of the large farms constitutes a real problem to restructuring. Peasants who choose to exit the collective are obliged to repay the share of the total debt from their asset share, which deprives them of the little capital they have a right to receive. The government should address the issue of the debt accumulated by the large farms in the past as a result of official policies, possibly resolving it through a one-time writeoff so as not to penalize the individual peasants.

11. *Lack of an effective extension system.* Most private farmers lack the technical and managerial skills to run a farm on their own. The development of an effective extension system is essential for the successful growth of independent private farming in Moldova.

Legal Framework Needs Improvement Urgently

12. *Simplify the current procedures for privatization.* Complex legal procedures are an obstacle to the spread of private farming. The discretionary powers of the village authorities and the collective farm management in the process of transformation should be minimized. These local officials should be made accountable for arbitrary delays and procrastination that they cause, possibly in the interest of self-preservation, in the progress of reform.

13. *Liberalize the land market.* The development of the land market in Moldova is constrained by the moratorium on buying and selling of land until January 2001 and by the unrealistically high normative land prices set by the Government for all transactions in land. As a result, even leasing of land is restricted. The market for land needs to be liberalized so that successful farmers are able to expand their holdings and people who wish to move to a more profitable occupation outside agriculture can rationally dispose of their land.

14. *Enforce internal transformation of farm enterprises and preserve right of exit.* The reorganized farm enterprises in Moldova, regardless of their registration as joint stock societies, limited liability partnerships, agro-firms, or producer cooperatives, are essentially identical to the old collective and state farms. Neither land nor assets have been distributed in physical form to the new shareowners, and the management has not changed. The legal framework ought to enforce meaningful transfer of ownership of factors of production to individuals within large-scale farms, encouraging internal reorganization through voluntary regrouping of the new shareowners. The legal structure should safeguard the right of peasants to leave the new organization with a physical share of land and assets at any time in the future. In this respect, the standard joint-stock society is not an appropriate form of organization for an agricultural sector in transition.

Chapter 1

The Status of Land Reform and the Emergence of Private Farming in Moldova

A. The Process of Land Reform

1. Land reform in Moldova, as in all former Soviet republics, involves transfer of land from state to private ownership, followed by allocation of individual entitlements to land and, ideally, restructuring of the traditional large-scale enterprises into market-oriented farming units, including individual farms. The process of land reform in Moldova has proceeded slowly until quite recently. Administrative support for land privatization and farm restructuring has been relatively weak since the beginning of reform in 1992, and the managers of former collective and state farms have been reluctant participants in the process of change. This explains in part the slow progress with farm restructuring and with the development of independent private farming. The reforms virtually came to a standstill in the late 1994 with the introduction of additional bureaucratic and technical constraints in the legislature. Given the lack of clear commitment of the political leadership, the process of land privatization and farm reorganization in Moldova has advanced with minimum changes, retaining much of the inherited structures. The pace of reforms has picked up in recent months, especially since the removal in February 1996 of the legislative constraints from 1994, but a lot more remains to be done.

The Difficult Evolution of Land Reform

2. The *Conception of Agrarian Reform and Socio-Economic Development of the Village* adopted in February 1991 (see **Chapter 3**) envisaged two separate stages in land privatization. The first phase of the land privatization program, focusing on enlargement and privatization of household plots already in use by rural families, began in 1991. In this stage, the household plots were to be augmented to a maximum of 0.75 ha per family without payment, and the tenorial status of this land was to be changed from use rights to private ownership. The additional land for augmentation of household plots was to be extracted from the holdings of collective and state farms, as there was no unutilized reserve land in densely populated Moldova.

3. The first phase of the program, which is reported to be essentially completed, more than doubled the total area in household plots, raising it from 140,000 ha to 300,000 ha, or equivalently around 12% of all agricultural land. In parallel with the process of augmentation, the land in subsidiary household plots was indeed transferred from state to private ownership, and title documents were issued to households by local authorities. Over one million rural families now own plots of 0.3 ha on average, which they have received free of charge.

4. The second phase of the land privatization program was intended to distribute the land and non-land assets of farm enterprises to their members and workers in the form of paper shares or entitlement certificates. All collective and state farms were expected to go through a process of privatization and restructuring, with the exception of specifically designated farm

enterprises, which included specialty livestock breeding farms, educational and research farms, producers of essential oils, and a small number of farms in other special categories. The implementation of the second phase began in the first quarter of 1992, after the adoption of the Land Code and the Law on Peasant Farms, which set out the mechanisms for the privatization of land and for the establishment of individual private farms through the process of exit from collective farm enterprises (see **Chapter 3**).

5. Between spring 1992 and November 1994, about 14,000 families exited from collectivist agriculture to establish individual farms; another 40,000-50,000 peasants formally applied for exit with their land, and many more were waiting in the wings for further developments before making a decision. The unexpectedly large number of exits from collective farms proved a cause for concern to local government and some conservative political leaders, especially since the original (undeclared) intention had always been to retain large-scale farming as the core of the agricultural sector. Invoking the conventional truths of Soviet economics, the politicians argued that: a) small farms were inherently inefficient because of loss of scale economies; b) farm machinery was not available for thousands of small farmers; c) small plots ruled out crop rotation practices and thus endangered soil quality in the long run; d) roads were inadequate to service small plots; e) peasants might cut down the fruit trees and grape vines on their newly acquired land to make room for more profitable annual crops.

6. These political concerns dressed up in conventional economic arguments led in November 1994 to the adoption of the Law on Suspension of Some Articles of the Land Code (see **Chapter 3**), which effectively stopped the process of land privatization. The official purpose of this temporary delay was to give the parliament time to review the national policy and formulate better procedures for administering the process of land privatization. One of the reasons for the review of the Land Code was to consider the merits of expanding the categories of people entitled to land shares beyond members and workers of collective and state farms. This had to be done in response to rising tensions in rural areas, where the original provisions for entitlement to land discriminated between collective and state farm members, on the one hand, and the rest of rural workers, on the other. Another reason, however, was the dramatic growth in the number of applications for independent private farms and its implication for the average size of farm holdings.

7. Modified land privatization procedures were introduced by the Law on Amendments to the Land Code of February 1995 (see **Chapter 3**). The main changes involved an essential restriction, allegedly from considerations of efficiency, on the minimum size of land that could be withdrawn from the former collective on exit (about 100 ha, equivalent to the land shares of 70-75 people) and an extension of the right to a land share to workers in rural social services and to non-farming employees in the village.

8. The new legislation, motivated by the tensions surrounding the distribution of land shares to the rural population and the concerns about fragmentation and improper use of agricultural land, had profound implications for the land privatization process. The new restrictions on exit with land were perceived by the rural population and the international community as amounting to a virtual halt of the privatization of farming by the political leadership. In rural areas the measures were unanimously perceived as a stop to restructuring and a clear reversal of policy. After strong

opposition to the new law both internally, by some parties in parliament, and externally, by the international donor organizations, the issue was resolved in the early 1996, when the Constitutional Court of Moldova declared the limitations on individual exit as unconstitutional (although it upheld the extended right of all rural employees to a land share). As a result, the speed of restructuring is now beginning to accelerate once again, which is reflected in the large number of requests for exit.

Recent Developments

9. Since early 1996, local restructuring initiatives have received more support from the Government and substantial international donor assistance. Several ongoing pilot projects for farm restructuring have succeeded in developing new farming structures that are fully privatized and currently constitute examples for mass restructuring.

10. A TACIS pilot project in the Orhei region (central Moldova) provides assistance for the restructuring of several farms. USAID together with the Soros Foundation support the restructuring of the collective farm Nisporeni in central Moldova. The Nisporeni restructuring experience will be applied to expand the program to additional farms in 1997.

11. Though details of these farm restructuring projects vary, the principal features are quite similar. It appears that 30% of beneficiaries are opting for fully independent farming, while the rest prefer to organize in smaller farmer associations, or lease their land to newly formed limited liability partnerships and joint stock societies. An important feature of restructuring is that the new units are not committed to continue employing all large-scale farm members who are currently employed on the portion of land assigned to the unit. The machinery is pooled in service cooperatives or is divided among the new farming units.

12. These pilot projects have distinctly positive features compared to earlier restructuring efforts in Moldova. They are all based on full privatization of land, which remains in individual ownership in the newly emerging farming organizations, and they provide opportunities for further restructuring and modifications in land use. Yet these pilot projects are restricted to a small number of collective farms, and so far have had only a limited impact.

13. Another effort to provide support and information for farm restructuring is the recent establishment of the Agricultural Restructuring Agency (ARA) by the Government of Moldova with the support of the World Bank. ARA is a non-governmental organization with the following objectives: a) to develop policy reform recommendations for agriculture; b) to facilitate the implementation of farm restructuring and land reform; c) to set up a broad rural development framework for the recovery of the rural economy and the support of the restructured farms and communities; and d) improve the human resource skills for farm restructuring and rural development. ARA is scheduled to begin operations in October 1996.

B. Land Reform and Farm Restructuring: Progress and Problems

14. Since 1992, the state has privatized over 90% of agricultural land, and as of January 1996 only 8.6% remains state-owned (**Table 1.1**). The share of state farms has shrunk dramatically to less than 3% of agricultural land in 1996, which represents mainly specialized and research enterprises. Yet most of the privatized land (75% of the total) is still managed by large-scale units, which include collective farms and other shareholder structures. Only 16% of the privatized land is in the individual sector, where private farms and farmers associations account for a mere 3% and the rest is in household plots.

Table 1.1. Land Privatization: January 1996 (percent of agricultural land by sector)

| | |
|----------------------------------|-------|
| Individual rural sector | 16.4 |
| Household plots | 13.0 |
| Peasant farms | 2.4 |
| Farmers associations | 1.0 |
| Collective and shareholder farms | 75.0 |
| State farms | 2.6 |
| Municipal and other state land | 6.0 |
| Total | 100.0 |

15. The area managed by collective and state farms was reduced over time by 50%, from 2.2 million ha in 1991 to 1.1 million ha in 1996 (**Table 1.2**). Yet only 215,000 ha of the difference was channeled into the individual sector: 130,000 ha was used to augment the subsidiary household plots and 85,000 ha provided the resource base for the establishment of new private farms. The rest remains in large-scale shareholder structures created from former collective and state farms. The overall share of land cultivated by large farms in various legal forms thus declined insignificantly from 86.5% of agricultural land in 1990 to 77.6% in the beginning of 1996.

Unfinished Business of Land Privatization

16. The recent figures underline the slow speed and incompleteness of the process of land reform in Moldova. After four years, the second phase of the land privatization program, intended to transfer land into individual ownership, has not yet made substantial progress. The total amount of land available for distribution to individuals in former collective and state farms is 1.4 million ha (**Table 1.3**). As of mid-1996, there were 983,000 beneficiaries with a right to a share of land, mostly members and employees in large-scale farms. The average land share in Moldova is 1.44 ha per peasant. Of this about 0.14 ha is orchards and 0.20 ha is vineyards, while the rest is arable land. The actual amount of land allocated to each peasant is calculated on a local basis, considering the total land available locally for privatization and the existing number of rightful claimants to a share of land (the procedure for calculation of land shares is described in **Chapter 3**). As a result,

individual shares vary across regions, as well as across different villages within the same region. The variability is not very large, however, ranging from 1.09 ha per peasant in Straseni District in central Moldova to 1.80 ha Causeni District in the south-east.

Table 1.2. Changes in Land Use During the Reform: 1991-1995

| | 1990 | | 1994 | | 1995 | |
|-------------------------|----------|-------|----------|-------|----------|-------|
| | thou. Ha | % | thou. Ha | % | thou. Ha | % |
| Total agricultural land | 2566.0 | 100.0 | 2484.8 | 100.0 | 2556.3 | 100.0 |
| State farms | 699.0 | 27.2 | 409.0 | 16.5 | 67.7 | 2.6 |
| Collective farms | 1520.5 | 59.3 | 1250.3 | 50.3 | 1004.1 | 39.3 |
| Shareholder structures | -- | -- | 268.6 | 10.8 | 914.2 | 35.8 |
| Peasant farms | -- | -- | 54.9 | 2.2 | 60.6 | 2.4 |
| Associations | -- | -- | 20.2 | 0.8 | 26.3 | 1.0 |
| Household plots | 200.2 | 7.8 | 329.5 | 13.3 | 331.1 | 13.0 |
| Municipal and other | 146.3 | 5.7 | 152.3 | 6.1 | 152.3 | 6.0 |

Source: Data for 1990 from *Statistical Yearbook of the Republic of Moldova*, Chisinau (1991); data for 1994 and 1995 from the Ministry of Agriculture and Food Supply.

17. Nearly all beneficiaries have been issued an ‘ownership’ certificate that entitles them to a land share of a certain size but unspecified location (**Table 1.3**). Only about 60,000 people (6% of beneficiaries) have been assigned a specific plot of land based on their share. Of these about 35,000 are officially registered as independent private farmers (up from about 13,000 in 1995), while many more have applied to do so.

Table 1.3. Status of Land Privatization: April 1996

| | |
|---|---------|
| Total land available for privatization (‘000 ha) | 1,411.6 |
| Individuals with a right to a land share | 983,000 |
| Of which: | |
| Already with ownership certificate | 895,000 |
| Already with final ownership title | 4,000 |
| Number of people who have already received land | 60,000 |
| Number of registered independent private farms | 35,000 |
| Backlog of applications to withdraw land from collective (April 1995) | 72,600 |

Source: Ministry of Agriculture and Food Supplies, Department of Statistics

18. There is a large backlog in processing of individual applications to withdraw land from the former collective or state farms. In April 1995, with 13,000 registered private farmers, there

were officially over 72,000 requests to withdraw land and establish a private farm (**Table 1.3**). Informal sources estimate that in mid-1996 this number was over 250,000. One of the reasons for the backlog is the complex and lengthy procedure that needs to be followed to acquire a plot of land and set up an independent private farm (**Box 1.1**). The existing procedure entrusts the local village administration and the collective farm management with major responsibility in guiding the process of land distribution to potential farmers, and yet fails to place strict deadlines on different decision stages or impose penalties for undue delay. Since these two groups of officials are bound to loose most from reforms, they take advantage of their authority to slow down the process of change.

Box 1.1. The Long Way to an Independent Private Farm

According to the Law on Peasant Farms (January 1992) and according to a Government decision of September 1994, "Peasant farms can be created after the distribution of the equivalent land quota and asset quota, and only on the basis of the land management plan developed by the Land Management and Survey Institute of the Ministry of Agriculture and Food Supply. Peasant farms created as a result of reorganization must be registered by the State Chamber of the Ministry of Justice within 15 days from the time of their foundation."

The procedure to establish a private farm in Moldova entails the following steps:

- i) write a request to the town hall asking to receive the equivalent land quota and actually obtain such land in physical form from the collective farm enterprise; if additional land is desired, another application must be submitted to lease land from the collective farm or the local council;
 - ii) write a request to the collective farm management to receive the asset quota and actually obtain the underlying assets in physical form from the collective farm;
 - iii) ask the Land Management and Survey Institute of the Ministry of Agriculture and Food Supply to prepare a map of the allocated plot; sometimes the official plan is replaced with a sketch issued by the cadastral engineer;
 - iv) having obtained a map of the land plot, the farmer asks the town hall to issue the official property title (the state "akt");
 - v) obtain a unique land registration code from the department of statistics of Chisinau (one central office for the whole of Moldova: no district branches);
 - vi) pay the land registration tax;
 - vii) the private farm is a legal entity, and must also be registered with a "corporate" name (usually the name of the head of farm) in the office of the district registrar; this requires presenting the following documents:
 - decision of foundation of the new farm;
 - registration application;
 - a copy of the land title
 - the unique registration code from the department of statistics in Chisinau;
 - the applicant may be required to clear the proposed "corporate" name of the farm with the Names and Signs Registry in Chisinau;
 - viii) prepare stamp, letterhead, and other "corporate" paraphernalia;
 - ix) open a bank account and apply to establish the right for financial transactions through the bank (a comparatively complicated bureaucratic procedure in Moldova);
 - ix) obtain a tax registration number from the Tax Inspectorate in the district center.
-

Minimal Farm Restructuring

19. To be successful, the reform program should lead to restructuring of the traditional farm enterprises into new market-oriented forms. The distribution of land shares to individuals has enabled the process of farm restructuring to begin, and this process has created three main types of agricultural production structures in Moldova. These are the traditional large farm enterprises, the new shareholder structures, and individual farms and farmers associations. Farms in the first two categories control 74% of agricultural land (see **Table 1.2**), yet they remain very similar in organization and procedures to the former collective and state farms and are still very far from market-oriented organizations.

20. The three main types of farm structures in Moldova can be characterized as follows.

- (a) The traditional large-scale structures are represented by state farms (*sovkhoses*) and collective farms (*kolkhoses*). In state farms, the land and the assets remain the property of the state, whereas in collective farms the assets belong to the members collectively and the land has been recently privatized, i.e., its ownership has been transferred from the state to the collective. Since the government intends to maintain only a limited number of state farms for specific functions, many state farms have been transformed into collective farms by a simple mechanism that enables the collective to assume ownership of state-owned land and assets without any payment.
- (b) When privatized land and assets are divided into shares, the collective farm in effect becomes a shareholder organization. Shareholder structures are mainly represented by limited liability partnerships, joint stock societies, and cooperatives. These are essentially corporatized versions of former collective and state farms with privatized land and assets assigned to member-shareholders in the form of paper shares. The land and assets represented by the shares are legally the property of the corporation, and not of the individual shareholders, yet the law appears to protect the right of individuals to exit with a physical plot of land and a physical share of assets in order to establish an individual private farm.
- (c) Private farms and farmers' associations are established by individuals who have left former collective or state farms with a plot of land and a physical share of assets. In addition to independent private farms operating outside the collectivist framework, the individual sector also includes the household plots of by rural residents, mostly families who have chosen to remain within the former collective or state farm.

21. The number of traditional collective and state farms declined rapidly since 1992, and nearly one-half had been formally reorganized by 1996. Out of about 1,000 collective and state farms in 1992, some 630 remained in 1995 (**Table 1.4**). The new shareholder structures created by reorganizing collectives include 160 joint-stock societies and agro-firms, 194 agricultural production cooperatives, and 11 limited liability partnerships. The new shareholder organizations are similar in size to the traditional collective and state farms: these units control on average between 1,500 ha and 2,000 ha of land and employ from 200 to up to 2,000 member-workers.

Table 1.4. Evolution of Agricultural Units (end of year)

| | 1992 | 1993 | 1994 | 1995 |
|---|------|-------|--------|--------|
| State farms | 373 | 381 | 309 | 236 |
| Collective farms | 631 | 569 | 535 | 395 |
| Shareholder farms and agricultural cooperatives | -- | 95 | 141 | 365 |
| Associations of peasant farms | -- | 7 | 80 | 146 |
| Individual peasant farms | 481 | 3,058 | 13,958 | 35,702 |

Source: Ministry of Agriculture and Food Supply, Department of Statistics.

22. Joint-stock societies and similar corporate shareholder structures have become, with government encouragement, the most common avenue for the restructuring of large-scale farms. Yet these shareholder structures are regarded in law as “collective forms of property.” This model provides an easy opportunity for maintaining the old organization and keeping the former management elite in place. Most former collective farms have put up a new sign as joint-stock society, but have not gone through any meaningful internal restructuring: members are still treated as wage workers instead of participating in profits, and are not free to make independent decisions about production, labor, or use of land and assets. Moreover, the legal structure of a joint-stock society is not designed to allow easy exit of a shareholder with land and assets: the corporation cannot redeem the individual share either in kind or for cash. This legal feature seriously restricts the freedom of individuals to choose between remaining in a collective framework or leaving it to become an independent farmer, thus undermining the whole philosophy of transition to a market-oriented economy.

23. The results of the social survey indeed indicate that not much has changed in the operation of the large reorganized units: the old organizational procedures still hold in production, and land ownership is only formally in the hands of the peasants. Over 65% of the large-scale farms surveyed have not assigned specific plots of land to their shareholders, nor have they calculated the value of shares in non-land assets. In over 60% of the cases the respondents indicate that neither the organizational structure of the farm nor its management has changed. About 55% of respondents state that they have not been actively involved in the decision to restructure the farm. Most of the respondents report that, in their view, the transformation of collectives into joint-stock societies or other shareholder structures is simply a way to perpetuate the old organization and maintain the traditional privileges for a minority of the members.

24. Some shareholder structures are not exact replicas of the former large-scale farms, although they retain much of the inherited organization. One of the reorganization modes involves division of a large-scale collective farm into relatively small autonomous units along the lines of the functional subdivisions in the original structure. According to the social survey, these smaller units are based on 30-100 shareholders with 30-120 ha of land, which is much less than in the large-scale collectives. They are created through the initiative of enterprising subdivision managers in the former collective, who persuaded the members of the team that it would be to their advantage to keep the land together and share both the expenses and the profits. These autonomous multimember units, sometimes called “agro-firms”, are usually able to acquire adequate technical equipment from

the collective, as about 40 ha of land represent the number of asset shares required to get a whole tractor. In certain respects, agro-firms are similar to some farmers associations (see the typology in **Chapter 2**), but individual property rights are much less defined in agro-firms and the leader is usually a much more dominant personality operating in the mold of a traditional collective farm manager. As a result, some agro-firms are merely scaled-down replicas of the traditional collective and state farms.

25. While many collective and state farms were transforming into shareholder structures, the number of officially registered individual peasant farms increased from 500 in 1992 to 36,000 in January 1996 (**Table 1.4**). The number of peasant farms in mid-1996 is estimated at around 60,000, and tens of thousands of new applicants await allocation of land for private farming. The number of farmers associations increased from 7 in 1993 to 81 in mid-1995 and 152 by January 1996. These are probably the only farming operations in Moldova that have been truly restructured into associative organizations based on private ownership of land and assets. The average size of a peasant farm is around 2 ha, which is roughly equivalent to one land share plus the subsidiary household plot that the family retained upon leaving the collective. An average association of peasant farms manages around 200 ha, implying group membership of 100 farmers per association.

Table 1.5. Progress in Land Reform by District

| District | Region | Joint stock societies | Cooperatives | Farmers Associations | Peasant farms |
|-------------------------------|--------------|-----------------------|--------------|----------------------|---------------|
| <i>Intense reorganization</i> | | | | | |
| Glodeni | North | 13 | 6 | 0 | 118 |
| Criuleni | Center-East | 5 | 26 | 8 | 2168 |
| Hincesti | Center | 11 | 20 | 13 | 794 |
| Orhei | Center-North | 3 | 22 | 4 | 2758 |
| Nisporeni | Center | 6 | 14 | 2 | 307 |
| <i>Lagging reorganization</i> | | | | | |
| Anenii-Noi | South-East | 2 | 1 | 0 | 232 |
| Basarabea | South | 1 | 0 | 0 | 100 |
| Cahul | South | 2 | 3 | 0 | 252 |
| Calarasi | Center-North | 1 | 7 | 3 | 243 |

Source: Ministry of Agriculture and Food Supply.

26. An important organizational form that is not yet widespread in Moldova is the agricultural service cooperative. Some farmers' associations perform joint service functions for their members, but service cooperatives as such are still very rare. Informal interviews indicate that farmers are cognizant of the importance of cooperation in services, especially in an environment characterized by shortage of machinery and inadequate marketing and supply channels. The legal framework for the establishment of service cooperatives is provided by the Law on Cooperation, but it has not been tried in practice and no experience has been accumulated with establishment and operation of service cooperatives. In the absence of specific regulations, farmers do not know, for instance, how to create a service cooperative by pooling

their shares in the assets of the former collective or state farm. Lack of guidelines for the establishment of service cooperatives is an obstacle to the development of support services for the new farms.

27. The accomplishments of land reform, while quite modest on the whole, are moreover limited to some districts only, and other districts lag behind. Farm reorganization and establishment of private farms have been relatively intense in Orhei and Criuleni, and particularly slow in Basarabea, Anenii-Noi, Cahul, and Calarasi, where hardly any restructuring had taken place by 1995 (**Table 1.5**). A concentration of peasant farms and their associations is observed in the central region, mainly around Chisinau, where farmers are close to markets and trade channels and enjoy relatively easy access to a good transport network.

Difficulties Encountered: A View from the Farmers

28. About 65% of respondents in the social survey have applied to withdraw their land from collectivized agriculture. This percentage is much higher than that in the official statistics. The majority of those who wish to exit are unsatisfied with the functioning and performance of the collectivized system and believe they will be better off on their own. These feelings, expressed by 50%-70% of those who have requested to withdraw their land, are common all over the country, although dissatisfaction with collectivized agriculture appears to be stronger in the central and eastern regions, and is less pronounced in the northern regions of Moldova.

29. Collective and state farms are regarded as a useful form of agricultural enterprise by one-third of the respondents. However, very few of the individuals who choose to stay in the collectivist framework do so because they are satisfied with the system and the results of collective agriculture (10%). The majority (65%) of those who choose to remain in the collectivist framework do so because they are worried about the obstacles to private farming. Specifically, respondents indicate that they are mainly concerned about the lack of access to inputs and farm machinery (42%) or are afraid of changing to the new system in an uncertain environment (15%). A relatively small percentage of respondents are discouraged by the hostile attitude of the collective farm managers to land privatization (7%). Among those who remain in collectivized agriculture, some indicate that they would have become private farmers despite the risks involved and despite the lack of inputs and machinery, but their application for a plot of land had been refused by the town hall and the collective farm management.

30. The process of farm restructuring and land privatization is controlled by the collective farm management, and is not guided by democratic principles. The decision to restructure the enterprise was made by general assembly only in 37% of the cases. New management was not elected in nearly 60% of cases. Over 60% of respondents report that the shares of non-land assets have not been calculated at all, and certificates of entitlement have not been distributed to the peasants, emphasizing that collective agriculture continues in practice. Many respondents report that the new joint stock societies are forms of perpetuating the collective system and retaining the former privileges for a minority at the expense of the majority.

31. Successful transformation depends on the good will of the management and the local government. The strongest opposition to the determination and assignment of land shares has been from the collective farm management (26% of respondents) and the local administration (13%). Overall, only 20% of respondents experienced little or no problems with the process of privatization.

32. The main resistance to physical distribution of land to potential private farms comes from the collective farm management (46% of respondents). Other obstacles to land distribution include the inability or unwillingness of the mayor and the local administration to interpret the law (19%) and the complex procedures and paperwork needed to exit the collective farm with land (16%).

33. The emphasis on these difficulties to physical distribution of land varies in different regions. In the north, the majority of respondents (58%) did not perceive any external or institutional obstacles to the process of land distribution, and only 30% reported that the collective farm management was trying to prevent them from becoming independent private farmers. Conversely, in the east, only 38% of respondents reported that there had been no major obstacles to the process of land distribution, while about 55% complained about the hostile attitudes of the collective farm management and the local administration. The same problems were felt in a much stronger way in the central and southern regions, where about 70% of the respondents reported difficulties with the local administration and the management.

34. Private farmers generally received on exit the land plots they had requested (77% of respondents). This has been more the case in the northern and central regions (92%) and in the east of the country (82%) than in the south (46%), where the attitude of the managers towards individual farming is more hostile. In the great majority of cases only the land plot was received on exit. No share of assets was given to 72% of farmers who had left the collective. The worst abuses of legal rights are noted in the northern region, where assets and input stocks have not been distributed at all. The problem is less acute in the eastern region, where shares of assets and input stocks have been distributed in 41% of cases.

35. Most of the people who have left collectivized agriculture to become independent farmers complain about scarcity of agricultural machinery for the use of private farmers. Farmers in the survey report that the major difficulties they face are lack of equipment and machinery (51%), shortage of fertilizers, seeds, and other inputs (27%), and lack of accessible credit (9%). Private farmers also accuse the collective farm management of hostile attitude to independent farming.

36. About 50% of the farmers overall feel that the village authorities are trying to hinder and slow down the operation of independent private farmers. This is more the case in the east and the south (63%) than in the northern and central regions (40%). Opinions are more mixed in the central and eastern regions.

37. The social survey indicates that, as of June 1995, the process of reform is not proceeding smoothly. Determination of asset shares has not been completed, collective farm

management and the local administration are not supportive of land distribution to potential private farmers, and individuals who manage to acquire land for farming usually do not receive any non-land assets from the collective farm and are faced with generally hostile attitude from the local power structure. Local officials and collective farm managers appear to exercise delaying tactics, possibly in attempt to maintain their traditional power as long as possible

38. The accumulated debt of large farms may provide an additional explanation of the delay in the determination and distribution of shares in non-land assets. According to existing regulations, the assets available for distribution to members are to be calculated net of outstanding debt. This essentially means that members are required to repay a proportion of the accumulated debt out of their meager entitlement to assets, and this procedure clearly deprives them of a large portion of their capital on exit. The sense of injustice caused by these regulations may have delayed the determination and distribution of asset shares to peasants, as all players are biding their time in the hope that the government will change the procedures, like it did in 1995 with the procedures for entitlement to land.

Chapter 2

Private Farming Amidst Difficulties

39. Individual farming is not new to Moldova. Although for decades virtually all agricultural land was managed by collective or “socialized” farms, individuals in Moldova, as in the rest of the former USSR, were always allowed to keep small household plots of about a quarter of a hectare for farming. The land in household plots remained state-owned, but peasants had lifetime inheritable use rights to this land and always regarded the household plots as “their own.”

40. Household plots became some of the most productive land throughout the former Soviet Union. They contributed not only to subsistence, but also to cash income of the households, as some of the output was marketed. Household surveys in the former Soviet Union indicated that families derived 30% of their budget from the household plot. Although representing only 8% of agricultural land, household plots in Moldova contributed over 18% of total agricultural output in 1989. Because of small land allotments, households specialized mainly in livestock, and accordingly accounted for over 23% of the total value of livestock production in Moldova in 1989. Crop production on household plots was limited to crops that could be grown intensively without heavy capital requirements, such as potatoes, vegetables, and fruit. Household plots accounted for 15% of crop production in Moldova in 1989.

41. Household plots were mostly farmed by members and employees of collective and state farms, although urban residents also had tiny vegetable patches and garden plots near the towns. They were always referred to as subsidiary household plots, because their output was intended to supplement the wage income of the rural population. Private farming other than on subsidiary household plots has been allowed in Moldova only since 1992. Peasant farms as a legal entity for agricultural production were recognized with the introduction of the Law on Property in December 1991, and became possible in practice with the adoption of the Law on Peasant Farms in January 1992. Associations of private farmers were allowed by the Law on Cooperation of January 1992.

42. This chapter focuses on the new types of private farming: independent peasant or family farms established outside the collectivist framework, and associations of such peasant farms. Unless a specific distinction is made between family farms and farmers associations, the term independent private farms refers in what follows to both. The emergence of independent private farming is at the heart of the reform of the agricultural sector. The introduction of private motives in agricultural production is expected to raise the sector's productivity and, given the key role of agriculture in Moldova, promote the economic recovery of the country. It is therefore important to identify existing or potential bottlenecks to the successful development of independent private farming.

43. This chapter makes extensive use of the results of the EU TACIS survey carried out in 1996 in nine districts in Moldova. The survey covered 31 private-sector farming enterprises (26 farmers associations and 5 individual farms), comprising a total of 5, 937

farmers. All units surveyed were new in the sense that they had been created in the process of farm restructuring. Unfortunately, the sample size was small, and respondents often failed to provide the requested information. The findings of the EU TACIS survey are supplemented with data from the Ministry of Agriculture and Food Supply and with interviews from the 1995 social survey to provide a picture of the features and critical bottlenecks of independent private farming in Moldova.

A. The New Private Farms and Farmers' Associations

Share of Private Farms in Agriculture and Product Mix

44. Independent private farming is still a very small subsector of Moldovan agriculture. Based on national statistics, the output of independent private farms in 1994 accounted for 1.5% of total harvested cereals, 1.6% of grape production, and about 0.5% of the production of fruits and vegetables (**Table 2.1**). Since independent private farms in 1994 cultivated less than 1% of agricultural land, the productivity of these units for the main crops appears to be somewhat higher than that of traditional collective farming. Livestock production in independent private farms accounted for less than 0.5% of the national total in 1994. Livestock numbers reflect the low level of production, with 0.3% of cattle, 0.4% of pigs, and 1% of sheep and goats in peasant farms.

45. The product mix of peasant farms is thus essentially different from that of subsidiary household plots, which traditionally account for between 50% and 85% of livestock numbers in Moldova. The traditional individual sector always concentrated in livestock, largely due to the symbiotic relationships with the local collective or state farm, which provided its households with free or subsidized feed and young animals, thus obviating the need for capital investment in facilities for livestock. The new peasant farms have severed their relationships with the local collectives, and cannot rely on outside assistance with livestock operations. They accordingly emphasize labor-intensive crops, and minimize capital-intensive livestock operations.

Table 2.1. Share of Private Farms in Agricultural Production in 1994

| | Percent of total output |
|--------------------|-------------------------|
| Livestock products | 0.5 |
| Cereals | 1.5 |
| Grapes | 1.6 |
| Fruits | 0.5 |
| Vegetables | 0.4 |

Source: Ministry of Agriculture and Food Supply.

Profiles of Independent Farmers

46. Independent private farmers are former members and employees of collective and state farms with different backgrounds. The social survey suggests the following classification into five main types.

- Former workers of the mechanical services of the collective (truck drivers, tractor or combine operators), who had been among the highest paid elite even before the privatization process begun. Such people quickly grasped the opportunities presented by the independence of private farming. They often managed to take possession of the tractors or machinery they had been working on, sometimes taking advantage of the anarchy that prevailed in the initial stages of privatization.
- Former brigade chiefs or other members of the management team of the collective farm, who persuaded their subordinates to take the land and machinery they were entitled to in order to organize a joint enterprise. The main reason for the creation of such an association is to acquire some equipment and agricultural machinery from the former collective by pooling together a sufficient number of individual asset shares. Although the machinery is jointly owned and operated, the association members are often free to make independent production and marketing decisions.
- Former commuters, who had no right to receive land for themselves, but became landowners indirectly, through their wives or other family members who had worked in the former collective and had been assigned a land share.
- Rank-and-file former collective members, who despite their willingness to work hard are disadvantaged by lack of equipment, lack of technical knowledge or management expertise, and lack of contacts in the city.
- Retired collective farm members, who are too old to work their land themselves and have transferred it to their children or relatives who may have become unemployed as a result of the economic crisis and have migrated from the city to the village. Although the formal head of peasant farm in these cases is the pensioner who owns the land, the actual farmer is the son who works the land.

Forms of Cooperation among Private Farmers

47. The structure of peasant farms and associations of peasant farms is very different from the traditional agricultural structures. Most new units comprise a small number of people, usually immediate family and close relatives. In some cases, other farmers join as members, bringing the total to about 5-10 people. Associations of peasant farms are typically formed by groups of 40-200 people.

48. In general, three kinds of farmers associations are observed.
- Many associations are formed by peasants who pool their asset shares in order to acquire jointly whole pieces of machinery or equipment from the collective on exit. The machinery is owned jointly, as in a cooperative, but the farmers in these associations work their land independently and manage their business affairs individually. Joint ownership of machinery and equipment enables these associations to benefit from the advantages of mechanization, while individual decision making ensures higher motivation and flexibility.
 - Some associations are formed informally by neighbors and relatives, who feel there is an advantage to combining their individual efforts in a difficult environment. Farmers in these informal associations also preserve their economic independence and individual rights on the land they own. They rely on mutual assistance in farming, and some expenses and revenues may be managed jointly.
 - Finally, some associations are formed when independent farmers pool their land and assets and effectively farm together, making joint decisions about production, marketing, investments, etc. These associations are closest in concept to collective farming, but they are usually smaller, exercise more democratic management, and allow relatively free exit of individual members with their land and share of assets.
49. Farmers associations in the EU TACIS survey typically practice a mixed form of farming, combining individual and collective principles. Ploughing, early spring works, soil protection, and sowing (mainly maize, wheat, and sunflower) are all done collectively, while plant protection and harvesting are carried out individually.

B. Can Private Farming Operate Successfully?

Land and Labor Resources

50. The number of members in farms surveyed by EU TACIS ranges from 4 to more than 1,000, and the amount of agricultural land per farm is between 10 ha and 1,000 ha. Since the land endowment of a farm is the sum total of the land shares contributed by its members, there is a very strong positive correlation between the number of members and the size of a farm. Family farms are substantially smaller than farmers associations (**Table 2.2**). The median family farm in the EU TACIS survey is formed using 7 land shares and has 16.5 ha of agricultural land. Small associations have 10-150 members and in most cases cultivate between 75 ha and 130 ha, whereas large associations with over 200 members control around 500 ha on average. Thus, even large associations are on the whole smaller than the traditional collective and state farms from which they emerged.

51. The land endowment per member in large farmers associations is significantly less than in family farms and small associations (1.1 ha compared to more than 2 ha). On the

whole, there is a negative correlation between the number of members and land endowment per member: the more members there are, the smaller the size of each land share. This may explain the formation of large farmers associations as groupings of individuals with relatively small allotments of land, who seek to ensure viability of farming operations by pooling their resources in a cooperative.

Table 2.2. Size of Private Farms in the EU TACIS Survey (sample averages)

| Type of farm | Number of members per farm | Agricultural land, ha | Agricultural land per member, ha |
|--------------------|----------------------------|-----------------------|----------------------------------|
| Family farms | 7 | 16.5 | 2.4 |
| Small associations | 60 | 90 | 2.1 |
| Large associations | 430 | 500 | 1.1 |

52. Private farms and farmers associations mostly rely on member labor, but about half the farms in the survey report that they employ hired workers. Farms that report using hired labor employ between 1 and 36 hired workers, and the median number of hired workers is 16 per farm (the median number of members in these farms is 80 per farm). There is no correlation between the number of hired workers and the amount of farm land, which emphasizes the reliance of the farms surveyed mainly on member labor.

Main Difficulties Confronting Private Farmers

53. Private farmers have left the traditional sheltered environment of collective farms, where all the decisions were routinely made for them by central management, and are now exposed to all the risks and benefits of independent operation. In trying to cope with the intrinsically difficult task of small farm management, private farmers run into problems caused by the lack of a normally functioning market environment in Moldova. The main complaints focus on unavailability of farm machinery and on shortage of essential farm inputs (**Table 2.3**).

54. Less than 10% of respondents directly complain about difficulties with access to credit. This basically means that private farmers do not actively feel major borrowing constraints. Yet difficulties with farm machinery and inputs perhaps could be alleviated to a certain extent if credit were more readily available to private farmers. In this sense, some of the respondents complaining about difficulties with machinery and inputs may in effect echo indirect complaints about shortage of credit.

55. Access to marketing channels does not appear to be a problem for private farmers. Since private farmers actually sell a portion of their output, this probably indicates that individual producers know how to find a buyer and market their products without central assistance. The message of **Table 2.3** is that farmers need solutions for inputs, and can take care of the outputs on their own.

Table 2.3. Main Difficulties Reported by Private Farmers (percent of respondents)

| | |
|---|------|
| Shortage of farm machinery and equipment | 50.6 |
| Shortage and high cost of fertilizers, seeds, and other farm inputs | 26.6 |
| Unavailability of credit | 9.2 |
| Access to marketing channels | 4.6 |

Source: Social survey, 1995.

Production Costs

56. For private farms and farmers associations participating in the EU TACIS survey, about half the total production costs is spent on fertilizers, and another 20% is spent on fuel and seeds (**Table 2.4**). These three items are the main purchased inputs for independent private farms. Labor accounts for 20-25% of total production costs in the sample of farms surveyed. Expenditures for support services, such as marketing, processing, or accounting, do not appear in any of the farm budgets surveyed, which reflects the generally low level of such services in Moldova.

Table 2.4. Structure of Farm Production Costs (in percent of total costs across all respondents)

| Cost component | 1994 | 1995 |
|--------------------------------|-------|-------|
| Wages | 25.3 | 20.1 |
| Seeds and seedlings | 4.1 | 5.9 |
| Animal feed | 0.0 | 0.0 |
| Fertilizers and chemicals | 42.4 | 52.2 |
| Fuel and lubricants | 18.3 | 13.8 |
| Electricity | 4.1 | 2.2 |
| Depreciation of capital assets | 3.4 | 2.0 |
| Other | 2.4 | 3.8 |
| Total | 100.0 | 100.0 |

Source: EU TACIS survey, 1996.

57. The cost structure in **Table 2.4** is consistent with the information on production costs reported by farmers in the social survey. One of the respondents provided a complete breakdown of the costs for a typical private farmer in the area in 1995 (**Table 2.5**). The expenditure on fertilizers stands out as the largest single item (64%), followed by labor (20%) and the cost of seeds (10%).

Table 2.5. Production Costs of an Individual Peasant Farmer: 1994/95

| Cost components | Cost per 1 ha | Total cost for 4 ha | |
|-------------------|---------------------------|---------------------|------------|
| | | lei | % of total |
| Labor costs | | | |
| Ploughing | 150 lei | 600 | 15 |
| Sowing | 20 lei | 80 | 2 |
| Cultivating | 25 lei | 100 | 2.5 |
| Seeds | 25 kg at 4 lei/kg | 400 | 10 |
| Fertilizers | 100 kg at 6.6 lei/kg | 2640 | 64 |
| Fuel (diesel oil) | 37.5 liter at 1 lei/liter | 150 | 4 |
| Tax | 15 lei | 60 | 1.5 |
| Other | -- | 100 | 2.5 |
| Total | -- | 4130 | 100 |

Source: Social survey, individual farmer from the village of Costesti - District of Ialoveni.

Limited Availability of Inputs and Machinery

58. The main farm inputs, such as seeds, fertilizers, and pesticides, are both expensive and difficult to find. Several farmers in the social survey reported that they had no source to purchase the necessary inputs for successful farming. "The state offers no support for individual farmers. There is no special place where one can buy seeds or fertilizers." (Independent farmer, Zaim village, Causeni district). "I buy seeds from the collective farm because I have no alternative; I am at their mercy. If they want to give me some, I am lucky; if not, I have to find seeds from wherever I can. It is particularly difficult with chemicals and fertilizers, which are very hard to find." (Independent farmer, Harbovat village, Anenii-Noi district). Overall, shortage of farm inputs appears to be the most pressing problem facing private farmers in the social survey (see **Table 2.3**). In the EU TACIS survey, more than 50% of the farms had no stocks of fertilizers, seeds, and fuel and were concerned about the coming year because of the difficulty of obtaining these inputs, even at a high price.

59. Another serious problem is the lack of access to agricultural machinery and transport. Lack of machinery is seen by many farmers as endangering their economic independence and jeopardizing their performance. The price of a tractor of CIS origin (around 40,000 Lei in 1995, or \$9,000) is beyond the possibilities of a starting individual farmer, especially when credit is not easily available. According to official statistics, the equipment in the hands of private farmers as of January 1995 was minimal. In total, machinery available to peasant farms included 330 tractors, 105 trucks, and 30 combines (**Table 2.6**). There is thus one tractor per 100 ha of land among private farmers, which is one-fifth of the national average. The situation appears to be much better in farmers associations, which managed to acquire farm machinery by pooling the individual asset shares of their members. According to the EU TACIS survey, there is one tractor per 25-30 ha in farmers associations, which is equal to the national average. It is thus the small family farms that have practically no machinery and equipment.

Table 2.6. Farm Machinery in Private Farms: January 1995

| Equipment and animals | Total number |
|-----------------------|--------------|
| Chain tractors | 78 |
| Wheel tractors | 252 |
| Trucks | 105 |
| Harvester combines | 13 |
| Silage combines | 17 |

Source: Ministry of Agriculture and Food Supply.

60. Farmers who have some farm machinery or a vehicle are faced with difficulties in securing fuel and spare parts. "Fuel is very expensive, and it is not easy to find even at a very high price." (Independent farmer, Costesti village, Ialoveni district). Farmers often barter part of their output to obtain the necessary fuel. Some farmers manage to get fuel from the local collective farm at more affordable prices, often by bribing the tractor operators or the drivers.

61. Farmers who managed to get equipment or machinery for their asset share on exit usually received the oldest equipment in a bad state of repair. Even if they are able to fix the equipment themselves, they cannot find the spare parts they need and are often forced to turn to the collective farm as a source of supply.

Marketing and Output Prices

62. Private farms and farmers associations surveyed by EU TACIS do not produce only for subsistence. All farms sell a portion of their output in the market. There is a strong positive correlation between the volume of sales and the size of the farm: farms with more land sell more and earn a greater revenue from product sales. For 50% of the farms in the sample, the volume of commercial sales is between 200 lei and 1,400 lei per hectare of agricultural land (\$40-\$300 per ha). On average, each additional hectare of agricultural land yields around 300 lei (\$65) in product sales.

63. Commercially sold crops include grain, vegetables, fruits, grapes, sunflower, and others. Individual farms and small associations sell mainly vegetables and fruit, whereas in larger associations most revenue is from sunflower and other industrial crops (**Table 2.7**). Virtually no sales of processed food or livestock products are reported by the farms in the sample. Only one farm reports making and selling wine: all others sell their grapes to the large wineries. So far there has been no move toward on-farm production of higher value added products.

64. According to the data in the EU TACIS survey, prices received by private farmers and farmers associations are on the whole higher than the national average (**Table 2.8**). This is not surprising, because individual farmers tend to sell most of their produce on the market, where prices are higher than those offered by the traditional marketing channels, namely state procurement and state processors. However, even prices received by farmers are still considerably below border prices. This may be due in part to generally poor quality of the products (especially fruit, vegetables, and table grapes), but it also reflects the underdeveloped state of the marketing channels, lack of transportation, and extremely limited access to export markets.

**Table 2.7. Distribution of Revenue from Farm Product Sales in 1995
(in percent of total sales revenue)**

| Category of farms | Cereals | Vegetables | Fruit | Grapes | Other |
|--------------------|---------|------------|-------|--------|-------|
| Family farms | 33.4 | 26.1 | 10.0 | 1.8 | 28.7 |
| Small associations | 19.6 | 15.3 | 39.1 | 9.6 | 16.4 |
| Large associations | 8.9 | 0.0 | 5.7 | 9.3 | 76.2 |

Source: EU TACIS survey, 1996.

65. Within the EU TACIS sample, the small family farms receive in general higher prices for their products than the farmers associations (**Table 2.8**). This is probably due to the fact that the family farms can sell their entire small output directly to consumers in the market, at the highest possible prices, while the associations have to resort also to wholesalers and processors in order to sell their larger output. This interpretation is supported by the results for grain, which is usually not sold directly to consumers in the market and for which family farms have no price advantage.

Table 2.8. Prices Received for Farm Products: 1995 (in lei/ton)

| | Average prices received by private farms | | | Average price in Moldova |
|------------|--|--------------|----------------------|--------------------------|
| | All sample farms | Family farms | Farmers associations | |
| Grain | 370 | 350 | 380 | 321 |
| Vegetables | 460 | 670 | 390 | 355 |
| Fruits | 465 | 570 | 430 | n.a. |
| Grapes | 460 | 560 | 440 | 447 |

Source: EU TACIS Survey, 1996

Profitability

66. Sales revenue balances the production costs of the peasant farms and farmers associations in the EU TACIS sample (**Table 2.9**), and overall the reported profit in 1994 and 1995 is around zero. In addition to sales revenue, however, individual farmers and association members also consume a portion of the output. Associations distribute part of their products to members as compensation for participation (including payment for work and a share of the profits). A portion of the output is bartered by farmers and associations for inputs and services. All these non-cash transactions are not reflected in sales revenue, and yet they increase the effective income of farm households. It is therefore very encouraging that production costs are balanced by sales revenue, before taking into account the imputed value of own consumption and barter transactions.

67. Those respondents who disclosed their budgets in the EU TACIS survey confirmed that their harvest was sufficient to allow them sell some of the output on the market after satisfying household consumption needs. These findings are consistent with the information from the social survey. Given the small areas of land in private farms, their production is not very large, but it is more than sufficient for household consumption. A portion of the output is therefore sold commercially, especially grain, fruits, and vegetables, and sales revenue on average is sufficient to

cover all production costs. Thus, in spite of the difficulties they face, many individual farmers are satisfied with the results of their work, their living standard, and the freedom they enjoy.

Table 2.9. Farm Profitability

| | 1994 | 1995 |
|----------------|--------|--------|
| Total costs | 2482.2 | 5345.7 |
| Total revenues | 2293.0 | 5366.9 |
| Profit rate | -7% | 0% |

Source: EU TACIS survey, 1996.

Constrained Credit Availability for Independent Private Farming

68. Almost every farm in the EU TACIS survey has some long-term debt, and about half the farms carry also short-term loans. The average debt per farm in the sample, at 330 thou. lei or around \$70,000, is not large, but it is not negligible either. Compared to other financial characteristics, the average debt per farm is about 1.4 times the average sales revenue and 2.3 times the average fixed assets (**Table 2.10**). By these ratios, the debt burden of the large associations appears to be much less than that of the family farms and the small associations.

69. The higher debt burden of the small farms is particularly clear from a comparison of the levels of debt per member in farms of different categories: it declines from 7,400 lei (\$1,600) per member in family farms to 4,600 lei (\$1,000) in small associations and 900 (\$200) lei in large associations (**Table 2.10**). Family farms are more in debt probably because individual farmers left the former collective without any assets, and they now need credit to buy farm machinery and equipment. The larger associations, on the other hand, acquired their assets through the pooling of the asset shares of many members, and their credit needs are therefore lower.

Table 2.10. Financial Characteristics of Farms (averages per farm, thou. Lei)

| | Debt | Sales revenue | Fixed assets | Debt per member | Ratio of debt to | |
|--------------------|------|---------------|--------------|-----------------|------------------|--------|
| | | | | | Sales | Assets |
| Entire sample | 330 | 240 | 145 | 1.7 | 1.4 | 2.3 |
| Private farms | 160 | 71 | 33 | 7.4 | 2.2 | 4.8 |
| Small associations | 310 | 95 | 92 | 4.6 | 3.3 | 3.4 |
| Large associations | 490 | 660 | 330 | 0.9 | 0.7 | 1.5 |

Source: EU TACIS survey, 1996.

70. Commercial banks have only limited motivation to lend for farming and other rural activities, because farmers are unable to compete with the interest rates that commercial firms are willing to pay. Respondents report that interest rates on commercial credit are very high, partly reflecting the high default risk associated with the absence of property rights and lack of clear regulations regarding the use of collateral. Interest rates by private lenders currently range between

28% and 60% despite the significant slowdown in inflation rates, which dropped from nearly 500% per annum in 1994 to around 30% in 1995. Farmers, on the other hand, report that they can only afford government-subsidized credit at preferential rates of 7-8% for long-term loans and 18-20% for short-term loans, but the government has radically reduced subsidized credit programs, and the supply of such credit is extremely limited. These factors create the potential for a severe credit shortage in Moldova, and it is perhaps encouraging to note that all respondents in the EU TACIS survey carry reasonable levels of debt.

Tax Burden

71. Many farmers in the social survey complained about a heavy tax burden. "There are too many, almost ten kinds of taxes: the tax to the social security fund, the land tax, the farming tax, income tax (on individuals). These taxes have increased very much, some of them by as much as fifteen times. For example, we used to pay approximately 2.5% to the social security fund, while now we are forced to pay 35%." (Executive council member, Drasliceni village, Criuleni district). "The taxes imposed by the state are very high. In fact, the state gives us nothing, it only makes demands." (Executive council member, Cotesti village, Ialoveni district).

72. Taxes in 1995 were substantially higher than in previous years, particularly income tax and the land tax. Agricultural producers pay a land tax of about \$20-\$30 per hectare. The obligatory contribution to the social fund works out at an additional \$30-\$40 per hectare. Farm products are subject to VAT (admittedly with many exemptions), but there is no refund of VAT on inputs. Agricultural producers also pay tax on profits, road tax, and tax on water use, but these taxes are marginal compared to the land tax, the obligatory contribution to the social fund, and VAT.

73. The collection rate of taxes from agriculture is around 60% and is decreasing. By mid-1996, the food and agriculture sector had accumulated arrears of 286 million lei to the social fund and 189 million lei for all other taxes (out of total arrears of 710 million lei, or about \$150 million). Because of the heavy tax burden, many independent farmers conceal the exact production quantities and their sales revenue. To avoid being forced to declare their income, individual farmers (contrary to farmers associations) do not maintain accounting records and even do not register as individual farmers. In one area covered by the social survey, only 7 out of 500 independently operating farmers were officially registered. The rest were simply recorded as land owners in the collective farm's books. In this way they only paid land tax, and avoided paying tax on income.

Lack of an Extension System for Agriculture

74. The new private farmers lack the managerial knowledge which is required to run a farm on their own. Many of them also lack the technical expertise which is essential for independent farming outside supportive collectivist frameworks. Farmers associations are relatively better placed in that they have some professional staff capable of maintaining accounting systems and dealing with technological aspects of farming. Thus, farmers associations in the EU TACIS sample had on average more than 3 professionals on their staff, and the largest associations (those with over 200 members) actually had nearly 6 professionals on their staff. Yet even among farmers associations very few report the existence of business planning, and the emphasis is strictly on day-to-day

management. Production and marketing specialists in farmers associations have limited access to market information about input suppliers or potential buyers of their products, and thus find it very difficult to operate efficiently under new market conditions.

75. Respondents in the surveys complain about unavailability of channels for advising, informing, and training private farmers, and some peasants are deterred from establishing a private farm because they lack training and are insufficiently informed. A western-type extension and small-farm support system does not exist in Moldova. Emerging farmers' organizations provide occasional advice and information services, but a nation-wide system of extension and market information supporting agriculture has yet to develop. The development of an efficient extension system, including a well-designed assistance and training service, is essential for successful growth of independent private farming in Moldova. The extension system should help peasants acquire the skills they need, as well as advise them on what crops and technology they may successfully implement and where the necessary market information can be obtained.

Hostile Attitude of Authorities and Collective Farm Management to Private Farming

76. The attitude of the national leadership has been unsupportive of substantive farm restructuring and privatization in general, and of the growth of individual private farming in particular. This was clearly reflected in the events surrounding the review of the Land Code in 1994-1995 (see **Chapters 1 and 3**). On a practical level, it is the local village authorities and the collective farm management that slow down or even obstruct the process of land reform and farm restructuring in the villages. The obstacles usually involve what is perceived by peasants as inequitable distribution of land and assets on exit, a process controlled by local authorities and collective farm management.

77. A common way to discourage potential private farmers from exiting the collective farm is by allocating land of poor quality and in an inconvenient location. Although the law specifies that individuals should receive land "of average quality" on exit, many farmers complain about the low fertility of the land they received, the distance from the village, or fragmentation into several small parcels far apart from one another. Distant location and fragmentation are a serious obstacle, especially for older farmers, because of unavailability of transport and lack of access roads. One of the farmers interviewed received land 7 km from home. This was too far for walking back and forth in the morning and in the evening, and as a result he and his family had to stay almost all the time in the field, spending their nights in a converted caravan. "After 45 years in my position in the collective I would have expected to receive a better piece of land. But, instead of receiving good land, I received the worst. Out of 1.89 ha that I got, 0.16 ha is access roads, pasture, and ravine, and the rest of the land is not very good. I contacted the research laboratory that determines the soil quality in Chisinau, and they told me that 53% of my soil is of poor quality. This means that only half the land I received is fertile. On top of that, my land is situated near a pond, where rain and floods wash away the crops. For instance, last May I sowed corn, but the heavy rainfall forced me to sow a second time, making me spend money on seeds in vain." (Independent farmer, Harbovat village, Anenii-Noi district). Situations of this kind are frequent in the villages surveyed where, to discourage exit from the collectives, potential private farmers are allocated land of poor quality.

78. Almost all respondents in the social survey report that they did not receive a physical share of farm machinery on exit. "All tractors and agricultural machinery were taken by the managers and no private individuals received any, so as to be dependent on the collective, like in former times." (Independent farmer, Costesti village, Ialoveni district). In justification collective farm managers argue that the value of the individual asset quotas is too small to make the equivalent of a tractor, a combine, or any other piece of agricultural machinery, and farmers often pool their asset shares in an association in order to circumvent this obstacle and receive a whole piece of farm machinery.

79. The specialized mechanical subdivisions in collective farms and joint stock societies often refuse to provide services to independent private farmers, or deliberately delay the work on private farmers' fields. "The manager promises that the tractor and the operator will come to work the fields of the independent private farmers, but no tractor shows up when scheduled. They delay the work for two-three days, saying that they have more pressing business to attend to, and meanwhile the crop gets spoiled. On other occasions, the tractor operator himself refuses to work the independent farmers' fields, although he never works for free anyhow. As a result we (individual peasants) often have to delay sowing, hoeing and harvesting." (Independent farmer, Costesti village, Ialoveni district).

80. Overall, the relationships with the local authorities and managers appear to be tense. Individual farmers complain that the mayor and collective farm managers do everything they can to maintain their former power and to block the process of privatization. Complaints focus mainly on the unfair way in which land and equipment are distributed, the absence of technical and other support for farmers who separated from the collective, and occasionally also the illegal business transactions of the local leaders.

Chapter 3

The Legal Framework for Land Reform and Farm Restructuring: Procedures and Problems.

81. The origins of land reform legislation in Moldova, as in all former Soviet republics, are to be found in laws passed by the USSR Supreme Soviet between November 1989 and March 1990 (the Law on Leasing, the Law on Property, and the Law on Land). These Union-level laws permitted individuals and families to hold long-term leases on land within and outside the collective and state farms, and allowed the granting to individuals of lifetime inheritable rights to work the land, but not the right to buy, sell, or mortgage it. In July 1990, when Moldova was still part of the Soviet Union, the Moldovan Parliament (then Supreme Soviet) adopted a resolution *On the Conception of Transition to Market Economy* acknowledging the market economy “as the model of economic activity and the main path towards the recovery of the national economy.”

82. Today, Moldova can rely on a broad set of laws which have been passed since 1991 (**Table 3.1**). The basic legal framework required for privatization and restructuring of the agricultural sector is largely in place. However, several gaps, ambiguities, and restrictions in the legislation are still hindering the process of land privatization.

A. Procedures for Land Reform and Farm Restructuring

83. The conceptual basis for land reform and farm restructuring in post-Soviet Moldova is expressed in the so-called *Conception of Agrarian Reform and Socio-Economic Development of the Village* approved by Parliament (of the soon to be Republic of Moldova) in February 1991. This document sets out the goals and principles of agrarian reform in Moldova, discusses property rights and formation of market relations, and examines the organizational forms within the agro-industrial complex. The document states that one of the main tasks of agricultural reform is to create an efficient economic system based on equal rights for all forms of production organization. Demonopolization and privatization of all agricultural and agro-industrial structures are envisaged as the way to create the new production structure. Private ownership of land and productive assets is placed at the center of the radical transformation in agriculture.

84. The notion of private ownership of land, however, was plagued by ambiguity and internal inconsistency from the very beginning. This ambiguity was reflected, for instance, in the ten-year moratorium that prohibited buying and selling of privately owned land until January 2001. The Parliament of the Republic of Moldova was very unclear, at least until recently, regarding the direction it wished the agricultural sector to follow in the path of transformation. The result has been a very confused, uneven, and inconclusive process of land reform.

85. Non-state forms of ownership were introduced in pre-independence Moldova by the Law on Property (January 1991). This law established a basic framework for private property, including private ownership of land. Land could be owned only by Moldovan citizens: foreign

ownership was not allowed. The Law on Property was the first law to recognize the individual peasant farm as a legal entity in Moldova.

Table 3.1. Chronology of Land Reform and Farm Restructuring Legislation in Moldova

| | |
|---|-------------------|
| Law on Property | January 22, 1991 |
| Conception of Agrarian Reform and Socio-Economic Development of the Village | February 15, 1991 |
| Law on Priority Social Development of the Village and the Agro-Industrial Complex in National Economy | February 15, 1991 |
| Law on Privatization | July 4, 1991 |
| Presidential Decree on Reorganization of State Enterprises into Autonomous State Enterprises and Commercial Joint-Stock Societies | December 9, 1991 |
| Land Code | December 25, 1991 |
| Law on Peasant Farms | January 3, 1992 |
| Law on Entrepreneurship and Enterprises | January 3, 1992 |
| Law on Joint-Stock Societies | January 3, 1992 |
| Law on Bankruptcy | January 3, 1992 |
| Law on Leasing | January 14, 1992 |
| Law on Cooperation | January 16, 1992 |
| Regulation on Settling of Land Disputes | March 5, 1992 |
| Law on Land Taxation | December 3, 1992 |
| Temporary Regulation on Collateral | October 29, 1993 |
| Law on Suspension of Some Articles of the Land Code | November 8, 1994 |
| Law on Normative price of Land | December 2, 1994 |
| Regulation on the Content of Documents Related to the General Land Cadastre | January 11, 1995 |
| Law on Amendments to the Land Code | February 15, 1995 |
| Law on the State Program of Privatization for the Years 1994-1995 | May, 1995 |
| Resolution No. 377 on Purchase and Sale of Land Plots | June 6, 1995 |
| Resolution on Failure to Implement Resolution No.377 of June 6, 1995 | October 9, 1995 |
| Resolution on Measures Concerning Purchase and Sale of Land | November 6, 1995 |
| Constitutional Court Ruling on Law on Amendments to the Land Code | February, 1996 |

86. Subsequent legislation specifically granted equal rights to agricultural production and ownership of means of production to all legal organizational forms, including individual farms and associations of individuals (Law on Priority Social Development of the Village, February 1991), and

established the framework for transfer of state property to the ownership of private individuals (Law on Privatization, July 1991). General principles were established for transformation of collective and state farms based on the decision of the general assembly of members or workers.

87. The implementation of the land reform and farm restructuring principles was made feasible only with the adoption of the Land Code (December 1991) and the Law on Peasant Farms (January 1992). The Land Code set out the mechanisms for the privatization of land, while the Law on Peasant Farms provided the legal tools for the establishment of individual private farms through the process of exit from collective farm enterprises.

88. The Land Code defined the beneficiaries eligible to own farmland. These were the members and workers of collective and state farms, including pensioners, all administrative and professional staff, and workers of the social sphere employed by the farm enterprise. Although restitution of land to former owners is a sensitive issue in Moldova, parts of which were collectivized only in the early 1950s, the Land Code explicitly stated that “There will be no restitution of land to former owners and their heirs. They are entitled to receive land plots in ownership under the provisions of the present Code.” Former landowners who had “surrendered” (a euphemistic term used by the law) their land without actually joining a collective farm were entitled to a plot of land, like all other eligible beneficiaries, if they were planning to resume active farming.

89. The Land Code was amended several times between 1991 and 1994, and new legislation was introduced to consolidate and develop its provisions. Among the new laws, the Law on Cooperation (January 1992) has a special bearing on reorganization of collective and state farms in that it provides for voluntary cooperation among peasant farms in both production and services. This law recognizes that cooperatives can form either as associations of peasant farms or through transformation of collective and state farms. So far, however, there has been very little experience with the implementation of the Law on Cooperation, especially in the area of establishment of much needed service cooperatives on the basis of non-land assets of former collective and state farms. This appears to be a legal lacuna that deserves attention and further interpretation.

90. Major changes to the Land Code were introduced by the Law on Suspension of Some Articles of the Land Code (November 1994). With this law, the Parliament suspended some of the fundamental articles in the Land Code, which inter alia allowed the issuance of individual titles to agricultural land. New modified procedures were then approved by the Parliament in the Law on Amendments to the Land Code (February 1995). This law introduced four major changes to the 1991-1992 legislation.

- First, a minimum size was now required for a new unit to separate from the collective farm. Farmers could withdraw land only if they formed a group large enough for the withdrawal of one “crop-rotation field” (approximately 100 ha, equivalently to a group of 70-75 people). This requirement was effectively interpreted to mean that the land be withdrawn and be registered collectively, rather than as a group of individuals.

- Second, exit from collective agriculture was now possible only between November and March of every year. This restriction, which had already existed for the withdrawal of land, was extended to the withdrawal of the asset shares from the collective.
- Third, only suitably experienced and qualified individuals could act as the head of farm, and an official certificate was required to confirm the qualifications.
- Fourth, the right to a land share was extended to all rural workers, thus including teachers, medical personnel, and employees of cultural centers and support services who live in the village and are not employed by the local collective farm.

91. These changes, however, were mostly annulled in February 1996, when the Constitutional Court of Moldova declared the restriction on the minimum size of fields that could be withdrawn on exit and the certification requirement for the head of farm to be unconstitutional. The provision of land for additional beneficiaries was not struck off, necessitating recalculation of the land shares for a greater number of recipients than previously and reduction of the former entitlements.

92. As of mid-1996, the procedures for privatization and farm restructuring are based on the 1991 Land Code, the 1995 Law on Amendments to the Land Code, the 1995 Law on the State Program of Privatization for the Years 1994-1995, and the February 1996 ruling of the Constitutional Court. According to these laws, each beneficiary is entitled free of charge to a share of farmland of equal standard size, adjusted for quality (see **Box 3.1**). Workers of collective and state farms (both active and retired) are also entitled to a share of non-land assets, whose value is to be calculated based on the recipient's past labor contribution to the farm (see **Box 3.2**). Asset shares, contrary to land shares, are thus not equal for all. Since vines and fruit trees are classified as capital assets, both asset shares and land shares are required to claim vineyards or orchards.

93. Initially, the land and asset shares are paper certificates, representing the entitlement of each individual to a portion of total land and total assets of the farm. Individuals can elect to keep their shares in the restructured farm, in which case they will be entitled to receive dividends based on the value of their holdings. Individuals who decide to leave the collective enterprise and establish a private farm are entitled to withdraw land and assets in kind. Individuals who choose to exit apply to the local council with a request to receive a plot of land corresponding to their equivalent land share and to the collective farm management with a request to receive their allocation of assets. The Land Committee is responsible for deciding which plots of land will be physically transferred to private ownership taking into account the quality of land. The physical distribution of land and assets to exiting individuals is based on the decisions of the Land Committee and the Privatization Committee, and does not require any further approval by the farm management or the general assembly.

Box 3.1. How Is the Land Share Determined?

1. The land inventory of the agricultural enterprise to be privatized is prepared by a joint committee which includes representatives of local (village or district) government and the farm enterprise (the so-called Land Committee).
2. The beneficiaries eligible to land shares are identified. The eligible individuals include the active and retired workers of the farm enterprise, and also handicapped people, teachers, medical personnel, and employees of cultural centers and support services who live in the village where the farm is located.
3. The boundaries of the land used by the agricultural enterprise are determined, and the land that legally remains in state property is identified (e.g., the land under livestock units, which remain state property until the year 2001).
4. The total farmland available for privatization is reduced by allocation of land to the following uses: i) augmentation of the household plots in the village; ii) pastures and meadows in the village; iii) creation of a reserve for future needs of the village; iv) allotments to monasteries and parish administrations.
5. All remaining land is available for distribution to eligible beneficiaries during the reorganization of the farm enterprise ("the privatization reserve").
6. The size of the equivalent land share is determined by dividing the privatization reserve by the number of eligible beneficiaries in the village. The land share is calculated separately for arable land, orchards, and vineyards. The land area obtained in this way represents the equivalent share with average soil quality and normal fertility for each type of land.
7. The right to an equivalent share of land is certified by an official document issued by the Land Committee.

Box 3.2. How Is the Asset Share Determined?

1. The farm enterprise, having adopted a resolution to reorganize, sets up a Privatization Committee, whose members are the farm manager, the chief accountant, the chief economist, a lawyer, and representatives of the workers' union and the local administration. The Privatization Committee and the Land Committee cooperate with the common objective of facilitating the process of land reform and farm restructuring.
 2. The Privatization Committee performs inventorization, valuation, and indexation of the assets on the basis of the latest balance sheet and according to existing regulations.
 3. The Privatization Committee reports the asset valuation to the general assembly and submits it for the approval of the local administration.
 4. The general assembly determines the proportion of total assets to be allocated to the active and retired workers of the farm enterprise, and the proportion to be allocated to the rural workers and pensioners who live in the village.
 4. The Privatization Committee proposes for the approval of the general assembly a formula for determining the value of asset shares for different beneficiaries; in general, the calculation of asset shares should be based on a formula that gives a high weight to the individual's wage rate and years of employment.
 5. The Privatization Committee determines the value of the asset share for each individual on the basis of the formula approved by the general assembly, and reports the results to the farm management, the district office of the Ministry of Privatization, and the State Property Administration.
 6. The Privatization Committee issues and registers official certificates of the right to a share of assets.
-

B. The Legal Framework for a Land Market

94. Land markets that enable peasants to adjust the size of their holdings in line with their abilities and needs are essential for ultimate success of agricultural reform. The development of functioning land markets relies on a number of prerequisites, which essentially include freedom to conduct transactions in land and the existence of an effective land titling and registration system capable of supporting land transactions.

Buying and Selling of Land

95. The 1991 *Conception of Agrarian Reform*, which sets the principles for all subsequent reform legislation, explicitly prohibits land transactions until January 1, 2001, i.e., imposes a ten-year moratorium on buying and selling of privately owned land. The moratorium until the year 2001 is retained in the 1995 amended version of the Land Code, and this constitutes a serious impediment to the development of functioning land markets in Moldova.

96. Despite the blanket moratorium on land sales, the amended Land Code allows within-farm sale of land certificates, and this provision is elaborated in recent legislation (Resolution No.377 on Purchase and Sale of Land Plots, June 1995; Resolution on Failure to Implement Resolution No. 377, October 1995; Resolution on Measures Concerning Purchase and Sale of Land, November 1995). Owners of land share certificates are permitted to sell their land shares to members of the same farm, and farm members are allowed to buy land shares from other members. This provides opportunities for adjustment and consolidation of holdings, as land can now be transferred from inactive owners to more enterprising farmers, although only within the same large-scale entity. Land shares can be bought and sold at a negotiated price, but within the price range set by the December 1994 Law on Normative Price of Land for all transactions in farmland. This law assigns an average price of 21,136 lei per hectare of agricultural land (about \$4,700 per hectare, or \$1,900 per acre).

97. The Law on Normative Price of Land introduced an additional exceptions to the ten-year moratorium on land sales. It allowed selling and buying of residential and dacha plots, which accordingly became marketable as of January 1995. The June 1995 Resolution on Purchase and Sale of Land Plots allowed the users of land plots in urban and rural areas (including household plots, gardens and vegetable patches, and plots under private houses) to purchase their plot from the municipality. The transaction has to be conducted at the state-determined normative price (in accordance with the Law on Normative Price of Land), and the municipality is required to share the proceeds equally with the state.

98. Further legislation is being debated on a new set of regulations for buying and selling of land. These regulations envisage immediate removal of the moratorium on transactions in land, and will hopefully allow land markets to develop.

Leasing of Agricultural Land

99. While Moldova has a general Law on Leasing, leasing of agricultural land is largely regulated by land legislation. The Land Code (in both its 1991 and 1995 versions) explicitly allows leasing of land by “physical and legal bodies,” i.e., by individuals and associations or corporations. Private land owners may lease out their land, even though selling of land is restricted. Foreign nationals may lease land, although they are barred from owning land in Moldova. Holders of land certificates may exit with a plot of land, and then lease the land to farm operators. However, the price at which land can be leased is regulated by the Law on Normative Price of Land: annual lease payments may not be less than 2% or more than 10% of the normative price of land. In practice, this means that annual lease payments fall between 430 lei (about \$90) and 2,110 lei (\$460) per hectare.

Artificially High Normative Price of Land

100. Transactions in land, to the extent that they are allowed under current laws, are required to comply with the normative price of land set by the December 1994 law. The Law on Normative Price of Land sets an unrealistically high price for agricultural land. The law assigns an average price of 21,136 lei per hectare of agricultural land in Moldova. This is about \$4,700 per hectare, or \$1,900 per acre, which is three times the average price of dry wheat land in the United States (about \$650 per acre in 1992). Although the quality of soils in Moldova is probably among the best in the world, the normative price is extremely high, particularly in relation to the state of the economy.

101. The market provides a simple proof that the normative price of land is too high. As of June 1995, land users can buy their dacha plot, garden, or vegetable patch from the municipality. The sale has to be transacted at the normative price. The government offered a promotional 50% discount on the normative price of land for the whole of 1995 to encourage individuals to purchase their plots and thus contribute to budget revenues, but only 14% of dacha and garden plot users purchased their land by early 1996 (and only 15% of the new owners have received ownership titles).

102. Normative prices should not play any role in transactions between private persons, as the agents in the transaction are in the best position to determine the price at which they are prepared to buy, sell, or lease the land. The government indeed claims that the use of the normative price of land is not enforced in transactions among private owners. This price is binding only for selling and leasing of state or municipal land, and for calculating the tax on land transactions (the transfer fee is 2%-5% of the actual or normative price, whichever is higher). Keeping an artificially high normative price may nevertheless prove to be a serious constraint to the development of markets for buying and selling of land, as well as for leasing, even if only by imposing an unacceptably high transfer tax on transactions.

Use of Land as Collateral for Mortgage

103. The use of land as collateral to secure loans was allowed by the Regulation on Collateral in October 1993. Unfortunately, this regulation does not provide enough detail of procedures by which the bank can foreclose in case of default. The resulting lack of clarity is an obstacle to the development of mortgage-secured lending, which is an important source of investment financing for farmers in market economies. A mortgage law is needed that will regulate in detail the rights and obligations of the parties involved (banks, owners, secondary borrowers, leaseholders), and the role of the courts in ruling on foreclosure.

Land Cadastre and Title Registration

104. The basic guidelines for land registration are established by the Regulation on the Content of Documents Related to the General Land Cadastre (January 1995). Every owner will have a single certificate of ownership for all land plots in the owner's possession, regardless of the specific location of the land. If all the land plots of an owner are located in one commune, the commune will issue the certificate; if the land plots are located in more than one village in a single district, the district administration will issue the certificate; if the land plots are located in more than one district, the national administration will issue the certificate. This obviously complicates the tracking down of relevant certificates and ownership rights, which is essential for transfer of title to new buyers. This may also prove an obstacle to selling one of several parcels owned by a single individual. A more efficient and flexible procedure is to issue a separate certificate of ownership for each parcel of land.

105. The current process of land titling is complicated and overly bureaucratic, and the capacity is inadequate to deal with demand. The cost of issuing a title for a private farm is estimated at 100-200 lei (\$20-\$40), depending on the number of parcels. Although most peasants have received the internal certificate that entitles them to a share of land in the restructured collective farm, only 4,000 out of 983,000 potential title holders, or less than 0.5%, have received a final title document. Even among the independent private farmers, who already control their own land, less than 10% have a title. Given the time consuming procedures for registration and titling, the existing capacity is about 25,000 land properties per year. At this rate, it would take over 35 years to complete the process of land reform in Moldova.

106. The backlog of individual applications to exit from the large-scale farms with a plot of land is unofficially estimated at between 70,000 and 250,000 cases as of mid-1996. The number of requests to receive land and register a peasant farm is expected to accelerate now that the 1995 minimum-size restriction on withdrawal of land from the collective has been removed. The land titling system must be modernized to meet the growing demand. Without upgrading, the land title system will prove a serious constraint to the development of land markets and the success of land reform in Moldova.

107. A land titling and registration system must address two main needs: registration of titles and mortgages, and physical description of the land based on maps and boundary markers. Although both these needs can be achieved by a computerized multi-purpose cadastre,

this is a complex and costly solution, especially for a country in transition. Perhaps Moldova should start immediately with a less sophisticated, but easily implementable paper-based system. Each district must have a land registration center capable of registering land ownership and the interests in land that arise from transfers, mortgages and leases.

108. The National Agency for Geodesy, Cartography and Cadastre (NAGCC) has been recently established to develop a basic design for land registration and cadastre in cooperation with the donor organizations that operate pilot cadastral projects in Moldova (the World Bank, EU TACIS, USAID). Hopefully, this effort will lead to the establishment, within a reasonable time, of a national cadastre system, including land registration and titling.

C. Legal Bottlenecks

109. Despite the impressive array of reform laws, the implementation of land reform and farm restructuring in Moldova suffers from numerous legal weaknesses. Some critical issues for progress with farm reforms are summarized below.

- **No Binding Deadlines for Transformation**

The legal framework does not impose any deadlines for reorganization, such as deadlines for asset valuation and share distribution to beneficiaries, or deadlines for internal restructuring of operations. This inevitably leads to delays in the process of privatization, as local officials and collective farm managers have no real incentive to move ahead with the process of reform that will ultimately dismantle their traditional power base. One of the most blatant delays is in the process of allocation of asset shares, which have not even been calculated in most cases.

- **Entitlement to Land Instead of Land Ownership**

The notion of privatization in Moldova does not include physical distribution of either land or assets. To receive the entitlement in physical form, the individual must decide to leave the farm enterprise and file an application for withdrawal of land and establishment of a private farm with the local authorities. Other than that, land and assets represented by shares remain collective property, and the allocation of certificates of entitlement in itself does not alter the functioning of the existing large-scale farms.

- **Complex Procedures and Lack of Penalties for Abuse of Power**

An individual has to pass a veritable obstacle course to become an independent farmer (see **Box 1.1**). The applicant must not only be patient and insistent, but also know the way through the bureaucratic labyrinth and have basic understanding of legal matters. The complex process also gives considerable discretion to local officials and collective farm management, with no clear and effective framework for appeal and redress for individuals who are discriminated against or whose rights are violated.

-

- **Constraints on Development of Land Markets**
The moratorium on buying and selling of land until the year 2001 is a major obstacle to the development of functioning land markets in Moldova. Although there are ways around this obstacle (e.g., intra-farm transactions in land share certificates, transactions in land plots under residential homes), the restrictions on land transactions must be lifted to allow land to move from less efficient to more efficient and entrepreneurial farmers. Moreover, transactions must not be constrained to take place at any artificially set normative price: the parties should be free to negotiate their own prices for each transaction.
- **The Need for Clearer Laws on Mortgaging Land**
A law of mortgage is required, regulating in detail the rights of the parties to the transaction (banks, landowners, secondary borrowers, leaseholders) and the role of the court in approving foreclosure in case of default. An effective mechanism for mortgaging land will simplify farmers' access to credit, as in all market economies.
- **The Need for Title Registration and a Land Cadastre**
A land market needs an effective land register that gives access to descriptions of specific land plots based on maps and boundary markers and provides an undisputed medium for registration of titles and mortgages. These needs are typically accomplished by a computerized multi-purpose cadastre, which however is both costly and difficult to set up. The optimal solution for Moldova at this stage is probably to start with a less sophisticated paper-based system with a network of land registration centers in all districts.