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## Restructuring of traditional farms and new land relations in Ukraine

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### Abstract

This paper reports the results of a 1993/1994 survey of 2500 farm managers, farm employees, and private farmers in Ukraine, highlighting changes at the farm level in response to programs of land reform and farm restructuring. As of early 1994, Ukrainian reform had moved to the first stage, which involves privatization of much of the agricultural land and creation of shareholding farms. Over 60% of agricultural land in Ukraine has been transferred from state to collective ownership; among the collective and state farms surveyed, nearly 75% have reorganized and most of them have allocated land and asset shares to members. The number of independent private farmers in Ukraine exceeds 30 000, but with an average farm size of 20 ha they cultivate less than 2% of farmland. Reform at the farm level in Ukraine has thus begun, but at present is at a very early stage.

### 1. Introduction

Ukraine is the second most populous country and third largest in area among the former Soviet republics. Agricultural production in Ukraine, as in the rest of the Soviet Union, was traditionally organized in centrally controlled large-scale farms, the collective *kolkhoz* and the state-owned *soukhoz*, which were the main units of commer-

cial farming. These were supplemented by a quasi-private sector of subsidiary household plots (Brooks and Lerman, 1995). Only eastern Ukraine was a Soviet republic since the early 1920s: seven Western provinces were annexed to Ukraine after World War II and began to adapt to the Soviet pattern 25 years later, at the same time as the new socialist regimes of Central and Eastern Europe. This 'East–West' division has cultural and political implications in the present.

Nearly 70% of the total area of Ukraine is rich agricultural, mostly arable, land. The rural population in Ukraine comprises 33% of the total, and

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agriculture traditionally accounted for 20% of employment and slightly over 20% of gross domestic product (MinStat, 1993).

Ukraine was a large net exporter of agricultural products in the USSR. The value of Ukraine's food exports to other former Soviet republics in 1992 exceeded the value of its food imports from the other republics almost four-fold (MinStat, 1993). Since the declaration of independence in 1991, Ukrainian agriculture has faced severe crises, including loss of traditional markets, reduction in sectoral support, and deterioration in agricultural terms of trade. Agricultural gross product (in constant 1983 prices) declined 19% from 1990 to 1993, and the decline in production exceeded the contraction of the physical resource base of Ukrainian agriculture (Lerman et al., 1994). These changes were the result of large decreases in yields and productivity, as well as a reduction in cultivated area and herd size. The overall objective of Ukrainian agricultural reform is to create an internationally competitive sector with high returns to the rich endowment of land and skilled agricultural labor. An important component of the reform is a series of measures defining a program to privatize land and reorganize state and collective farms under a variant of the share system.

The present study describes and analyzes the first phase of agricultural reform in Ukraine, from independence through spring 1994. The study is the outcome of field surveys conducted in Ukraine between November 1993 and March 1994. The surveys addressed 2500 respondents in three major groups of agricultural producers: managers and employees of large-scale farm enterprises, and individual farmers. The surveys covered nine provinces in the three main agroclimatic zones of the country: Ivano-Frankovsk and Volyn' in the west, Vinnitsa, Kiev, Chernigov, and Cherkassy in central Ukraine, and Nikolaev, Kherson, and Khar'kov in the east.

Agrarian reform in Ukraine has so far received less attention in the literature than the parallel process in Russia. Some general information can be found in Schroeder (1994) and in Csaki and Lerman (1994). The objective of the present article is to provide an empirical and analytical as-

essment of changes in land ownership and farm structure in Ukraine as of early 1994. A companion article in this issue presents the findings of similar surveys for Russia, conducted a year earlier.

## 2. The legal framework for the land market

Ukrainian law recognizes land ownership by the state, collective, and individual. All citizens are entitled to own land for farming and designated other uses. To facilitate allocation of land to new users, up to 10% of the land cultivated by state, collective, and other farm enterprises was set aside in the first stage of land reform and assigned to the state land reserve. Applicants for land for private farming, gardens, vegetable plots, and dacha plots can seek land from the reserve by applying to their local council.

Land remaining in collective and state farms after extraction of land for the reserve is subject to further allocation. Fifteen percent of this land is used to augment subsidiary household plots of farm employees and members. The remainder passes transitionally into collective ownership of the farm. Some of this land, usually the land in common use or under public buildings, is declared indivisible by the general assembly of members. This land remains in collective ownership. The remainder of land is available for distribution in shares to members and pensioners.

Land in the reserve remains temporarily in state ownership, and will eventually be passed to collectives or individuals. Forests and land under reservoirs and lakes will remain in state ownership. Six percent of agricultural land is intended to remain in state ownership indefinitely. This land is used for research and experiment stations, as well as for production of hops, essential oils, medicinal plants, and some fruits and grapes. The remainder of the land will be passed to collectives and individuals, with the share of individual ownership rising over time. At present, however, much of the reserve land is cultivated by the same collective and state farms that managed it before the reform.

Land holding and land ownership diverge in Ukraine, as in most countries. In developed market economies use and ownership diverge because leasing and other contractual arrangements are well developed through market transactions. In Ukraine use and ownership diverge largely because the transfer of ownership is still an ongoing process. Land users who will eventually have individual private ownership are still holding their land in the traditional tenurial forms of usership (*pol'zovaniye*) or possession (*vladeniye*). Formal leasing through contractual agreements is rare. On 1 January 1994, collective and state farms subject to privatization held 75% of agricultural land (Table 1). Subsidiary household producers held 12% and private farmers 1.5%, although not all of it was individually owned. Three percent of

land is currently in state and village reserves pending allocation to individual users. The share of collective and state structures is not significantly different from that in Russia a year earlier. Thus, on 1 January 1993, in Russia all collective farming structures combined managed 63% of agricultural land registered to agricultural users. State farms (including those intended to remain in state ownership) cultivated another 27%. Subsidiary household plots, however, comprise a larger share of land in Ukraine than in Russia (12% compared with 3% of agricultural land; data supplied by Agrarian Institute, Moscow, based on official Russian statistics).

The land held by state and collective farms on 1 January 1994 was in various forms of tenure. Sixty one percent of land in large farm enterprises was in collective ownership (Table 2). Most of this land (55% of land in large farm enterprises) was in collective joint ownership without physical designation of individual land shares. The remainder of collectively owned land in these large farms was divided into land shares. Thirty five percent of land in these farms was still in state ownership (Table 2). Two percent of land in large farm enterprises was owned individually, and this comprised part of the land in household plots.

Although land in individual ownership within large farms is usually land of household plots, most household land is not yet individually owned. Farm employees in the sample reported that on

Table 1  
Distribution of agricultural land among users in Ukraine as of 1 January 1994

Land users	Share of all agricultural land (%)
Collective farms	61
State farms subject to privatization	14
State farms not subject to privatization	6
Other new structures	1
Households of employees	12
Private farms	2
Other users	4

Source: Agrarian Institute, Kiev.

Table 2  
Forms of land tenure in Ukraine (sample data)

Form of tenure	Private farms	Household plots	Collective farms
Average farm size (ha)	26	0.5	3000
Percentage owned by producers	30	29	65
Individual ownership	30	29	2
Collective shared	–	–	6
Collective joint	–	–	55
Percentage owned by the state	70	71	35
Usership <sup>a</sup>	17	45	–
Possession <sup>a</sup>	52	26	–

<sup>a</sup> Usership (*pol'zovaniye*) and possession (*vladeniye*) are traditional Soviet forms of land tenure that recognize the right to use state-owned land without payment. Usership is less secure of the two forms, as possession is usually inheritable, although neither form allows transfer of use rights.

average 29% of household plot land was privately owned (Table 2). The remaining 71% is still in the traditional forms of usership and possession.

Among private farms in the sample, slightly more than 30% of farmers own at least some of their land. On an average private farm of 26 ha, 52% of land is held in lifetime possession, 17% in usership, 2% is leased, and 30% is privately owned by the operator (Table 2). As in Russia, a substantial portion of land in private farms is not yet formally owned by the farm operator (Brooks and Lerman, 1995).

The status of land use and ownership in Ukraine in early 1994 thus reflected an ongoing process. Most agricultural land was used by the collective sector and held in collective joint ownership. A significant portion was still formally owned by the state, presumably because the farms holding that land had not yet formally registered new status. A small amount of land was held by private farmers, and less than one-third of that land was privately owned. Most land in private farms is at present in less secure tenure status than private ownership, i.e. either lifetime possession or usership.

Ukrainian law places a number of constraints on land ownership and on transactions. In a private farm the portion of privately owned land cannot exceed 50 ha of agricultural land and 100 ha of total land. Privately owned land in a household subsidiary plot cannot exceed 0.6 ha, although additional land up to 1 ha can be held in usership, and with special permission the plot can be expanded to 2 ha.

Buying and selling of privately owned land is subject to a moratorium of 6 years, i.e. the recipient of land through land reform must hold land for 6 years prior to sale. Legislation currently under consideration would reduce this period to 2 years. Recipients of land do not pay for it and are restricted to use agricultural land for agricultural purposes. Members and employees of collective and state farms receive their land shares without payment, and have the right to leave the collective with the land. Applicants to the state reserve can also receive up to the average land share of the region without payment, but must lease any additional land from the reserve. At

present private farms in the sample average 26 ha, close to the national average of 20 ha. Most of these farms are larger than the formal entitlement of land without payment (two to three land shares per farm, depending on how many family members contributed shares), yet farmers do not report paying for land at present.

Fully functioning land markets, including unconstrained purchase, lease, and mortgage will be necessary if Ukraine is to develop the high yielding, high value agriculture consistent with its endowment and needed to support rural incomes. The present situation with regard to land law and tenure reflects progress toward creation of conditions for land markets, but much needs to be done. In practice, virtually no activity on agricultural land markets is reported, except a very small incidence of leasing.

Collectively owned land over which members of the collective retain the right of withdrawal is not a form of tenure consistent with a competitive market-oriented agriculture. Financial institutions will be reluctant to accept this form of land as collateral. Procedures for voluntary conversion of collectively owned land into individual ownership should be further developed. One mechanism for conversion is included in the current legal framework, i.e. individual exit with a single land share. This mechanism is sufficient for those who wish to farm as individuals, or as individual members of a new association, although at present it is not operational. Additional

Table 3  
Restructuring of farm enterprises in Russia and Ukraine <sup>a</sup>

	Russia (%)	Ukraine (%)
Not reorganized	22	28
Reorganized	78	72
Keeping old form with new charter	27	9
Collective enterprises and limited-liability partnerships	32	55
Joint-stock societies	9	2
Agricultural production cooperatives	6	2
Associations of peasant farms	3	2
Other forms	1	2

<sup>a</sup> Data for Russia as of January 1993, based on Brooks and Lerman (1994); data for Ukraine as of January 1994, based on the present survey.

mechanisms should be developed through which individuals can separate as a group with jointly owned asset shares and contiguous land shares. The survey results indicate that exit with land, either individually or as a group, is not a working option at present, even though the legal right to exit exists.

### 3. Farm restructuring

Almost three-quarters of collective and state farms in the sample had reorganized by the end of 1993. At the end of 1993, 60% of farms were collective and cooperative enterprises or partnerships. The main distinction between the new collectives and their predecessors is that upon registry as a new collective, land passes from state ownership to collective ownership.

This outcome is consistent with the findings of a study of the first stage of Russian farm restructuring, as shown in Table 3. In the Russian case as well, approximately three-quarters of farms formally reorganized during the first year, and only 3% of farms registered under the more radical form of reorganization, the association of peasant farms. The remainder chose collective forms of organization similar to each other and to their predecessor, the collective farm or state farm.

Employees of reorganized farms perceive little difference between the old and new farms, and some appear not to be aware of the reorganization. In a matched sample of employees and managers of the same farms, 18% of employees said that no decision to reorganize had been taken, while their managers reported the opposite. On farms that had registered as a new collective, 43% of employees responding thought that they were still in a collective or state farm.

The greatest reported change within farms is augmentation of household plots. The average size of the household plot increased from 0.36 ha in 1990 to 0.53 ha in 1993, and both managers and employees report consistent information on the size of plots. With regard to collective lands, preparation for distribution of land shares had begun on about 50% of farms. Lists of beneficia-

ries had been drawn up. Land shares had been determined on paper in about one-third of farms surveyed, and distribution of some land had taken place on 12% of farms. On farms in the sample for which conditional (paper) shares of land had been calculated, the number of entitled recipients is on average 700 per farm, and shares average 3.7 ha. These land shares are significantly smaller than the average ratio of land to labor on the farms (about 7.5 ha). The difference is accounted for in part by the number of pensioners entitled to shares (45% of claimants), and to a much lesser degree by collective lands retained in the nondivisible fund.

The very small size of land shares of active employees draws immediate attention to the importance of pensioners in the Ukrainian reform. Since a large proportion of land is going to pensioners, procedures governing leasing should receive special attention. Rights of pensioners to pensions independently of their disposition of land shares should be clarified. Without public education specifically designed for this group, pensioners are likely to leave the land with existing collectives simply for lack of understanding of alternatives. The economic return to land is likely to be incorporated in wages for active employees, and pensioners will receive little for the use of their land other than provision of social services.

Calculation of asset shares is proceeding somewhat faster than calculation of land shares. Conditional asset shares based on the book value of assets have been calculated for 50% of farms surveyed. The value of an average asset share at the end of 1993 was around \$400. Among 846 farms in the sample, in only seven cases did some individuals receive physical assets for their shares, and in 28 cases individuals received money for shares.

Employees of the new collectives continue to work for wages, and to cultivate their (expanded) household plots. Payment for work on the collective is both in money and in kind, and the incentive system reflects the increase throughout the economy in transactions in kind. For example, the median cash salary for a month's work in the collective in October 1993 was reported at 160 000 coupons, or \$8 at the prevailing exchange rate.

Distributions of grain, feed, sugar, vegetable oil, and other basic commodities were substantial; the median distribution of grain to households was 1.2 tons in 1993. Respondents indicated that payments in kind as a proportion of annual wages had roughly doubled since 1990, reflecting both the decline in real money wages and decreased monetization of the economy.

In 80% of farm enterprises no-one had left to become a private farmer during the reorganization to date. Twenty-one percent of employees expressed an intention in the future to become private farmers, and 78% indicated that they did not intend to do so. Expectations of high earnings is not the factor keeping employees within collectives. On the contrary, respondents give several indications that incomes are perceived to be lower on collectives than in the private sector. For example, among private farmers 10% report that their incomes are insufficient to meet daily needs, while among farm employees the proportion rose to 30%. A majority of both those who plan to leave and those who plan to stay report that incomes would be higher in the private sector. According to respondents, it is not the attraction of collective production, or even a desire to retain a known and customary way of life that keeps people in collectives. Rather, it is the absence of

what is considered the minimal prerequisites for effective operation in the private sector that deters people from becoming private farmers, i.e. lack of working input and financial markets and unavailability of strategies for risk management.

Reported reasons for remaining in collectives in Ukraine are similar to those reported by Russian employees (Table 4). Ukrainian respondents cited on average a greater number of reasons, as reflected in the higher average responses for all reasons, but the distribution of responses is roughly comparable to the Russian case. Most frequently reported reasons for remaining in collectives were problems obtaining finance and inputs. Ukrainian respondents put a somewhat greater relative weight on deficiencies in the legal environment than did their Russian counterparts.

Strikingly absent in most employees' attitudes about collectives is a perception that changes within the collectives will make them effective and dynamic enterprises. Neither employees nor managers indicated that they share a vision of a revitalized collective sector. One-third of managers expect reorganization to have a positive impact on future development of the enterprise, while 20% do not expect any change, 25% are undecided, 7% expect a negative impact, and 15% have no opinion or did not answer.

Table 4

Reasons given by respondents answering either "yes" or "no" to the question: "Do you intend to become a private farmer?" (percent of respondents in each category) <sup>a</sup>

Reasons given by those answering "no"	Reasons given by those answering "yes"	
	Russia	Ukraine
Lower earnings	11	30
Less secure earnings	16	48
Too risky	41	72
Don't want change	31	58
Insufficient capital	62	71
Difficulty obtaining machinery and farm inputs	65	84
Insufficient skills	17	43
Insufficient legal guarantees	36	65
Loss of social benefits	18	46
Restrictions on buy/sell of land	12	34
Higher earnings	58	81
Independence	51	66
Children's future	64	86
Creativity, initiative	29	61
Higher status	18	54
Old farm liquidated	10	24

<sup>a</sup> The proportion of respondents reporting they did not intend to become a private farmer was 85% in Russia and 78% in Ukraine. Data for Russia based on Brooks and Lerman (1994); data for Ukraine based on the present survey.

Among employees who intend to remain in the collective sector, 80% plan to stay on their existing farms, and 20% intend to join a new farming entity, e.g. a new producers' cooperative, joint stock enterprise, or partnership. This small group of employees (about 15% of all employees) did not answer consistently with regard to intentions for their land and asset shares and future plans, and some probably intend to remain with their existing collectives. The number of employees who actually intend to form new enterprises thus appears at present to be very small.

Although these entrepreneurial individuals appear to be few in number, they may be the key to changing the collectives. By their separation they will effect a substantial change in the asset structure of the existing collectives, and consequently will catalyze change in the operation of the farms they leave. They will moreover provide an example for other more active employees who do not wish to move to the individual private sector. It is possible that the number of these potential entrepreneurs is small because people do not yet perceive exit as a small group with consolidated assets to be a current option. Although in Ukraine, as in Russia, there are cases of multiple family farms, exit as a group with contiguous land shares is not reported in the survey. Neither exit nor formation of groups is reported, but there may be groups functioning as profit and cost centers within the large farms.

#### **4. The new private sector**

In July 1994 there were 30 895 private farms in Ukraine, farming 1.6% of agricultural land, and with an average size of 21.3 ha. These are mainly new farms: 80% of farms in the sample were registered in 1992 and 1993. Most private farmers (65% in the sample) are former employees of collectives, but few report that they used land or asset shares from the collective to start their farms. These early farmers created farms with allocations of land from the reserves managed by village and district councils. Twenty percent of private farmers who left collectives reported that they received a land share on paper, but a larger

number report that allocation of land shares on their former collectives is still underway. The sample suggests that, at least up to early 1994, the mechanism of exiting collectives with land was not yet operational.

Private farmers have chosen a production mix that differs considerably from that on farms that remain collective. While in the collective and state sector output is evenly divided between crop and livestock products, private farms derive 75% of sales revenue from crop products, and less than 20% from livestock products (the remaining 5% deriving from services and non-farm activities). Private farmers may be reacting to the higher profitability in the crop sector, or avoiding the capital intensity of livestock production. In either case, they are responding to incentives in the current economic environment. The sample suggests that private farmers are more responsive to new economic incentives than are the collectives, which have modified their traditional product mix less. Private farmers produce for markets and consume a residual, unlike household subsidiary producers, who produce for their own use and market a residual. Private farmers rely on the farm for 70% of family income. Of potatoes, vegetables, fruits, milk, and eggs private farmers consume more than half their production, but even for these products the proportion sold is greater than on household plots. Grain, sugar beet, and sunflower are cash crops, with sales of 75–90% of production. Private farmers use a variety of marketing channels, but the state is still dominant, particularly for the important cash crops.

Over 80% of farms are single family farms, and around 10% are formed by two to three families. The extended family provides the labor for farm operations. Only 3% of private farms in the sample employed permanent hired labor, and 17% employed seasonal hired labor.

Farmers report that the initial investment in their farms was about \$4000–5000. Personal savings were the most important source of start-up capital. Although the share of start-up capital provided by savings declined between 1990 and 1993 as inflation eroded the value of savings, even in 1993 savings were more important than



loans for new farm starts. Farmers in early 1994 reported that they had access to credit, and some long-term borrowing continued despite high inflation rates. The interest rate on loans was reported to be less than 150% per annum in most cases, when inflation was running at about 2000% annually. Although many farmers reported using credit, many also reported problems with finance, including the perception that interest rates were too high and that credit was in short supply.

Private farmers report a number of problems in addition to credit, but on balance the private farmers' outlook is more optimistic than pessimistic. Approximately 40% of private farmers are optimistic about their prospects for the future, and only 10% are pessimistic. Even among farm employees, few of whom (21% in the sample) expressed an intention to become private farmers, the outlook for private farming is considered better in the long term than the short term. Among those who intend to become private farmers, the main motivation to do so is to ensure their children's future.

The 78% of employees who intend to remain in collectives fear that as private farmers they would not be able to secure inputs, would face high risks, and would have difficulty raising sufficient capital (see Table 4). Private farmers report problems purchasing inputs, but in general the problem is one of high prices, rather than physical shortages. Private farms and collective producers appear to be subject to the same price policies for sale of output. The median reported price for sales of grain in fall of 1993 was 460 000 coupons per ton, or about \$23 at the exchange rate prevailing at the time (20 000 coupons to \$1). The farm level price in neighboring Hungary at the time was about \$80 per ton, and in the US the price at the Gulf ports was between \$80 and \$90 per ton.

The Ukrainian private farmers sampled in early 1994 provide evidence that when the legal framework created opportunities for producers to function outside collectives, individuals welcomed the opportunity, and acted upon it. The evidence offers insight into the behavior of private farmers under current conditions, and the problems they face. It does not yet provide a basis on which to

generalize about the future performance of private farming in Ukraine. Private farmers at present are functioning between systems, and are using any possibilities that arise to keep their operations functioning. They are not private farmers in a market environment. They cannot turn with confidence to well functioning input and output markets. They cannot engage in much financial planning, nor avail themselves of any but the most rudimentary financial services. Their property rights are not secure or fully documented. The macroeconomic environment in which they function is highly unstable. That they exist at present and that their numbers are increasing is testament to the firmly held belief on the part of at least part of the population that land will in the future have value, and that private production has a future.

The success or failure of the present private producers is thus not a test case for private farming on a large scale in Ukraine. That case need not be tested; private farming can survive and prosper in Ukraine in an appropriate institutional environment. It is unlikely, however, that private farming will be substantially strengthened as long as private farmers are forced to operate in the narrow and inhospitable gap between the command and market systems. The test that private farming presents is whether or not an institutional environment supportive of full and functioning markets can be created.

## **5. Marketing services and infrastructure**

Large farms continue to be substantially self-sufficient in many inputs, and to rely on state channels for provision of the remainder. Although the system of input supply for large farms remains much as it was prior to the reform, there are three significant changes. Purchased inputs, particularly fuel and chemicals, are more expensive relative to output than prior to the reforms, and farms have greatly reduced input use. Barter transactions to secure inputs have increased. Moreover, sale and trade of inputs between and among farms is reported, suggesting that local secondary markets are developing. In the past,

when inputs were abundant and cheap, farms had little incentive to sell to each other, and hoarded instead.

Private farms rely on the state and large farms for most input supply, although private suppliers are beginning to emerge, particularly for spare parts and fuel. A number of private farmers sell or trade machinery services, equipment, and spare parts to other private farmers. With the exception of organic fertilizer, few inputs are reported to be in short supply. Farm managers and private farmers report that inputs are available, but that prices are high.

State procurement augmented by the state-controlled consumer cooperative network remains the dominant marketing channel for both large-scale and private farmers in Ukraine. Private farmers sell their cash crops primarily through state channels, and use more diversified marketing channels, including direct marketing, for horticultural and livestock products. Both farm managers and private farmers are dissatisfied with the state marketing channels, and report that prices are low and payment often late. Data on reported prices received suggest that private farms and farm enterprises were subject to the same pricing rules. If monopsony is a problem, it appears to be equally problematical for the collective and private sectors.

## 6. Social services

In Ukraine, as throughout the rest of the Soviet Union, the traditional collective or state farm provided a comprehensive range of services for members and employees and other rural residents. Yet in the sample a surprising proportion both of farm employees and private farmers who were formerly farm employees reported that as employees they did not receive particular benefits. Day care and school subsidies are nonuniversal benefits, since not all families have children. Heating fuel, home maintenance, and medical care would be expected to be more universal, i.e. provided either to all or to none. Yet only one-third to one-half of respondents reported receiving these particular services through collectives in

the past. This preliminary evidence suggests that the traditional system of social services may have been less than fully comprehensive, and that informal rationing may have been present. By law enterprises can elect to transfer responsibility for provision of social services to the local council, along with ownership of assets in the social sphere, such as clubs and sports facilities, not already owned by the local council. Transfer is not mandatory, however, and budgets of local councils are not yet prepared to take on additional obligations. Farm managers report that very little transfer to local councils has taken place, and that they continue to provide a wide range of social benefits. Managers report little urgency with regard to the problem of social services.

Farm employees anticipate that they would lose some benefits if they left the collective. Problems related to education and medical care are not anticipated by many, since these are state services and a tradition of open access prevails. Nor would housing be a problem for many respondents, since most rural housing in Ukraine is already privately owned. Many expect difficulty with transport, construction, home maintenance, and provision of home heating fuel.

Access of private farmers to social services is more restricted than access of farm employees. On the whole, private farmers do not experience problems with social services provided by the state, but services provided by the farms are less frequently retained when a private farmer exits. Transport and home maintenance were cited as problem areas. About half of private farmers who previously worked on collectives report that they retained a number of benefits when they left, and by implication the other half lost the benefits.

Social services have not yet been adequately included in the framework for restructuring. The objective with regard to social services should be to improve provision of services, strengthen the financial base for the service sector, and allow the private sector to take on a major role. The current approach, i.e. voluntary transfer from farm enterprises to local councils when both parties agree to the transfer, does not address any of these objectives. The appropriate disposition for many of the social services is privatization, not

transfer to local government. This is true for transport, communications, home construction and maintenance, provision of heating fuel, and vacation facilities. Local governments may choose to take on sports and recreational facilities, and fund them on the basis of partial cost recovery, although privatization is also an option for these services.

The lack of attention to rural social services may derive from an implicit assumption that the traditional system was fairly comprehensive and worked reasonably well. Reform and restructuring of social services has been conceived as an adjunct to farm restructuring; only when farm reorganization progressed to the point that something had to be done about social services would measures be considered. In fact, there are reasons independent of farm restructuring to address the issue of rural social services. Data in the study raise questions as to the openness of access to social services under the traditional system even before private farmers appeared. Many of the activities considered as social services are in fact economic services provided by small businesses in market economies. Retention of these services under the umbrella of the new collective sector is likely to inhibit competition, impede improvement in the quality of services, and retard growth of rural small business. Programs to strengthen local bodies of representative government in rural areas and transfer to them the responsibility for rural social services should be undertaken to complete the farm restructuring. Services that belong to the private sector should be privatized.

## 7. Conclusion

The process of land reform and farm restructuring in Ukraine, as in many other former command economies, has proven complex, and results to date are modest. The rather disappointing performance derives in part from lack of sufficient attention to needed reforms in the economic environment in which farms must operate. Even an excellent technical program will not work

well if the sectoral environment is hostile to private initiative in farming.

The key finding of this study is that as of early 1994, Ukrainian land reform and farm restructuring had moved to the first stage, that is, creation of shareholding farms, but not beyond it. Ownership of land and assets has been transferred jointly to farm employees and pensioners. This is an important development. Individual private ownership of land is rare, and collective ownership is common. Very little restructuring of farms has taken place, and the economic behavior of large farms, as reported in the sample, remains much as in the past. The transfer of ownership has so far resulted in a new but essentially unchanged collective sector, comprising the former collective and state farms. Private farming is growing, but it remains a distant third player in contribution to aggregate production, after the new collective sector and traditional household subsidiary farming.

Participants in the land reform and farm restructuring process (managers, employees, and private farmers) do not report a momentum of reform that will carry the process naturally beyond this first stage. A minimally reorganized new collective agriculture is unlikely to be internationally competitive. Renewed efforts on the part of the Ukrainian government will be needed to assure that the farm restructuring and land reform does not stagnate before viable and competitive farms are created.

Forward progress in land reform and farm restructuring requires simultaneous attention to improving the economic environment and improving the design of the reform program. The economic environment for the sector must be improved through full price liberalization, removal of trade barriers, removal of marketing restrictions, reduction in inflation, and enforcement of bankruptcy regulations. Fully functioning land markets must be allowed to develop, with a strong legal framework and few restrictions on transactions. Agricultural services, including input supply and marketing, should be privatized and anti-monopoly legislation should be enforced. The reform measures announced by the Ukrainian Government in the fall of 1994 provide a founda-

tion for a better market environment, but much work is needed on implementation.

These policy measures will create a more supportive environment in which private farming structures, both individual farms and other groupings of private owners, can function. In order that private farming structures be created, the technical design of the share system in Ukraine must be improved. In particular, the mechanism for withdrawing land and assets from collectives must be made operational. If exit and regrouping procedures are not clarified and simplified, there is a high likelihood that the promising start on land reform in Ukraine will result in corporatization of large collectives, burdening the sector and the country with a noncompetitive farm structure.

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