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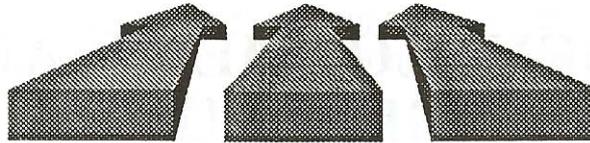
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**RURAL DEVELOPMENT
AND SOCIAL CHANGE IN UKRAINE**

by

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Background and plans for one
research project as a part of the
programme "Agroventure Ukraine "

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Research for “Argroventure Ukraine”:

"Rural Development and Social Change in Ukraine"

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1. INTRODUCTION

The Agricultural University of Norway has, during the past few years, been actively working with the problems of rural society as these are related to changes taking place in the Ukrainian society after the dissolution of the Soviet Union. This interest is organized as a development programme called Agroventure Ukraine, which has established contacts with Vojkovsky state farm in Zgurovka Rayon in order to explore and demonstrate how work and living conditions can be improved. Vojkovsky State farm is also participating in a Ukrainian-Norwegian joint venture company, aiming at improving their agricultural production. The problems encountered in the development program necessitate an investigation into the foundations for alternative local policies both at community level and business level.

So far, the state farm has been the site for graduate student research as well as a Master of Science thesis. This is to be followed by a more in depth look at the rural society and its potentials for change.

The purpose of this paper is to:

- Give a brief review of various activities of the development program to date, and how they are interlinked.
- Give an assessment of preliminary experiences and the feasibility of doing research relevant to the task of suggesting alternative policies.
- Propose a design for a one year research project with potential for extension.

The goals of a research project directed by Agricultural University of Norway will be twofold. On the one hand, the main purpose will be to pursue scientific questions like the interrelations of property rights systems and organization of society. On the other hand, it will be a goal to give the best available advice to the management of Vojkovsky and the members of the local community in their efforts to improve the performance of the local economy and achieve higher standards of living.

At the outset we would like to emphasize that the research project "Rural Development and Social Change in Ukraine" is to supply a framework for several interlinked research tasks, some small, some large. The project as it is proposed here actually consists of 3 sub-projects. The number of projects could easily expand - or contract. And the research project is only one project within the development program 'Agroventure Ukraine'.

The **composite** character of the development program - research, development, education and business - could give interesting synergies. The development program uses Vojkovsky as point of departure, but the various tasks - e.g. in business and education - necessitates a continually shifting level of work. This will be reflected in the research problems. In other words: the research has a **multi-level approach**. It will be shifting its focus from "micro" (e.g. management of Vojkovsky) to "macro" (e.g. property rights and institutional change in Ukraine etc.) and vice versa. Last, but not least, the **action** orientation of the research should be underlined. Particularly in sub-projects I and II, the theoretically interesting questions will be closely linked to the exploration of feasible development paths rather than to static theoretical testing.

2. BRIEF REVIEW OF THE HISTORY OF THE DEVELOPMENT PROGRAMME.

Since 1990 the Agricultural University of Norway has been engaged in preparing for, and evaluating the feasibility of a commercial joint venture between related Ukrainian and Norwegian agricultural companies. The various activities were organized as the development programme Agroventure Ukraine. The origin of the programme was a contact between the trading firm UTL Norway A/S in Bergen and E.O.Paton Electric Welding Institute in Kiev.

The original idea was to establish a "Norwegian" farm in Ukraine. This farm was to be equipped with modern technology, demonstrate efficient operation in a market economy and serve as a model for Ukrainian agricultural production. (Berge & Sjøflot 1990). After discussions and further development of the idea by representatives from the Agricultural University of Norway, it was decided to plan for a large scale agricultural project, including processing and distribution of food products to the consumers. The intentions of the Norwegian commercial partners were to sell Norwegian know-how, technology, and products to the programme, to gain experience from operating in the Ukrainian market, to provide a model for similar Norwegian ventures in Ukraine, and - of course - in the long term to make a profit directly from the programme. It was also a goal to make a contribution towards increasing the food supply in Ukraine, as well as developing the professional skills and knowledge of the Norwegian participants. (Apeland et al 1992).

2.1 PILOT PROGRAMME.

Plans for (Sjøflot 1990a) and application for support (Sjøflot 1990b) of the pilot programme "Agroventure Ukraine" were forwarded to the Ministry of Foreign Affairs in Norway at the end of April 1990. In October 1990 the ministry granted 1.1 millions NOK to a pilot programme and NOK 100 000 were granted from the Ministry of Agriculture. In an agreement from November 1990 the Paton Institute and the Kiev Regional Authorities confirmed financial and practical support for the project from the Ukrainian side. The Agricultural University of Norway was responsible for the implementation of the pilot programme. To supervise the execution of the programme a board (Jakob Apeland, Birger Solberg, Øystein Berge, Hans Sevattal and Halvard Baugerød) was elected and a programme manager (Lars Sjøflot) was appointed (Sjøflot 1991a).

Work on the pilot programme started 1st December 1990, and terminated 23rd December 1991. It comprised the following activities (Apeland et al 1992):

1. Collection of information during visits in Ukraine by the programme manager, Norwegian co-partners and members of the programme board. The visits included 5 state and collective farms, processing enterprises, local and central governments, institutions and organizations, grocery shops and food markets, private homes, and cultural institutions,
2. Collection of information from literature, news reports and conferences,
3. Translation and study of Ukrainian laws and regulations,
4. Visits by Ukrainians to Norway. This included visits to farms and industry tied to the agricultural sector, as well as contacts with agricultural organizations, authorities and politicians,
5. Utilization of Norwegian expertise. This included consultations with specialists from various departments at Agricultural University of Norway, as well as hired external expertise,
6. Contact with Norwegian enterprises being potential participants in the business part of the project,
7. Cooperation with journalists from newspapers, periodicals, radio and TV, and
8. Contact and cooperation with the Norwegian Foreign Services and the Norwegian Trade Council.

During the pilot phase of the project, the State farm Vojkovsky was chosen as the site for further work in the programme. It was assumed that the complete production apparatus and work force at Vojkovsky were to go into the project (Sjøflot 1991a). As a conclusion on the pilot programme the programme board presented "Plans for Main Programme Agroventure Ukraine" (Sjøflot 1991b).

2.2 THE DEVELOPMENT PROGRAMME.

The activities of the main development programme 'Agroventure Ukraine' is divided into two parts: a **project part** and a **business part** (Sjøflot 1991b).

2.2.1 The project part.

The project part of Agroventure Ukraine is administered by the Agricultural University of Norway, and financed by the Norwegian ministries for Foreign Affairs and Agriculture with approximately 2 million NOK per year for a period of three years (1992-94) (Sjøflot 1992b). The task of coordination and administration is the responsibility of the Committee of East European Affairs of the Agricultural University of Norway, with, since April 1st 1992, the East Europe Office as its executive body (Sjøflot 1992a).

The project part will include assistance for planning and internal organization of the joint venture company, assistance for training of the labor force, and development of infrastructure and administration of the local community of Vojkovsky (Sjøflot 1992b). The plans are presented in "Plans for Main Project Agroventure Ukraine" (Sjøflot 1991b). The main tasks are summed up by Sjøflot (1992a):

- assistance for internal restructuring;
- establishing of systems for planning and monitoring of the economy;
- physical and social development of the villages Vojkovo and Sofioka;
- assistance for improving the local administrative system;
- assistance for improving the infrastructure of the area;
- establish and maintain contacts between the business part and relevant expertise, organizations, and authorities;
- coordinate research and educational activities attached to the project.

2.2.2 The business part.

The joint venture company **Vitova Ltd.** was founded in Kiev on July 6th, 1992. Vitova Ltd. is a share holding company with 51% of the shares owned by **Agro East A/S** (Norwegian), 17% by **State farm Vojkovsky** (Ukrainian), 16% by **UKO-Invest Ltd** (Ukrainian) and 16% by **E.O.Paton Electric Welding Institute** (Ukrainian). Agro East A/S is owned by the Norwegian companies Elopak A/S, Kverneland A/S, Landteknikk A/L, Norsk Hydro A/S, Norsk Rødt Fe, Norsk Svinavlslag, Norske Potetindustrier, Statkorn and Unopat A/S (Sjøflot 1992b). The supreme body of Vitova Ltd. is the board, consisting of six representatives, three appointed by Agro East A/S and one by each of the Ukrainian participants

("Statutes" 1992). Nikolay Kvasha, director of the state farm Vojkovsky, was appointed director of Vitova Ltd.

According to the statutes (1992) of the company, the scope of Vitova's activities is:

- agricultural primary production and food processing activities;
- building activities, manufacturing and service of machinery and equipment;
- marketing of products and trading activities including its own trade network, exporting and importing any products and services and including intermediate activities in Ukraine and abroad;
- providing services for tourism and cultural activities;
- cooperation with scientific institutions and organizations on development of activities.

2.2.3 Short summary of business development, August 1993.

Since the founding of the joint venture company Vitova Ltd, the board has had three meetings. A feasibility study of potato and milk production and delivery has been done. The study finds that to make an investment profitable, it is necessary to find markets that are willing to pay a product price far above today's normal market price. This is due to the comparatively high cost of the western processing equipment needed. To justify this they think it will necessary to maintain a product quality that is clearly different from what is found on the market today.

Plans have been made for milk processing and alcohol production from potatoes. The construction of a dairy plant in Vojkovo was given the first priority. Other projects well on their way are the construction of a guest house in Vojkovo and preparation of office facilities in Kiev. The schedule of the joint venture project has been delayed, mainly due to problems with financing the activities and to uncertainty among the population of Vojkovsky towards the development. It was agreed that positive response/participation from the workers and the village inhabitants would be of crucial importance for the development of VITOVA Ltd. Their views and wishes have to be taken into account. Such a process will take some time and is planned to be dealt with in the project part of "Agroventure Ukraine". As of August 1993, the prevailing view of the prospects is that the business potential of potato production and processing now is small, and that the business activities for the time should concentrate on dairy production and tourism. The first tourist group of 9 Norwegian farmers has already visited Vojkovsky state farm.

2.2.4 Evaluation of the study programme in Business Administration at the Economy Faculty, Bila Tserkva Agricultural College,

Two years ago the Agricultural University of Norway entered an agreement of cooperation with the Bila Tserkva Agricultural College. As part of this agreement students from Bila Tserkva acted as translators for the Norwegian students who in the fall of 1992 visited Vojkovsky as part of their course work (see Onsaker Berg et.al.1992 and Dille et.al. 1992).

The goal of the Bila Tserkva Agricultural College is to develop their curriculum to an international level of competence. To assist in this the Agricultural University of Norway agreed to do an evaluation of the recently established study programme in business administration. In June 1993 professor Per Ove Røkholt, professor Edvin Kile, research fellow Trond Sem, and assistant professor Marie Steen Rønnestad, visited Bila Tserkva to collect relevant information.

3. AN INTRODUCTION TO THE RESEARCH ISSUES

3.1 Background

Ukraine has been a part of the Russian empire since 1654. Earlier large parts of Ukraine were part of Poland and Lithuania. The historical legacy is different in the western parts of the country compared to the eastern.

A central feature of contemporary Ukrainian society is the extensive central control characterizing both the tsar regime and the communist regime. In principle all decisions were legitimized by the consent of the one man at the top whether it was the tsar or the first secretary of the Communist Party of the Soviet Union. The long history of rule from the top has shaped both culture and institutions.

Another central feature of Ukrainian society is the system of property rights at the core of the Marxist theory of society. By vesting property rights in productive capital with the state, the rights and duties of ownership would in a central command system ultimately come to rest with one person, the leader of the Communist Party.

The institutional system developed to organize production and distribution of goods in Ukrainian society has been profoundly shaped by the system of property rights and the way of legitimizing decisions which developed (Kaminski 1992). The theory of property rights at the core of the communist theory of society and the

centralized system of making decisions reinforced each other. The organization of production and distribution in a centralized society will be facilitated by a system of property rights founded on the Marxist theory of society. But this system of management made socially responsible management of resources a practical impossibility. The distribution of rights and duties was not tailored to fit the actual possession of relevant information and possibility for action. Decision-making on long term resource use was unable to take into account the actual knowledge of the local resource appropriators, and the local resource appropriators were not motivated to consider the long term interests of society in their short term activities. The actual system of claim rights, duties, privileges, powers, liabilities, and immunities which developed tended to make the situation worse.

Perhaps the most significant force behind the breakdown of the Soviet empire can be found in the deficiencies of the system of resource management. At all levels of government the system of rights and duties has to be re-examined and reallocated to get a sensible match.

Ukraine has inherited the administrative and societal organization of the Soviet Union. Research on the Ukrainian society, also in a setting like Vojtkovsky state farm, must have an understanding of this system as a point of departure. The power base of the system of rights and duties has to be factored into the understanding of the system, and taken into account in the proposals for changing the institutional setup.

The power base of the system is partly the cultural understanding of how resource management ought to be performed (e.g. a belief that only a central decision is legitimate), and partly the system of administrative positions developed to take care of this. Since the ultimate head of the state could not control the flow of information, much less act sensibly upon it, the solution was to control the allocation of personnel to the administrative positions through which important information flowed and where decisions had to be made. The nomenklatura system (the system of positions where political, i.e. Party, approval of personnel was needed) grew steadily during the communist period. One (unintended) consequence of this system was an erosion in the quality of the personnel of the various administrations. The incumbents of the nomenklatura positions are understandably not very anxious to abolish their jobs, particularly not those who have found ways of exploiting the position for personal gains. Their existence and interests have to be a part of both the explanation of the situation and any proposals for reforms.

3.2 Planning for social change

Planned social change is a difficult task. Jon Elster (1984) warns about the problems of achieving welfare policy goals through planned reforms. To illustrate the process which produce different outcomes of social change he first considers local versus global outcomes (a solution which works in a small scale field trial may not work if implemented globally), next partial versus net outcomes (a small positive outcome may be swamped by the many negative side effects), then short term versus long term outcomes (a solution which works today may not work in the future) and, finally, transitional versus equilibrium outcomes (problems during the period of implementing a reform may tell little about how the new institution will perform once the 'dust' has settled). He finds that even if one in planning is concerned about the best means to achieve the GNLE-outcomes: the global, net, long term, equilibrium -outcomes, the implementation will tend to be guided by the LPST-outcomes: the local, partial, short term, transitional outcomes, and the result will be anything but what one set out to achieve. He concludes that if one considers planned social change to be a process where the best means of achieving a given goal is sought, one most likely will fail. To improve the chance of success the processes of planning and implementation must be sharing the long range goals. He thinks the process will have its best chance of success if these goals are rooted in a conception of a just society. The process of planning and implementing change should be governed by normative conceptions, not by instrumental rationality. But of course, once the welfare goals have been agreed upon, instrumental rationality has its role to play.

From quite another approach Berge (1992) argues that sustainable resource utilization presupposes some minimum of democratic government and human rights. Government is necessary to coordinate human action and ensure a just distribution of the gain from cooperation. Human rights and democracy are necessary as checks on government. Democracy ensures that the government pursues the public good and do not turn parasitic. Human rights ensure that the necessary variety of opinion and powerbases are preserved so that a democracy can work properly.

Conceptions of a just society are social constructions growing out of the perceptions and experiences of everyday living. Representative democratic government seems to be the best way (at least it has survived the tests of history for longer than other types of democratic government) of expressing such social constructions in a politically effective way.

Concern for social justice and sustainable resource management thus suggests that decisions on social change ought to be made with the informed consent of the population who will be living with the consequences of the decisions, and that this can be done in a fairly effective way through a representative democracy committed to human rights.

If one accepts that the core problems of Ukrainian society are the system of property rights and the system of centralized decision making, the admonitions of Elster would lead to a focus on two issues: 1) the legitimacy of the distribution of rights and duties of resource use (the property rights system), and 2) the legitimacy of the decision making system for planning and implementing change in the distribution of rights and duties of resource use (the political system).

These larger questions of social change have to be resolved by the Ukrainians themselves in an ongoing political process. However, the contributions of research can be significant in both describing the existing situation and in pointing out alternative ways of achieving change. Based on current understanding of the problems of collective action (see e.g. Ostrom 1990, Sandler 1992) some guidelines for designing decision making and distributional systems can be recommended. The application of such recommendations has, however, to be rooted in an accurate understanding of the current situation and the cultural values of the society.

3.3 The Case of Vojkovsky

A basic understanding of the cultural and organizational dynamic of local communities in the Ukraine must be based on studies of some of them. A study of the state farm Vojkovsky and the village communities Vojkovo and Sofioka, depending on it, can contribute to a general understanding of rural society.

Given that the existing form of central control is one of the problems of Ukrainian society, some of the initiatives of reform must come from below, from the local communities. Creating a local sphere of legitimate decision making needs the will and ability to utilize such limited power and the acceptance of the sharing of power by central authorities. Communities wanting to take the initiative to shape their own future, need information about themselves going beyond the everyday knowledge of their inhabitants. This can be provided by outsiders, but the description of current status needs to be corrected, digested and acted upon by the

members of the local community. The decisions on what to do and how to do it should be taken only by those who will be living with the consequences.

Thus the goals of a research project directed by Agricultural University of Norway will be twofold. On the one hand, the main purpose will be to pursue scientific questions like the interrelations of property rights systems and organization of society. On the other hand, it will be a goal to give the best available advise to the management of Vojkovsky and the members of the local community in their efforts to improve the performance of the local economy and achieve higher standards of living.

Any advise worth listening to must be based on insights into how a small community like Vojkovsky functions. Comparisons of the community of Vojkovsky to what we know of west European communities, will point out the range of possibilities in a more effective way than theoretical considerations or practical inventiveness will be able to do alone. The second goal of the research project thus depends on the success of the first part.

3.4 Understanding the interrelations of property rights systems and organization of society.

The system of acts, laws, and customs legitimating the possession of rights to utilize resources, can be characterized in various ways. The security of tenure and the ability to exclude those without rights to a resource are among those considered of most significance. Security of tenure implies some requirements which most easily can be fulfilled by cultural acceptance of the possession and the various rights and duties defining ownership including the right to the benefits from possession and the right to sell it as well as the duty to pay taxes levied on the possession and to obey regulations affecting it. Cultural acceptance of the rights and duties of ownership also includes a commitment from the state to back the ownership by physical power if need arises. It should be stressed that this also implies a practical everyday acceptance of the inequalities entailed by the distribution of property, even if much public policy is directed at alleviating the consequences of them.

The ability to exclude implies both the ability to monitor use of the resource and rights to call on legitimate power if infringements are detected. Seen from the perspective of the state, the need is for some means to validate that a claim to possession, or a call on the power of the state, is legitimate. To this end various forms of bureaucracies and legal procedures have been invented. This technology

of property rights, usually called the cadastral system, is an indispensable tool for any state interested in performing the services its citizens require to monitor and utilize their resources in a long term perspective. If a society wants to change its system of property rights, the technology needs to be changed. One of the more important applications of this technology is to the ownership of land. One goal for Agricultural University of Norway should be to investigate the state of the existing technology.

3.4 Understanding the interrelations of central and local power

Based on a broad range of research it is taken for granted that reorganizations and changes aimed at facilitating the efforts of ordinary people to improve their standards of living, will only succeed by directly involving the people themselves in the reorganization (Ostrom 1990). However, even though local participation in decision making is important, there are also problem areas which cannot be solved by local bodies. For these areas there is a need for central control and authority. A second goal of the Agricultural University of Norway should be to separate those areas where central control and authority are needed from those areas where local decision making are needed and to study the feasibility of rearranging the decision making procedures along such lines. This is a large task, but a step towards this goal can be taken by trying to understand exactly how the public and private economies of a local community like Vojkovsky are intertwined and linked to the central decision making levels.

3.5 The institutionalization of social change

One way of characterizing the difference between the East and the West during the past century, is to say that while the East has a revolution every now and then where an overhaul and change of the institutional infrastructure is attempted (the degree of success is questionable), the West has initiated a system where social change is more of a continuous process. Reorganization and reallocation of rights and duties are the order of the day, not the exception. Much of these change processes are market driven, either directly as a consequence of the competition or indirectly as anticipations of consequences and adaptations to market forces.

Education and re-education has come to play a more and more central part of this process of change. Primary education ought to impart enough flexibility for people to be able to take on tasks not yet invented. Where this fails, a system of continuous on-the-job training and occasional intensive upgrading of skills as well as complete re-education has developed as a more and more central feature of labor in liberal market economies.

Societies in transition from a state property rights system to a private or market-oriented property rights system will need a massive re-education of its population. The requirements for education and ways of doing it need to be explored at all levels. For the Agricultural University of Norway it should be a goal to investigate the requirements of the agricultural labor force. This must start with a study of existing qualifications of the labor force and a survey of the various requirements of alternative forms of organization. The focus should be on the short term feasible forms of organization rather than the possible end forms after all conceivable reforms have been implemented. A system of continuous change has to be shortsighted and cater to the needs of the immediate future. The long term plans should, however, be a part of the general background and guide for the short term decisions.

4. PREVIOUS RESEARCH

4.1 STUDIES OF VOJKOVSKY BY STUDENTS.

4.1.1 Course papers

So far, two groups of students from the Agricultural University of Norway have conducted research in Ukraine as part of their course work. Their research can to some extent be seen as feasibility studies for the Agricultural University of Norway. Therefore, it is worthwhile to consider their main conclusions. Moreover, these studies helped testing out - although in a modest manner - a particular research design as well as various collaboration forms with key actors in Ukraine.

Onsaker Berg et.al. (1992) discuss the possibilities of family farms and workers cooperatives as models for agricultural organization in Ukraine. They asked about the attitudes the farming population has towards different models of organizing in the primary production. The aim of Onsaker Berg et.al.(1992) was to explain and interpret these attitudes.

Their target group was employees of three state farms in Ukraine (among others Vojkovsky State farm). The study indicated that there *is* a social and cultural basis for both the family farm and the workers cooperative farm in Ukraine today. These two ways of organizing agriculture can, and probably will, co-exist for many years to come. At the moment the existence of family farms presupposes the existence

of state or collective farms, because of the lack of buildings and machinery. This will probably change in some years, but Onsaker Berg et.al.(1992) found it unlikely that social or cultural attitudes would exclude any of the two models.

Dille et.al. (1992) conducted a study with similar focus, but with a somewhat different methodology. They explored the motivation and attitudes in a target group consisting of students at the Belaya Tserkov Agricultural College. The research was based on a general model, trying to explain the potential willingness to owning land. Based on this model, two main questions were elaborated: (1) What are the motivations, attitudes and possibilities existing for those who have interest in taking land, and (2) What obstacles, lack of motivations and attitudes keep people from taking land? Thus, the students were asked to express their opinions about the main prerequisites for a successful implementation of private (individual) agriculture in Ukraine. However, the analysis did not indicate any consistent pattern in the reasons people gave for wanting to take land. This might be due to the simple fact that the respondents were students. The questions might have seemed very hypothetical to them. The students had to answer questions about their future under conditions that seemed very unfamiliar and unsecure. Thus, the answers should be interpreted with great care.

4.1.2 Master theses

Two students from the Agricultural University of Norway have used data from Ukraine in their master theses. Hovland investigated the use of fertilizer while Skarsem investigated the interrelations of the state farm to its social environment. Although these studies for natural reasons are limited in scope, it is important for the research project to build on the experience they have given. During the student projects, the Agricultural University of Norway has extended its network of contacts to various sectors of the Ukrainian society. In order to do more extensive research these contacts are necessary.

Knut Skarsem (1993) from the Department of Economics and Social Science, the Agricultural University of Norway, conducted research for his Master of Science thesis at Vojkovsky State farm during the spring of 1993. The thesis was financed by "Agroventure Ukraine".

Skarsem examined different organizations present in the immediate surroundings of Vojkovsky State farm, and asked the question: How do the state farm Vojkovsky interact with other subsystems of the social system in order to solve public problems of the villages Sofioka and Vojkovo?. A precondition for asking

this question was the assumption that the welfare of the local community was the ultimate goal of the state farm. It was found that Vojkovsky state farm undertakes an extensive range of activities. Its primary goal of maximizing the community's welfare may be split into a number of subordinate goals like efficiency in production, employment for all, equal allocation of benefits and so on. Many of these secondary goals are in conflict with each other, making the complete set of goals impossible to achieve. The result is at best a compromise where the most important issues are emphasized. The observed performance of the State farm, however, suggests that the opposing interests lead to indecision. A remedy for this unhealthy situation would be a separation of different activities into independent organizations. The most realistic way to do this would be to strengthen and develop the existing organizations of the local community like the Trade Union and the Village Council. The state farm, then, could concentrate on the task of financing the activities by maximizing the profit from its production, but, of course, also here subject to necessary constraints from the welfare goals.

Further, Skarsem found that the households of the two villages and the state farm had a relationship approaching symbiosis. The three parts are mutually dependent on each other, and they all benefit from the cooperation. He suggests that the role of the households as primary production units and the state farm as an intermediate organ for buying and selling could be developed further to the benefit of all parties. A precondition for a beneficial cooperation is that the households and the state farm share the same basic goals for their activity. This is probably best guaranteed by the individual households having some kind of ownership rights in the state farm.

Gunnar Hovland (1992), Department of Economics and Social Sciences, the Agricultural University of Norway, conducted research for his Master of Science thesis in Ukraine during the spring of 1992. In his thesis Hovland discusses how the plan economy system of the Ukraine was allocating fertilizer, compared to market economy system in Norway. His findings were as follows:

- Plan economy allocation of fertilizer was 81% of estimated agronomical optimum for wheat.
- The Ukrainian price level of February 1992 would make it unprofitable to use any fertilizer at all in a market economy system.
- Assuming exposure to market economy and US price levels for wheat and fertilizer, allocation of fertilizer would reach 85% of the agronomical optimum.
- Given Danish prices or Ukrainian prices of 1987, 100% of the agronomical optimal level of fertilizer for wheat would be reached.

- Allocation of fertilizer to wheat in Ukraine in 1987 was 94% of the level US prices would generate, and 81% of the level Danish prices would generate.
- The volume of fertilizer used for wheat production decreased by 25.9% from 1987 to 1990. Reasons for this decline could be the fall of the plan economy system at the end of the 1980ies, possible overuse in 1987, increased utilization of manure, priority of limited financial resources, fertilizer not considered the minimum factor of the production, increased exports, reduced imports or reduced production.
- The demand for fertilizer in a future market economy in Ukraine will most likely be in the range 85% to 100% of the agronomic optimal need in wheat production. To satisfy the demand Ukraine first must reduce losses in the distribution system. Then the republic has the possibility to either increase production, reduce exports or increase imports to satisfy the demands.

5. "RURAL DEVELOPMENT AND SOCIAL CHANGE IN UKRAINE": THREE SUB-PROJECTS

The Agricultural University of Norway will use the opportunity to pursue certain aspects of these basic questions outlined above in chapter 3 through a study of Vojkovsky state farm.

Research fellows Erling Berge (Department of Land Use Planning) and Svein Ole Borgen (Department of Economy and Social Sciences) visited Vojkovsky and various scientific institutions in Kiev in the period 7th to 11th of June. They identified two short term research assignments. One is concerned with the organization of various lines of production at Vojkovsky, the other is concerned with interrelations of welfare production and business production at Vojkovsky. The third project grows out of the concern for property rights systems. By focusing on the community of Vojkovsky one aspect of this problem, the opinions of the people of Vojkovo and Sofioka about rights and duties in relation to the use of land, can be investigated. This will shed some light on the more general questions of property rights in Ukraine.

We have already presented the history of the relationship between the Agricultural University of Norway and Vojkovsky. The research project is based on our present understanding of Vojkovsky, and will investigate some poorly understood issues here. Our understanding of the various issues has to be grounded in the pattern of

thinking of the people at Vojkovsky as well as knowledge of the general context within which they are working.

5.1. Contextual factors for the study of Vojkovsky

5.1.1 * Some basic characteristics of state farms as instruments of Ukrainian plan economy.

Vojkovsky state farm has to be analyzed as an open system. The context of Vojkovsky is to be explicitly included in our analysis. State farms are set up and developed within a specific logic, given by the Ukrainian economic planning system. Although this particular way of reasoning now is severely challenged by the market oriented logic, it obviously defines some basic premises for the functioning of Vojkovsky both seen as a production unit and as a welfare commune. Thus, some aspects of the Ukrainian planning bureaucracy are to be examined and interpreted. The significance of the state order system together with the corresponding procedures for reporting and control are of particular interest. They are important to give an idea of the scope of freedom in strategic decisions for Vojkovsky state farm.

5.1.2 * Analysis of goal structure of Vojkovsky state farm

The goal structure of Vojkovsky has to be discussed. Based on our present understanding of Vojkovsky, it seems reasonable to discuss the goal structure in terms of a **coalition** between the interests of the owner (the state), the management, the employees, the local society, and the trade union. These interests are sometimes overlapping, and sometimes conflicting. The specific goal structure develops over time through compromises between various interests. A more elaborated study will reveal the relevance of this broad frame of understanding, and bring in complementary perspectives.

5.1.3 * The "production system" vs. the "welfare system"¹

The preliminary studies of have pinpointed one essential issue; Vojkovsky state farm has to be seen partly as a production system and partly as a welfare system.

¹ A welfare system is a system for production and distribution of welfare goods. A welfare good can be defined as any product or service delivered to the consumers below (or above in case of "welfare bads") production cost (or market price) with the goal of affecting the distribution of its consumption (more equity in the consumption of goods and less consumption of bads).

The main goal of the production system is to produce agricultural products as efficiently as possible, following the state order. The main task of the welfare system is to secure proper living condition for the inhabitants. This system includes social security, health care, education, local infrastructure etc.. In principle, the production system and the welfare system follow different logics. Nevertheless, they are mutually dependent, like Siamese twins. The key to propose changes in both the production system and the welfare system is to analyze how they actually interact. A proposal for radical change in the production system - which is obviously possible - has to include a parallel impact study: How will the welfare system be affected, and what are the options for organizing alternative systems for welfare delivery?

Based on this broad picture, two tightly interrelated projects seem to be feasible within the time and budgetary constraints of the development programme.

5.2 AN OUTLINE OF THE SUB-PROJECTS OF “RURAL DEVELOPMENT AND SOCIAL CHANGE IN UKRAINE”

5.2.1 Strategies for more efficient primary production.

The overall goal is to discuss different models for increasing the efficiency of the primary production at Vojkovsky. As a point of departure, more work should be put into understanding the "state of the art" of large scale agricultural production. In describing the primary production the line between primary production and welfare production is to be traced throughout the farm.

The first task is to map and document the basic organizational structures and design parameters of Vojkovsky state farm. As a minimum, this mapping should give a broad understanding of the following design parameters of Vojkovsky state farm (cfr. Mintzberg, 1983):

- Design of positions (specific focus: job specialization, behaviour formalization, and training),
- Design of superstructure (specific focus: unit groupings, unit size),
- Design of lateral linkages (specific focus: planning and control systems, liaison devices), and
- Design of decision-making systems (specific focus: vertical and horizontal decentralization).

The organization chart gives some relevant information, but is by no means sufficient. Our research will be based on an "in-depth" analysis of the main production lines (milk, meat, vegetables, fodder). Specifically, we want to discuss room for improvements as regards:

- overall task structure of the production,
- efficiency of the flow (value added) in the different production lines,
- capacity of the existing resources,
- incentive systems,
- qualifications, and
- linkages to the welfare system.

The qualifications of the labor force are of special interest. Reallocation of workers, training and recruitment must be based on the current situation as well as demands from a restructured production process.

For several reasons discussions on possible changes in these design parameters should be organized as a joint process (between the researchers and the "researched"): Our analysis needs to be constantly validated by leaders, administrators, and the employees. Moreover, to be feasible proposals to change systems, routines and habits must be understood and wanted by the people who will be using the new systems and routines. We do feel free to challenge their way of thinking and habitual practice, but there is obviously no use in proposing changes which are unwanted or misunderstood. The speed in the transformation process will eventually be set by the people themselves.

5.2.2 The state farm as producer of welfare goods

In line with the arguments mentioned above, an in-depth analysis of the production of welfare goods at Vojkovsky is needed. It is crucial to be able to distinguish between resources used for production of welfare goods and those necessary for the enterprise's primary activity. The flow of subsidies between and within various levels has to be recorded.

Basically, two questions are put forth in this project:

* What kind of products and services (at Vojkovsky) could reasonably be defined as welfare goods, and what are their relative importance for the inhabitants?

In other words, we need a detailed understanding of how these goods are produced, and how the production of them is tied to the primary production of the farm. This

requires a detailed investigation of the use of various resources necessary to produce the welfare goods.

* What is the cost of the welfare?

The subsidies necessary to make any product a welfare good seem to be partly financed by the state farm, and partially by other sources (taxes etc.). To some extent, the goods might be "indirectly financed", in the sense that employees of Vojkovsky use their ordinary work time to produce them. Thus, the borderline between primary production and welfare production is of great interest. An analysis of the financial structure - and the relative importance of various sources - requires information from the accounting system of the state farm (and maybe from the village administration as well).

Taken together, projects I and II should be able to supply the interested parties with a basic understanding of how the production of primary goods and welfare goods interact. This understanding is of great importance in clarifying which of the alternative strategies to choose in order to improve the functioning of the two systems.

5.2.3 The Land Tenure System in Ukraine

A precondition for improvement of living conditions through planned social change is a satisfactory property rights jurisdiction. Many changes have occurred in the body of laws. Information on how these changes work when put into practical operation is missing. An evaluation of the current system and suggestions for further development is necessary.

One foundation for a property rights system is the opinions and beliefs of the people affected by the establishment of a right. The process of "privatization" has a cultural component as well as a legal one. The cultural component can be studied at Vojkovsky. In conjunction with the two previous projects it will be possible to record some basic information about current attitudes to defining new rights to use the land of Vojkovsky.

6. ORGANIZATION OF THE SUB-PROJECTS AND BUDGET

Erling Berge has been hired to coordinate the research project. The Department of Land Use Planning has, for the period 1st of August 1993 to 31st of December 1994, and in accordance with the general agreement with "Agroventure Ukraine", agreed to organize the following sub-projects:

Sub-project I and II.

In order to get started with the short term research tasks at Vojkovsky, Department of Land Use Planning will employ two research fellows (Ph.D. level); one Norwegian, Knut Skarsem, and one Ukrainian. Knut Skarsem will simultaneously prepare for a Ph.D. thesis on the topic "Rural development and social change in Ukraine". Funding of the thesis will be applied for separately from 1995. The Ukrainian research fellow is to be recruited in the near future. He or she will primarily assist in collecting data, but will according to his or her qualifications be given the chance of further education and research. The employment will be organized through an agreement of cooperation with the Ukrainian State Agricultural University or another suitable university in Kiev. Such an agreement is essential for the implementation of the research and publishing of the results.

Sub-project III.

The Department of Land Use Planning is involved in research on land tenure systems in Ukraine by research fellow Ann Heidi Ripnes and professor Hans Sevattal. Their work will be integrated in the research project.

Research fellow Ann Heidi Ripnes, Department of Land Use Planning, is in the preliminary stages of preparing a research project suitable for her dissertation on land tenure in Ukraine. Her work is of a long term character, but constitutes an important part of the Agricultural University of Norway's total activity in Ukraine. The supervisor for her dissertation is professor Hans Sevattal.

Professor Hans Sevattal has since the start of "Agroventure Ukraine" been interested in the Ukrainian land tenure systems. His goal is to produce a survey of the current situation in order to evaluate and recommend further developments towards an adequate cadastre. This task would require full time engagement and stay in Ukraine by professor Sevattal for three months in 1994.

To do the first two projects the Department of Land Use Planning has been awarded NOK 770.000 by the East Europe Council.

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