



Educating Russian Farmers about International Accounting Standards

Agriculture Development Project
International Agriculture Education 306

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Executive Summary:

Since the fall of the Soviet Union, Russia has made a slow transition from communism to a market system economy. Under the rule of Stalin, Russia has watched their agriculture sectors decline. Agriculture reforms only resulted in more failure after Yeltsin and Gorbachev inherited the problems under their leadership.

Deeply imbedded in the hearts of the Russian people are cultural biases against individualism. Agriculture plays a vital role in Russia's economy and a large-scale agricultural reform is necessary for economic success. Many of the agriculture producers never experienced initiatives, efficient input distribution, marketing structures and assets.

Currently, many of agriculture producing industries do not have an accounting system that meets the international standards. This paralyzes Russia from expanding their business outside of their country. Many European countries will not partake in joint ventures with them because of this.

In conjunction with three major universities in Western Russia, we hope to engage in a campaign to update and educate the Western Russian agriculture producers' accounting books to meet the international accounting standards, set by the International Accounting Standards Board.

The project will take place at the affiliated universities over the course of five years. It is our goal to reach a third of the Western Russian agriculture producers, resulting in 75 percent of these participants to have updated and maintained their books to meet the international accounting standards. The estimated cost for this project is \$2.9 million.

In the end, we plan that this initiative will provide Russia a firmer foundation in the economic global market.

Background:

Land in Production

About ten percent of Russian's total land can be used for agriculture activity due to limitations caused by the climate and geographical factors. Nearly 60 percent of this land is used for crops and the remainder is used for pasture and meadow. The grasslands between the Ukraine and Kazakstan, known as the Central Chernozem Economic Region and the Volga Economic Region, are the most productive areas of Western Russia. Approximately, 65 percent of this land is devoted to agriculture.

Crops

More than 50 percent of Russia's crops are grains. Wheat is the dominant crop in most grain-producing areas, followed by barley, and oats. In the 1980's legumes became a common crop in the state farms. Potatoes have remained a vital crop for the Russian diet and for the production of vodka. In recent years, the sugar beet production has expanded as well.

In the mid-1990's, as the private farms began to expand, Russian began to expand their fruit and vegetable production. Cabbages, apples, tomatoes, and carrots had the highest yields.

Livestock

In recent years, Russia's livestock industry has increased production and ranchers have expanded their pastureland. Sheep and goats dominate the drier areas of Russian, while cattle remain the most common form of livestock. Pigs are the third-largest category and most are raised on the western half of Russia.

Russians raise only a small number of chickens and frozen chicken has become one of Russia's largest import items (Russia).

Economy

In 2005, Five percent of the Russian GDP came from agriculture, while 10 percent of the population made up the agriculture workforce. More than 50 percent of the food in Russian is imported (Mustard).

Agricultural Policy

Since the fall of communism, the agricultural reform has proved to be a tough challenge for Russia during its transition to a market economy. Deeply imbedded in the hearts of the Russian people are cultural biases against individualism. Agriculture plays a vital role in Russia's economy and a large-scale agricultural reform is necessary for economic success. Many of the agriculture producers never experienced initiatives, efficient input distribution, marketing structures and assets.

Soviet Policy

In 1929, under Stalin the government socialized agriculture and forced collectivization. The government then created a massive bureaucracy to administer

policy. Land, machinery, livestock, and grain stores of the peasantry were confiscated. By 1937, approximately 99 percent of the Soviet countryside was organized by the government and placed into state-run collective farms. Under this system, farmers watched their yields decline. By the 1980's the Soviet farmers averaged about 10 percent of the output of the United States (Russia).

The government assigned all the farmland to either state farms or collective farms. The farms were to be directed and financed by the government. The workers of the state farms received wages and social benefits, but those on the collective farms were self-financed and were paid a wage according to their contribution of work.

The state and collective farms functioned differently in the distribution of agricultural goods. "State farms delivered their entire output to state procurement agencies in response to state production quotas. Collective farms also received quotas, but they were free to sell excess output in collective-farm markets where prices were determined by supply and demand," (Russia).

The Soviet collectivized system was inefficient for many reasons. Farmers lacked incentives and efficiency because they were paid the same wages regardless of productivity. The crops were highly subsidized; this eliminated incentives to adopt more efficient production methods. Also, administrators who were unaware of the needs and capabilities of the farmers decided input allocation and output levels.

The Gorbachev Reforms

Through out the 1980's the Soviet Union transitioned from being self-sufficient in food production to becoming a net food importer. Gorbachev aimed to reform the agriculture program and to improve the incentives. However, his reformed failed and the Russian government continued to highly subsidize their agriculture.

Yeltsin's Agricultural Policies

Yeltsin made an attempt to reform Russian agriculture, but the reform moved very slowly. Output declined steadily through the mid-1990s. After the final collapse of the Soviet Union, the Congress of People's Deputies of the Russian Republic enacted a number of laws to reform the agricultural sector and make it more commercially feasible.

The Law on Peasant Farms legalized private farms and allowed them to hire labor and to sell produce without state supervision. They then passed the Law on Land Reform, which permitted land to be inherited from one generation to the next, but not to be bought or sold. Under Yeltsin's agricultural reform, 95 percent of the state and collective farms underwent reorganization and about one-third of them retained their earlier structure (Russia).

Since then, the state and collective farms have been divided and the number of Russian private farms has increased significantly. At large, they amount to about a quarter of a million farms in Russia. These farms tend to be fairly small—an average of about 70 hectares—producing less than four percent of total agricultural output in Russia (Mustard).

The rural population of Russia raises over half of all agricultural production on private subsidiary plots. These smallholders receive insignificant support from the Russian government. These producers lack a marketing infrastructure, physical infrastructure, and credit (Russia).

Problems:

Many of the agriculture producing industries in Russia do not have an accounting system that meets the international standards. This paralyzes Russia from expanding their business outside of their country. Many European countries will not do business or joint ventures with Russia because of this.

A large number of those involved in the management agricultural industries do not have market system mentality. Since the 1980's, Russia has been making a slow transition out of communism. Because they are transitioning from communism to democracy, many Russian producers do not know that they could include assets in their books. The idea that they actually own something is foreign to them. For example, some producers do not include land, equipment, buildings and other assets in their accounting books (Sherer).

Another problem that Russian agriculture faces is production efficiency. Up until recently efficiency was never an issue, because they were told what to produce by the government. As Russia begins to compete with the foreign markets, efficiency is becoming much more of an importance. This reiterates the importance of updating their management practices and accounting systems. By doing so, the producer can recognize where he is making money and where he is losing.

Objective:

The objective of this project is to promote a campaign in Western Russia for agriculture producers to update their current accounting system in order to meet international standards

The Plan:

Our goal is to develop a system that will be used effectively to aid farmers in updating and understanding accounting and bookkeeping systems so their operation will be more profitable. Our first step in implementing these objectives is to work with the Russian universities to develop curriculum that can easily be placed in management systems. The Mischurinsk State Agriculture University has an excellent program in agricultural business; the main problem we are facing right now is that many of the small farmers cannot afford a college education. Our curriculum will be in a simple, yet effective format that will allow farmers to update their management.

This program will be a two-year program, consisting of monthly meetings. Each month we will cover a different topic that would allow attendees to implement into their current management plan. The topics that we plan on starting out with include:

- Basic Accounting Principles
- Budget Management
- Asset Management
- Cash Flow Sheets
- Break Even Cost Analysis
- Introduction to World Market Systems

As we progress, we will cover more areas depending on the needs of the farmers. Each session will be video taped and will be available through any of the universities that we

are working with, or through the extension system. They will be available to farmers who are not able to attend sessions. The recorded sessions will also benefit those who were skeptical at first, but want to update their books at a later date. The recorded sessions will be available to both check out and take home to view, or it may be viewed right on site (such as at the university or extension center) for those that may not have a way to playback the material.

We will be utilizing professors from various universities through the United States and the United Nations. This will be a total of six professionals specializing mainly in agricultural business and accounting. They will work closely with the Russian Universities, as well as the extension services. At the end of the program the Russian government can decide whether or not to continue the project.

Outcomes of the Project:

The main goal of this project is to educate private farmers on up to date accounting procedures to enable them to be competitive in the international markets and open their business to a more diverse group. With this project we hope to transition the current accounting system to meet international standards. This will in turn help private farmers in Russia to increase their revenue by opening their market to joint ventures with external companies and will help establish a more efficient means of production agriculture. The seminars included in our project will reach at least one third of the agricultural producers in Western Russia. By reaching this audience the seminars will educate producers on keeping their accounting books at a level that will be compliant to international standards. One of the main problems with the existing accounting practices is not recognizing assets on their statements. The seminars will bring to light this problem

and many others that might exist. After the end of the five-year program we hope that 75 percent of the participating producers will have updated accounting practices and the ability to maintain these practices in the future.

In the past Russia has been a huge importer of agricultural products. With production of Agricultural products rising and becoming more efficient, Russia has a chance to increase their exports. The upgrade in accounting principles will help Russian agriculture look more appealing to foreign countries for potential trade, allowing Russia to potential being on the exporting end rather than importing. The project will also aid in the step towards Russia becoming a market economy and joining the World Trade Organization.

Partners:

Working closely with the Russian government will be key in the success of implementing our project. We will be working with the Russian Ministry of Agriculture. They have a similar system to our extension system within the ministry. By working with the staff here, we can eventually reach farther out to some of the more desolate areas in Russia. Aside from the support of the Russian government, three major universities in Russia have agreed to aid in the implementation of bringing Russian farmers up to date on acceptable financial management practices.

The universities include: Michurinsk State Agriculture University in the Tambov Region, Moscow Agriculture Academy located in Moscow and Samara State Agriculture Academy located in the Samara region. Michurinsk State Ag University has an excellent program in agriculture economics, and we can utilize a curriculum that is already established and make minor adjustments as our staff sees fit. These three universities are

located in the western part of Russia, where the majority of the population lives. We will be most effective and efficient starting our program in this particular area.

Timeline:

Before the initial start of the project, we will contact all major newspapers to advertise our workshops. We will also advertise through the extension systems and the universities that we are in cooperation with. An introduction to the workshops will also take place in the agricultural sectors of Russia. This will help to promote the project.

The project will take place throughout a time span of five years. The first two years of the project will consist of twenty-four seminars, one every month at all three university locations. These monthly seminars will include information on international accounting standards and the market system. The second year of seminars will allow private farmers and ranchers to transition from the current accounting system to a system that meets the required standards. The final three years of the program will consist of twelve total seminars. There will be one seminar every three months. Throughout the last four transition years, university personnel will overlook the progress and help the transition move smoothly.

Cost:

Six international professional staff members, who will receive an annual salary, will conduct the seminars. Other costs will include materials and supply costs, advertisement costs, transportation costs, and translator costs. Arrangements have been made with Russian universities to stay at university owned apartments at no cost. We will have six full-time employees and three translators for the first two years of the project. The last three years we will have two full-time translators and three full-time employees.

We will have a decrease in staff numbers because only four seminars will be held a year.

At this point the majority of the producers should have an established system that just

needs fine tuning. The following table summarizes the total cost of the project:

Budget:

Year	Item	Cost	Totals for Project
Year One	6 full-time employees	6 @ \$100,000ea	\$600,000
	3 Translators	3 @ \$50,000 ea	\$150,000
	Supplies -Textbooks, paper, materials, etc.	\$70,000	\$70,000
	Transportation -To and from university sites. -Meetings with government officials, etc.	\$7,000	\$7,000
	Advertisement	\$2,000	\$2,000
	Year One Total		
Year Two	6 full-time employees	6 @ \$100,000ea	\$600,000
	3 Translators	3 @ \$50,000 ea	\$150,000
	Supplies -Textbooks, paper, materials, etc.	\$60,000	\$60,000
	Transportation -To and from university sites. -Meetings with government officials, etc.	\$7,000	\$7,000
	Advertisement	\$2,000	\$2,000
	Year Two Total		
Year Three	3 full-time employees	3 @ \$100,000ea	\$300,000
	2 Translators	2 @ \$50,000 ea	\$100,000
	Supplies -Textbooks, paper, materials, etc.	\$15,000	\$15,000
	Transportation -To and from university sites. -Meetings with government officials, etc.	\$7,000	\$7,000
	Advertisement	\$500	\$500
	Year Three Total		
Year Four	3 full-time employees	3 @ \$100,000ea	\$300,000
	2 Translators	2 @ \$50,000 ea	\$100,000
	Supplies -Textbooks, paper, materials, etc.	\$15,000	\$15,000
	Transportation -To and from university sites. -Meetings with government officials, etc.	\$7,000	\$7,000
	Advertisement	\$500	\$500
	Year Four Total		

Year Five	3 full-time employees	3 @ \$100,000ea	\$300,000
	1 Translator	1 @ \$50,000 ea	\$50,000
	Supplies -Textbooks, paper, materials, etc.	\$15,000	\$15,000
	Transportation -To and from university sites. -Meetings with government officials, etc.	\$7,000	\$7,000
	Advertisement	\$500	\$500
Year Five Total			\$372,500
Total Needed			\$2,863,000

Funding:

Our estimated costs for our project will be around \$2.9 million. Funding from several outside sources is necessary for our project to be implemented. We have contacted six potential groups to fund our project, including, the European Union’s “Tacis program,” the Russian government, the United States Foreign Ag Service, McDonalds Corporation, Lukoil and Gas Company and ExxonMobil Oil Company..

The European Union developed the “Tacis” program in 1991 to provide grant – financed technical assistance to 12 countries of Eastern Europe and Central Asia, including Russia. The program’s goal is to aid in the transition process that these countries are going through to become developed nations (The EU). Since this program is well established, and shares the same goal as we do, we will ask for \$500,000 from them to fund our project.

We also feel the Russian government, should contribute to our project, since it is enhancing the quality of its country. We have decided to ask for a generous \$500,000 from the Russian government. As of July 18, 2005 the United States Foreign Ag Service (USFAS) began providing \$24 million over three years to India to enhance agriculture in

the country (US). Therefore we feel we should be able to obtain \$1 million for our project from the USFAS to enhance agriculture in Russia.

McDonalds will fund us \$250,000 because of an agreement they have to buy Russian beef and potatoes for low prices, if Russia can standardize their books. To build goodwill within the country we will ask Lukoil and gas company for \$250,000. Lastly, if we are unable to get funding from one of the previous groups, or if our project goes over budget, we will ask ExxonMobil Oil Company to fund our project. Funding a project in Russia will be appealing to ExxonMobil because of Russia's vast oil reserves. Funding from ExxonMobil will build goodwill for their company.

Assessment

The goal of our project is to have 75% of the agricultural producers in Russia update and maintain their books to meet an international accounting system within two years. In order to assess our goals, farmers will have their books examined by any of the universities that we are in cooperation with and/or the affiliated professionals from whom they took their class. Their books will need to show progress toward the international standard. The agricultural producers will be able to make appointments to meet with these professionals. This will be twice a year during the period of our program. Getting every farmer to get their books checked is impossible, therefore we will use statistical analysis using the data we obtain from farmers who do have their books checked to determine the success rate of our project.

After each year's assessment we will alter and modify our program to better serve the needs of the agricultural producers according to the success of all the different areas of the book keeping process. For example, if several farmers are having the same

problem understanding or implementing the accounting system, we will alter our program to put more emphasis on that area of trouble. This will help to make our program more successful and in turn, make the agricultural producers more successful.

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