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## LAND REFORM IN RUSSIA: A CHANCE TO INCREASE EFFECTIVENESS?

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### Abstract

*The Federal Law “About turnover of agricultural land” was adopted in Russia in 2002. Certainly, there was the land market in Russia before this adoption, but it was embryonic, without any legal base. The roots of this situation are in the land reform of 1995-1998s. It was implemented based on the Decrees of the President of Russian Federation that “implanted” the institute of private land property and distributed the land shares between joint-stock companies, owners’ partnerships, cooperatives and citizens. This reform formed the unregulated land market in Russian Federation and mess in agricultural land resources that we see now in Russia. The Federal Law “About turnover of agricultural land” adopted with hard debates and unreasonable claims from different groups of deputies to the government created the more predictable situation the market of agricultural land in Russian Federation.*

**Key Words:** *Landownership, land tenure, land redistribution, effectiveness, land proprietor, land user*

### Introduction

Agricultural production in Russian Federation is the main part of agrarian and industrial complex. It occupies the special place in the whole Russian economic.

The priority national project “Development of agricultural complex” was implemented in Russian Federation since 2006 until 2008. It aimed the revival of agriculture in Russia. The main results of this project showed the significant changes of the current situation in agriculture. 32.2 mln. rubles were spent on the state support of agricultural production annually. This testifies the growth of attractiveness of land resources for entrepreneurs and investors. There are many

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reasons of this situation: from completely uncontrolled growth of money supply to the successful transformations in the sphere of land legislation of Russian Federation. Dealings with land are registered in Russian Federation more and more often, but, due to our estimations, Russian land market still has significant potential, which is not completely discovered by investors.

## **Methodology**

Structure of the land fund shows the way of land resources tenure. It includes agricultural land (farmed — arable land, orchards, planted and natural grasslands and pastures), forest lands, lands under human settlements, industry and transport, low production and non-production lands.

Structure of the land fund is constantly changing under the influence of two contrary processes. The first one is the struggle of people for expansion of lands, suitable for living and agricultural use (reclamation of derelict lands, melioration, drainage, irrigation, reclamation of seashores). The second is the deterioration of lands, their withdrawal from agricultural turnover because of erosion, deserting, industrial and transport construction, open exploration of natural resources, water logging and salinization.

Second process is going faster. That is why the main problem of global land fund is the degradation of agricultural land and shrinkage of farmed land per capita with growing pressure on them.

## **Discussion**

According to the report of the Federal Cadastre Agency of Russian Federation, the land area of the country in 2007 was 1709.8 mln. ha, 402,6 mln. ha of them is the agricultural land (23.5%). In total, the area of agricultural land in Russia in 2006 had increased on 992.1 thousand ha. In the structure of this land category the area of agricultural land was equal 195.1 mln. ha, the area of non-agricultural land — 207.5 mln. ha.

According to the Land Codex of Russian Federation, the fund of the land redistribution in the structure of agricultural land was being creating in the regions. The fund includes agricultural land spots free from the property rights of legal bodies and individual persons in purpose of redistribution of these lands for agricultural production, establishment and development of farms, horticulture, olericulture, haymaking and grazing. The area of the redistribution fund increased in 2006 on 3.6 mln. ha (up to 43.5 mln. ha).

The area of agricultural land is formally growing, but in the reality the situation with significant part of these lands, especially related to the bankrupted enterprises, is unclear. It is necessary to make inventory of these lands to establish order on the market. Agricultural lands were provided for the construction of new industrial enterprises and for the development of already existing ones. The part of these lands was distributed between the forestry enterprises in purposes of forestation. The conservancy organizations also increased their territories with these lands.

The main reason of shortening of agricultural lands used for agricultural

production was the discontinuation of activities of agricultural enterprises and organizations and farms and transfer of quitted lands to the fund of the land redistribution. Because of that the increasing of the area of agricultural land in the fund of the land redistribution was 11.3 mln. ha, including 3.6 mln. ha arable land. The growth of the fund of the land redistribution is the serious problem that requires its solution.

Regarding the forms of the property the agricultural land at the beginning of 2007 were distributed as follows. The majority, 276.5 mln. ha (68.7%) – in state and municipal property; 120.3 mln. ha (29.9%) – property of individual persons; 5.7 mln. ha (1.4%) – property of legal bodies. It is necessary to say that agricultural lands in the property of individual persons and legal bodies – 126.0 mln. ha – is 97.1% all private lands in Russia. 87.4% of them are the land shares in the common land property.

There is the process of changing in structure of property of agricultural lands in the last years. The area of agricultural lands in state and municipal property is growing (on 0.7 mln. ha in 2006). It is related to the general increasing of area of this kind of lands. At the same time the area of lands in individual property is decreasing (on 421.3 thousand ha). The tendencies of decreasing of area of agricultural lands in the property of individual persons and legal bodies are divergent. They do not promote the economic development of agricultural production.

Despite the impressive successes of formal land market in Russia, the main problems of its development are not solved. The main problem is that the land market in Russia is not managed neither by the government nor by business subjects. The implemented cadastre evaluation of land resources in Russian Federation had not adjusted the process of transfer of property rights and governmental control. The reason of this situation is the selective approach to the cadastre evaluation. It was implemented not in the direction of the creation of the detailed cadastre plans, but in the direction of evaluation of the most valuable land resources of Russian Federation for the purposed of taxation.

The tendencies of the transition of the land resources from one category to another comparing to the dynamic of the last years were very active. The fund of the agricultural land redistribution of Russian Federation increased on 3647 thousand ha (1% of total area of agricultural land of Russian Federation in 2007) because of liquidation of agricultural enterprises in different regions of the country. The tendency of the voluntary abandonment of agricultural enterprises from their land resources prevailed because of the hard economic satiation in Russian agriculture.

The changing of the areas of settlements in the beginning of 2009 took place at the cost of survey of land spots in the existing borders of the settlements and also because of the adjustment of the structure of the settlement lands to the legislation. The total area of municipal settlements on January, 1<sup>st</sup>, 2009 was 7.8 mln. ha (the total area on rural settlements was 11.3 mln. ha). The agricultural lands in the borders of cities, towns and rural settlements still prevailed in the structure of the settlement lands. Their area was 9.1 mln. ha (47.6% of total area of land of this category). The area of lands under housing and industrial construction was 3.4 mln. ha (or 17.7%).

The tendency of prevailing of agricultural lands in supply is observed during all period of market development. The lands of this category (that can be sold and bought) in Russia occupies 65% of total volume of the land market (which is on 13%

more comparing to the indicators of the last year). However, this situation is probably related not to the sharp growth of land supply, but to the decrease of the market share of other land categories.

The agricultural lands gained the special “popularity” after the adoption of the Federal law “About the transfer of lands from one category to another”. Nowadays these objects are actively transferred to the categories of small summer housing (“dacha”) or industrial lands in purpose of the following sale. Today 48% of agricultural land market is presented by the land spots for small summer housing. The price of the land spot after transfer to the other category can be increased 2 times and even more.

Even based on the dynamic of these land categories we can conclude that the land resources of Russian Federation have significant potential. Another factor of the high potential is the prevailing state and municipal property on land resources. The structure of the land property as well as the structure of categories is dynamically changing, but there is another reason of this change – the return of land resources of Russian Federation to the state, municipal or private property under legal court resolutions. In future the dynamic of changing of structure of property of land resources will increase with the development of court practice and legislation.

Considering this background we should analyze the problems of the land market of Russian Federation. From the state’s point of view, these are the lands in business turnover. In fact, there are many lands in this category, but the total share of these lands in turnover of the land fund of Russian Federation remains minimal.

Analyzing the quantity of dealings with land resources in Russian Federation we can see that the 5-million border of dealing per year is overviewed since 2004. There is even the growing tendency of this indicator. In 2004 there were registered 4385 thousand dealings, but in 2008 this number increased up to 4545 thousand. Lend rent prevails in the total volume (3730 thousand dealings). Sale of state and municipal lands – 176.7 thousand dealings, including auctions – 10.7 thousand.

Areas of sold lands is even less significant. Only 262.7 thousand ha of state and municipal lands of Russian Federation were sold in 2008. The growth was close to 100% – on 171.3 thousand ha comparing to 2007. The most active regions in sale of state and municipal lands were Privolzhsky and South Federal Districts – 60.5% and 18.7% of total area of land dealings correspondingly.

Despite these indicators the Russian land market is still on the stage of its initial creation and development. It is still weak and undeveloped because of the number of economic, legislative and administrative reasons. Only 5% of lands are involved in the annual turnover of agricultural lands. It is obviously insufficient considering the unsatisfactory general condition of Russian agricultural production. This means that the owners of agricultural land (not effective in the majority) will be changed with the current dynamic of turnover only after 20 years.

Low turnover of agricultural lands can be explained by the low attractiveness of this land category for the potential investors. The legal conditions of the land market are not completely formed. This land category is not demanded as the effective element of the market relations.

The problem is that many landowners are not able to maintain and use their property or deviate from this obligation. Almost 1/3 of agricultural land during last 10 years is in the property of landowners like that. According to the data of the Committee of the State Parliament (Duma) on agriculture, 26.6 mln. ha (6.8% of all agricultural land or 22.1% of land in private property) are the unclaimed land shares. Other 6.6 mln. ha (1.7% of agricultural land, 5.5% of land in private property) are in the ownership of people who got the documents for the land in 1996 and never used their land shares.

There are many reasons of this situation: wrong composed lists on privatization of agricultural land, difficulties in registration of reversion of rights on land shares, presence of escheat property, and expensive registration of rights on land.

During registration of dealings with lands their participants usually face the hard administrative, legal and financial difficulties. Agricultural enterprises usually do not have sufficient financial resources for registration the dealings with owners of land shares and spots. It requires the preparation of maps, payments for fieldwork and other expenditures. Registration of rights on land shares is difficult and expensive. The incomes of agricultural producers are not enough to pay the high rent, to buy land shares and spots. But these expenditures can be affordable by the constructional and industrial companies. As a result, only 10% of agricultural land in the property of citizens and legal organizations are registered in accordance with the requirements of legislation and used in the proper way.

### **Estimation results**

The imperfection of the land legislation, absence of the necessary land financial instruments and modern infrastructure are not only limiting the development of the civilized land market in Russian Federation, but also create the conditions for growing of the “shadow” market. This problem can be solved only on the solid and effective legislative basis.

In purpose of the recovery of the turnover of the agricultural land it is necessary to provide the modern and effective legislative basis, open and public dealings, their state registration, land management and monitoring, including use of the public networks (via Internet) for information about the conditions of the fund of the agricultural land. During 15 years from the beginning of the agrarian reform the structure of agricultural land resources has changed significantly. It is necessary to start works on inventory of real use of land shares. The results of this inventory will provide the clear picture of the volume of land shares in nominal capital or in unit fund of agricultural enterprises leased, unclaimed, condemned or allotted for establishment of farms or development of private agricultural production.

### **Conclusions**

Summarizing we should say about the great potential of the land market of Russian Federation. For its development it is necessary to solve the question of development of state land policy and establishment of the administrative body for land management. The situation on the

land market will stay the same until the solution of the problems with prevailing of land tenure, averse sale and uncompleted land cadastre. We hope that the new legislation adopted in 2008 will correct the Russian administration to the direction of “market” and “openness”. However, the legislation is not enough, the priority development of the land market infrastructure is vitally necessary.

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