

Comments on Paper by Dmitri Rylko “New agricultural operators, input markets and vertical sector coordination”

Sergey V. Sotnikov

The idea to conduct a study of new types of agribusiness organizations that are emerging in Russia is very appealing. There is no doubt that the structure of ownership and control in Russian agriculture is changing rapidly, especially after the 1998 financial crisis. So far, these changes are not adequately registered by state statistical agencies. That is one of the reasons why the topic is not well researched. Better understanding of the scope of involvement of private capital in agriculture and the methods that are used by new private (domestic and foreign) “players” in their penetration into the Russian agricultural sector could potentially lead to new theoretical results and interesting policy recommendations.

The investigation of the rising role of new entrants in agriculture is highly relevant to the main theme of our conference - functioning and organization of input markets. Organizational innovations that are observed in modern Russia are occurring despite input market imperfections or, alternatively, was a consequence of market imperfection. Underdevelopment of rural credit markets and unresolved issue of private ownership of land seems not to be major obstacles for the new entrants. In fact, at least for some of the new entrants these market imperfections became the reasons why they are involved in agricultural sector.

Dmitri Rylko's presentation is a very informative and candid account of the new phenomenon. He summarized a wealth of information and anecdotal evidence about new entrants. However, there is also no doubt that further research is warranted. The main problem is how to organize these research efforts in the most efficient and productive way.

Several important policy questions emerge from Dmitri's presentation:

- why private capital is flowing into agriculture?
- who are these new agricultural operators?
- what scientific methods are suitable for investigating the role of these new entrants?
- how the emergence of these new operators will affect the welfare of the consumers and producers?

The structure of my response to Dimitri Rylko's paper will be the following. First, I will provide some general economic reasons why I think new investors are entering agriculture. Second, I will summarize major findings of the Dimitri's paper about new operators. The purpose is to draw a composite "portrait" of a new entrant. Third, I will try to explain how case study method could provide a useful framework for future research of new entrants by imposing some structure on the observed events and facts. And finally, I will offer some possible hypothesis about the effects of new entrants on economic welfare and outline a brief plan for future research.

Major reasons for emergence of new forms of agribusiness in Russia. In a country like Russia, where 2/3 of income is spent on food, investing in domestic agriculture seems to be rather promising business. However, that was not the case until 1998. The policy of

maintaining overvalued ruble made importing food a much more profitable alternative than direct investment in domestic agriculture. Between 1990-97, according to Kwiecinski (1998), capital investment in Russian agriculture declined from 40 billion to 1.5 billion in constant 1991 rubles. Russian agricultural producers have been waiting for new investments in agriculture for more than 10 years. Due to budget deficits the Russian government was not able to provide long-term credit and working capital to agricultural producers as before. Private capital was not available to invest in agriculture due to high risks and more profitable alternative investment opportunities in high-yielding government debt instruments.

The situation changed radically after the 1998 financial crisis. Devaluation of the Russian ruble in 1998 had two major effects on investment in agriculture. First it changed the *terms of trade* in favor of domestic sources of food, thus opening new profit opportunities for domestic food producers and international agribusiness companies that operate on the Russian domestic market. Import substitution led to *increase in demand for investment* in agriculture. Second, another important result of devaluation, was that Russian exporters of raw materials (and suppliers of fuel and energy to Russian agriculture) increased their export revenues and were looking for the ways of re-investing these revenues in Russia. At the same time, an option of investing in government bonds and other high-yielding government securities was no longer available after financial crisis of 1998. The combination of these two factors led to *increase in supply of capital* to Russian agriculture.

As a result, the following set of “new actors” in agriculture emerged: domestic input (energy) suppliers to agriculture (Gasprom, Lukoil), domestic and foreign agricultural machinery producers (leasing, machinery sharing, custom farming), domestic retail and wholesale food companies (they usually act as providers of working capital to agricultural producer to insure supply of raw materials to their distribution chain). It seems that these “new actors” have slightly different incentives to be involved in agriculture. Some, for example, invest directly into agricultural production (to capture the direct effect of import substitution), while others are capitalizing on the increase in demand for capital goods (indirect effect of devaluation).

Dmitri Rylko's presentation contains an attempt to classify new entrants, but there is still need to provide more detailed classification of new agribusiness companies (by national origin, types of business arrangements, etc.). For example, the following table can be created:

Table 23. Classification of “new” agribusiness companies

	Forms of business arrangements:				
	Vertical integration	Leasing	Custom farming	Contact farming	Other forms (if any)
Oil companies					
Input suppliers					
Food processors					

Agricultural machinery, etc.					
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Such table can also help to identify the most typical companies for case studies.

Major characteristics of new entrants, as described in Dimitri's paper. The typical new agribusiness company is involved in food trade, processing, and the supply of inputs. New entrants are investing into profitable sub-sectors with existing or promising export potential, sunflower and wheat, for example. The growth and importance of these companies in Russia has. The largest numbers of new companies are observed in regions with best soil and climatic conditions (southern Russia). New agribusiness companies are very large in size of land holdings, i.e. on average, a new entrant from Dimitri Rylko's database control 5 times larger land area than a typical collective farms. The major method of gaining control over land and assets is through leasing of land and property shares. New entrants have distinctive management style. Since most of investors are not experienced in agriculture, they typically employ agricultural specialists to manage new firms and make all efforts to hire the most able rural laborers.

There are four major reasons for new entrants to be involved in agriculture: 1) payment arrears; 2) recovery of debts owed by agricultural producers; 3) profit potential in agricultural production and custom farming; 4) need to preserve or establish a flow of quality and quantity raw materials (milk processing and meat packing sectors). In order to achieve these goals, new entrants use the following types of organizational arrangements: 1) provide working capital to existing farms in exchange for commodities; 2) custom farming; 3) joint production contracts; 4) direct acquisition. It will be very helpful if each motive for organizational innovation can be matched with one or several emerging types of organizational change. For example, the following table can be created.

Table 24. Classification of major reasons that drive "new" investors into agriculture and methods of organizational innovations

Problem	Organizational response	
	Short-term	Long-term
Payment arrears		
Recovery of debts		
Etc.....		

Since emergence of new agribusiness firms is a new phenomenon and statistical data for analyzing their behavior is not available, one is confronted with the question of appropriate choice of a research method. It seems that given data limitations the case study approach may be productive for the following reasons. First, case study method is aimed at capturing the most essential elements of ongoing process without waiting for enough data to be accumulated for econometric analysis. Second, it allows one to identify patterns of behavior of new entrants. Third, case studies usually deal with recent phenomena, while traditional econometric methods are based on ex-post data and capture ex-post events. The major disadvantage of the case study method is that it does not allow for formal statistical testing of hypothesis and therefore should be considered as a first

step in investigation of previously unobserved phenomenon, that should be followed by data collection and estimation of econometric models. In any case, case study method is a valuable tool in its own right, since it can provide helpful insights about the scope and direction of empirical investigation of the problem.

Case study method is preferred method of social science: when “how” and “why” questions are being posed, when the investigator has little control over events, and when the focus is on contemporary phenomenon. During recent years case study research methodology has been refined considerably. According to Yin (1994) any case study should contain the following five elements: 1) research question; 2) propositions and hypothesis; 3) units of analysis; 4) logic of linking the data to propositions; 5) criteria for interpreting findings. For example, in our case, one possible research question is: "How and why new agribusiness firms emerge"? The unit of analysis is a new agribusiness firm, although the boundaries of such firm should be further investigated. The logic of linking data to propositions is pattern matching across several cases. Pattern matching is a process, when evidence from several cases is combined and similar trends and relationships are searched for. The criteria for interpreting findings are not statistical tests, but rather the persistence of discovered patterns of behavior of new entrants and relevance of the findings to existing theories. The propositions would be based on existing economic theory (market imperfections, transaction costs) and new observed facts that are not explained by the theory so far.

The case study research process is illustrated in Figure 1. There are three major stages in a case study research:

1. design,
2. data collection and analysis,
3. cross-case analysis.

The study design starts from existing theory that is used as a guidance to select cases and design data collection protocol. Next a series of cases studies are conducted through interviews, observations, review of documents and statistical evidence. Yin (1994) recommended that the following principles of data collection in case studies should be followed:

1. use multiple sources of evidence (interviews, documents, archival records, observations etc.),
2. create a comprehensive case study database (statistical data, notes, interviews, reviews of literature, etc.),
3. maintain a chain of evidence (associate each conclusion with one or several "proofs" from the case study database).

Each case study should produce a report that highlights the pattern of events and facts and their policy implications. Individual reports are used to search for replication of observed patterns. The discovery of matching patterns allows the researcher to draw cross-case conclusions, that hopefully will lead to modification of existing theory and have some policy implications. The results of the case studies are summarized in a cross-case report.

Propositions. There are two major sources of propositions - one set is implied by the economic theory, another by empirical observations. There is a rich industrial organization literature on the motives for vertical integration and organizational innovations. Vertical integration is usually explained within the framework of a make or buy input decision of the firm. If buying input is less costly for a firm - it uses the market. A number of intermediate arrangements are also possible. For example, the firm can also create alliances or joint ventures if it is interested in closer coordination of its input supply, but is not willing to contract it to other market participants.

There are several reasons why the cost of buying at the market can be larger than the cost of own production. First, incomplete contacts – due to uncertainty, bounded rationality, proprietary and asymmetric information. Second, transaction costs – cost of writing and enforcing contracts - could be high. Third, opportunistic behavior can result in hold-up problems. Fourth, asset specificity – relation-specific investments - can cause market rigidities. Clearly, there are benefits and costs of vertical integration. The benefits of vertical integration include: reduction in transaction costs and internalization of risk, more efficient exchange of information, better organizational structure, improved market position in terms of higher entry and mobility barriers, increased ability for technical and organizational innovations. There are also some costs involved due to possible dissipation of resources, rigidity of organizational structure, higher demand on capital and reduced flexibility (exit barriers). All these reasons for organizational innovation and vertical integration suggested by economic theory should be accounted for during development of the case study protocol.

The research questions and propositions that are specific to contemporary Russian economic conditions could be formulated in the following set of hypothesis:

- Organizational innovations in Russian agriculture are occurring due to factor market imperfections caused by inadequate infrastructure, rule of law, absence of clearly defined property rights, taxation and the lack of developed municipal and local government, opportunism, cronyism, power, imperfections in the downstream market channels
- Organizational changes reflect the normal evolution of Russian agriculture to a market-guided economy. The emerging organizational forms exist in most market-driven agricultural economies. Distortions in factor markets are of minor importance in the organizational transformation (and vice versa).
- Organizational changes will result in higher efficiency of agricultural sector.
- Organizational changes will result in a structure of agriculture that is socially undesirable (prevalence of large-scale operators, monopolization of product chains).

These hypotheses are only a subset of possible propositions that could be explored in the future. The plan for future research should include, but not be limited to:

- Review of industrial organization literature on determinants of firm's boundaries, vertical integration and coordination, contract production, and the organizational innovations.

- Design of a case study research project based on methodology provided by Yin (1994). The initial goal is to survey 10-15 new entrants with the same line of business in several regions of Russia.

Since the beginning of economic reforms in Russia, international experts were claiming that the success of economic reforms in Russian agriculture depend on how fast the constraints that prevent free flow of assets from inefficient operators to efficient new owners could be lifted (Csaki and Nash, 1998). There is no doubt that new owners and operators are coming into Russian agriculture. The process is going despite existing constraints and market rigidities. Moreover, nobody predicted that inflow of new owners would lead to growing concentration of economic power in agriculture. The major question is whether these new owners will be able to improve efficiency in agriculture and how their influx will effect economic welfare of small-scale agricultural producers and Russian consumers. Dmirti Rylko's presentation is an important step in answering these questions. But there is still huge potential for better understanding of the phenomenon of new entrants that would probably shape the structure of Russian agriculture for years to come.

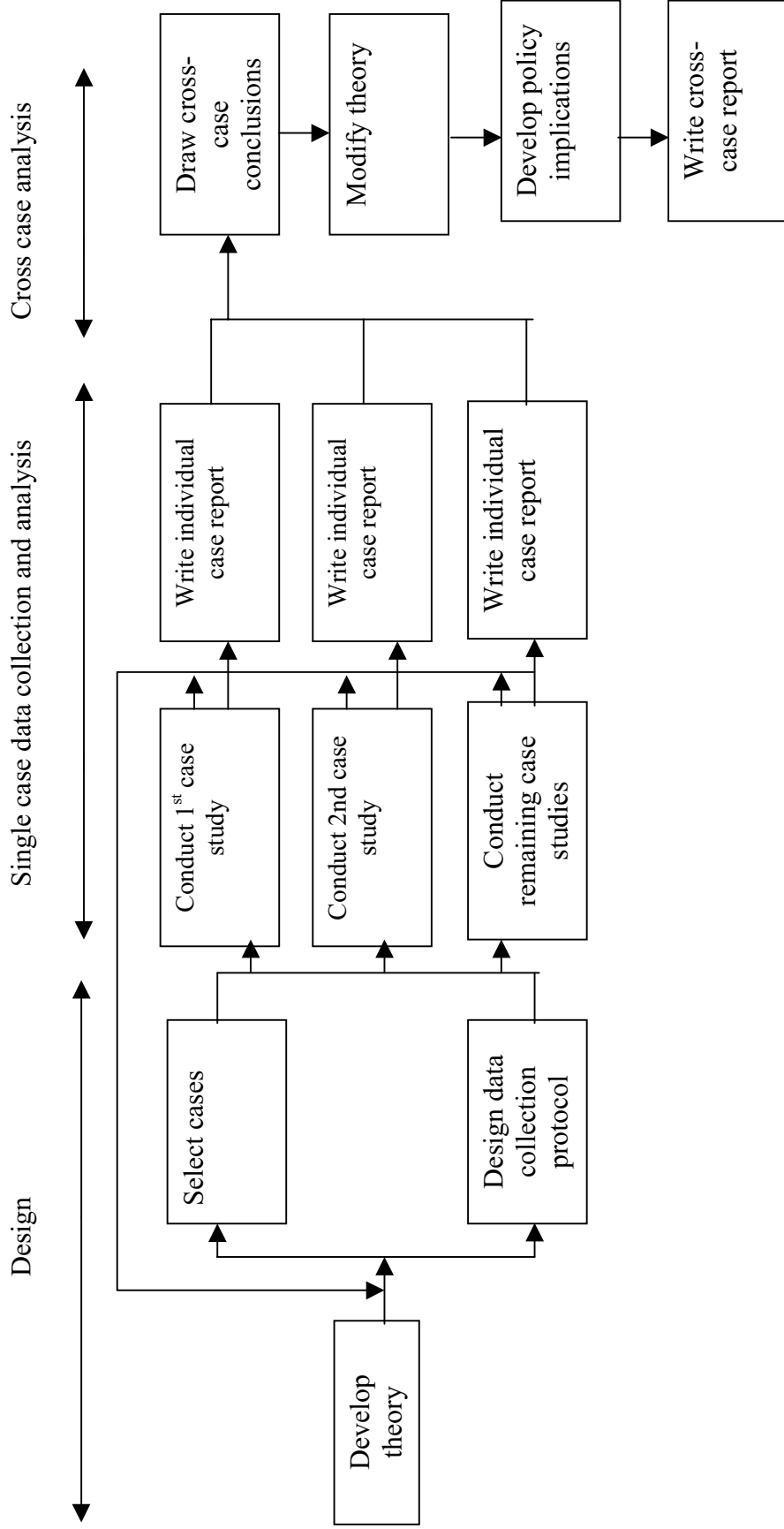
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Figure 7. Case study research process



Source: Yin (1994)

Natalya Shagaida
VIAPI (The Agrarian Institute)

THE LAND MARKET

16. 1. General

Russian terminology distinguishes between land for agricultural purposes and land used by businesses, organisations and individuals involved in agricultural production. The former group is land made available beyond the territory of towns and villages and specifically meant for the purposes of agriculture. This includes agricultural land, roads between farm sheds of one whole farm, trees and bushes used for land protection, closed water basins, land under buildings used for production, storage and primary processing of agricultural produce. The latter group is agricultural and non-agricultural land used by those involved in agricultural production. This includes agricultural land, land “in reserve”, land for transport, industry and other land categories.

Agricultural land consists of arable land, grass land, pastures, waste and fallow land and land under perennial crops. Table 1 details land areas of each group.

Table 1: Agricultural Land, million hectares*

Category	as of 01.01.2000
Land for agricultural purposes, of which agricultural land	438,9 189,3
2. Land used by those involved in agricultural production, of which agricultural land	646,1 197,6
3. Total Agricultural Land	220,1

Source: Goskomstat RF

Transactions of agricultural land can be defined as the system of redistribution of land between owners and users of land plots, which includes transactions: sale and purchase, lease, contribution to equity, life-long lease, exchange, donation, succession, mortgage and rules of these transactions, parties of land transfer deals, objects of transfers and regulating agents.

2. Background

Prior to land reform the main characteristics of Russian land economy were government monopoly on land and free-of charge land use. Land could be re-distributed only following the decisions of governmental agencies.

That situation could look have appeared to be the absence of land market. However the land market did exist in a disguised form, the market of land under buildings and perennial crops. Formally, a land sale and purchase contract was made out as sale and contract for the property on this land. The buyer acquired the right to use the government-owned land together with the property on it. Private houses and, in fact,

* RF Goskomstat (State Statistics Committee)

land plots could change their owner through an agreement of donation or by succession.

The risk with such change of user was no guarantees that the size of the land plot would remain unchanged, as the government could impose any limitation on the size of a land plot any time. If nothing was built on a land plot, or of the buildings on it were constructed by a kolkhoz or a sovkhoz, the land plot could not be sold, given or inherited.

While distributing land plots to be used by individuals, the authorities defined locations and sizes of the plots without any involvement the future land-users. Apart from the sizes of land plots the authorities regulated sizes and types of houses and household constructions to be built on them. This has significantly pre-determined locations of land plots, their sizes and market prices, which we see now, more than 10 years after the start of the land reform.

The other group of land used by collectively-owned farm organisations could be re-distributed among users upon decisions of the authorities. Such re-distribution, as a rule, coincided with mass mergers ("Farm Enlargement") and establishment of inter-farm organisations.

All land-users: legal entities or natural persons could face land expropriation in favour of alternative uses or users without any compensation or with compensation of value of the property in this land.

In that situation land-users were not motivated to improve land fertility, their attitude was not responsible enough and this resulted in low efficiency of land use.

3. Approaches to Land Privatisation

3.1 General

Unlike Eastern Europe and the Baltic countries, Russia did not accept the principle of land restitution.

1989 the right of individuals for lifelong inherited entitlement was introduced. Since 1990 land can be given into the ownership of the existing and new users of Private Household Plots (ÉÏÖ), Private Family Farms (ÉÔÖ), collective gardening and livestock rearing, housing and dacha construction. Land areas for growing vegetables (vegetable gardens) can be transferred into the ownership of association of individuals. Some land plots for individual vegetable gardens could be transferred into ownership only in certain cases.

Land plots for individual livestock-rearing, keeping northern deer or hunting and fishing estates were never given into ownership. Cossack associations and community farms never obtained land into ownership either.

The government retained the right of ownership on land used by farm enterprises and organisations involved in selection, seed production, breeding and other research and training.

The land of the rest of the farm was divided into 2 groups: the land to be given into ownership of farm collectives and farm pensioners and social sphere workers (of the farm area) and the rest of the land. Group 1 included only agricultural land. Group 2 - part of it was agricultural land plus all other land previously allocated to farm enterprises. Group 2 land remained in government ownership. Some of that land could be given to rural administrations for the need of villages, other parts of it were given to the so-called Raion land re-distribution fund. Land under buildings remained to be used by the owners of these buildings and could be privatised. With time Raion redistribution funds were used to give land to private family farmers and other entities both in their use and ownership.

Land to be transferred into the ownership of farm collectives and pensioners, social sphere workers (of the farm area) was divided into land shares. Each farm staff member could obtain a land share of the total farm land. Land shares were of equal size for every one. Land share is entitlement to a share of the and given to the farm staff.

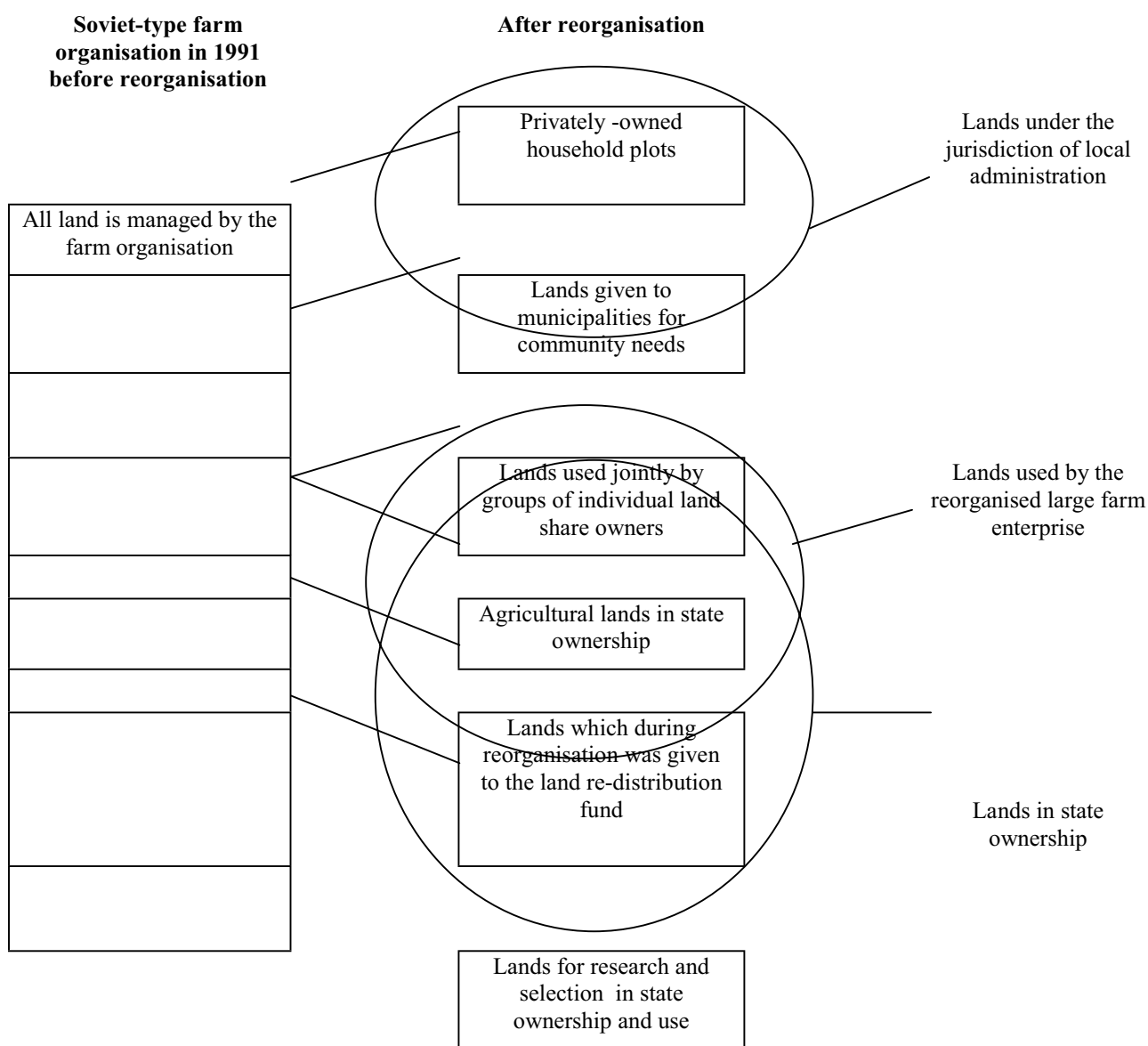
Privatisation of agricultural land was focused on social issues. Land shares were given to adult population employed by farm enterprises at the time of privatisation, farm pensioners, rural social

sphere workers. Such distribution of land ensured equal rights of the majority of the rural population. In case someone wanted to start his/her own business, he/she could allot their land share in-kind.

Land privatisation was conducted in several phases. At one of them many people obtained the right for land, but it was clear that not all of them could farm this land themselves - at the time of privatisation the share of pensioners in the total number of land share owners totalled 50%. At the next phase those who wanted to start agricultural production could allot their land shares and arrange for using the land shares of the other owners and allot them as one consolidated parcel, i.e. there was a mechanism of consolidation of the land shares of many in one land parcel for one user.

This way (unlike distributions of land plots) considerably lowered the costs of land management and organisation works and contributed to formation of large land areas without fragmentation to land plots.

An example of land re-distribution during privatisation is schematically presented in Chart 1 below³²:



³² From "Survey of the RF Agricultural Policy" OECD, 1998, page 94

In the course of privatisation 11,9 million citizens through their land shares received 117,6 million hectares of agricultural land of the 209,8 million hectares used by the farm organisations prior to reforms.

This special approach to land privatisation of the lands used by former kolkhozes and sovkhoses pre-determined not only emergence of the land market but also the market of land shares.

3.2 Right of citizens - land share owners

Every land share owner had the right to:

- contribute the land share or the right to use it to the founding capital of farm enterprise to become one of its share-holders;
- lease out the land share (having allotted the land in-kind) to any farm of any type;
- allot the land share in-kind to start a private family farm or expand a private household plot with it;
- sell, donate and leave as inheritance;
- lease the land share under a life-annuity lease agreement.

All transactions with land shares were registered by the Raion Land Committees (until 1998) and by the Registration Chambers (since 1998).

3.3. Limitations on the size of land plots

Land plots were given into ownership free of charge and for a fee. The land plots could be given free of charge:

- into collective ownership of a farm collective, based on the existing in a particular Raion norms on maximum amounts of land that could be given free of charge and the number of workers in the collective. The average for the whole country land share totalled 7 - 10 ha The norm was fixed by local Raion authorities. If, prior to privatisation, a farm enterprise was using more land than the norm said, the excessive land was taken by the Raion land re-distribution fund. If, on the contrary, a farm enterprise was using less land than the norm said, the share of every member of the farm collective was defined based on the amount of land available;
- to private family farms - in accordance with the norms for land area size to be given into the ownership of a private family farm. On some Oblasts the norm was fixed for the whole farm, in the others it depended on a number of farm members. In the central part of Russia the norm totalled 30-50 ha The norm was fixed by local Oblast authorities and did not vary within the Oblast;
- to private household plots - in accordance with the norms fixed by local municipalities for private households. Usually the norm did not exceed 0,5 ha within the territory of the village and 1 ha beyond its territory in the fields. Later, by the Presidential Decree of 1996 it was allowed to expand the size of a private household plot to the size of a land share if one of the private household members had a land share;
- for individual housing construction, gardening in accordance to the norms fixed by local Oblast authorities. As a rule it was 0,10 ha for housing and 0,06-0,08 for gardens.

The above figures demonstrate that in most cases the guidance for the norms of land plot sizes was practice established prior to reforms. Land plots exceeding the norms could be leased or purchased.

3.4 Ways of acquiring land for farm enterprises

Land privatisation accompanied by privatisation of property of the former kolkhozes and sovkhoses lead to a special situation. Land under buildings and constructions, as mentioned above, remained in government ownership. Land used by kolkhozes and sovkhoses previously was given to farm collectives or taken to the Raion land re-distribution funds. Formally, farm enterprises did not have a hectare of land to carry on their activities. They were to arrange for using the land shares of the people and allot them in-kind as one land area and to lease other agricultural lands and lands under buildings from the government.

Non-government owned farm enterprises could arrange for using the lands in collective ownership of citizens in the various ways:

- owners contributed land shares in collective ownership to the farm founding capital and then one consolidated land area was allotted;
- farm enterprises could buy land shares or make lease agreements on life annuity terms and then allot consolidates land areas;

Farm organisations could arrange for using the lands in ownership of citizens in the following ways:

- lease of land shares, contribution of the rights to use land shares to the founding capital with subsequent allotment of consolidated land areas;
- lease of land in collective ownership of citizens;
- using land of the unclaimed land shares.

Government-owned agricultural and non-agricultural land could be acquired under lease or sale-purchase agreements. Many farm organisations still use government land without making it out as a deed.

Government-owned land under buildings and constructions can be leased or obtained into ownership. The Presidential Decree #198 dd. February 16. 1996 “On entitlement of citizens and legal entities to rural land under real estate objects” allow to “transfer this land free of charge to legal entities established as a result of reorganisation of kolkhozes and sovkhazes”.

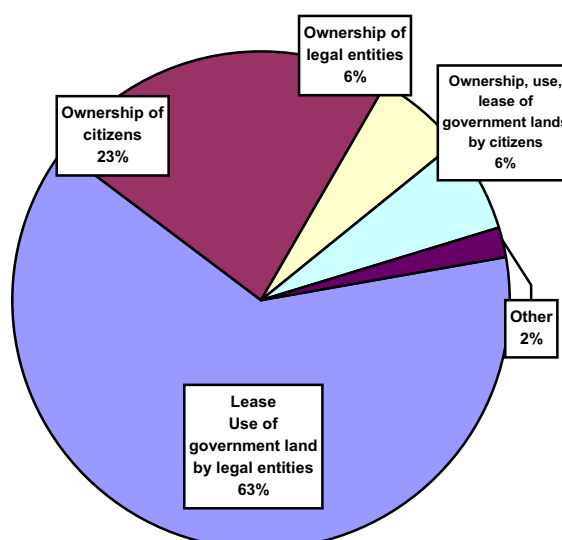
4. Results of Privatisation

4.1 Re-distribution of government-owned property

As a result of privatisation (Goskomzem (Government Land Committee) data as of January 1. 2000), the share of government and municipalities in the total land for agricultural purposes reduced to 71%. The share if individuals totalled 23% and legal entities accounted for – 6%.

Chart 2

Ownership structure of lands for agricultural purposes



In the structure of lands of all land users involved in agricultural production (Table 2), the share of government also remains to be quite high - 80% (by the author's estimates). However with agricultural land this share is much lower. With non-government agricultural organisations the shares of the participants (i.e. non-government property) reach 83%:

Table 2: The share of non-government ownership, % (2000)

Land users	In all lands	In agricultural lands*	Note: the share of this category in agricultural lands
Total	20	68	100
Including non-governmental organisations	41	83	67
Governmental organisations and institutions	less than 1	5	9
other enterprises	5	19	3
Private Family Farms (ÊÔÕ)	57		7
Private Household Plots (ËÏÕ)	65		3
gardeners (individuals and groups)	65		1
vegetable gardeners (individuals and groups)	6		less than 1
livestock-rearers (individuals and groups)	1		2
Other	less than 1		8

Over 134 million (by the author's estimates) of agricultural land is in non-government ownership. The structure of ownership is presented in Table 3:

Table 3. The structure of land ownership by organisations and citizens for lands used for agricultural production, % (2000)

Land Users	Total	including that in the ownership of
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		citizens	legal entities	government and municipalities
NGOs:	100	33	8	59
partnerships and associations	100	34	11	55
agricultural production co-operatives	100	31	5	64
kolkhozes	100	35	8	57
government and municipal farm enterprises	100	less than 1	less than 1	100
other farm enterprises	100	4	1	95
Private Family Farms (ÊÔÕ)	100	46	11	43
Private Household Plots (ËÏÕ)	100	65	-	35
gardeners (individuals and groups)	100	60	5	35

This data on distribution of lands between natural persons and legal entities cannot be considered reliable. Official statistics provides contradictory data: the Goskomzem reports "On availability and distribution of land between categories and types of ownership" allows to conclude that legal entities own 21 million hectares of land. The above two tables were based on this information. The Goskomstat also provides information on transactions with land shares³³, where it is said that 2,5 million hectares of land were contributed to founding capitals of legal entities (and became the property of legal entities, including the 1 million hectares registered in the founding documents). Comparison of two figures 21 and 2,5 suggests that the difference is what the farm enterprises purchased, but such a scale of sale and purchase transactions could not take place. Therefore there is an obvious distortion of information - the share of legal entities is overestimated.

Same conclusion can be drawn if we compare two regional sources. For instance in Krasnodar Kray (data of the Russian Statistics Agency³⁴) farm enterprises do not use the lands of individuals at all. At the same time 3,1 million ha of land out of the 4,3 million ha is owned by the legal entities. In Rostov Oblast out of 7 million ha - 5 million ha belongs to the legal entities and only 0,2 to the citizens..

Another source is quoting other figures - in Krasnodar Kray 67,1 thousand hectares of land shares were contributed to the founding capitals including 8,5 thousand hectares with registration in the founding documents and in Rostov Oblast 0,6 and 0,4 thousand hectares accordingly. A

There are regions in Russian Federation where land still has not been privatised. These are Republics: Bashkortostan, Dagestan, Ingushetia, Kabardino-Balkaria, Kalmykia, Komi, Sakha (Yakutia), North Osetia, Tyva, Ichkeria (Chechnya) and autonomous Oblasts - Nenetskaya, Taimyrskaya, Chukotskaya, Evenkiyskaya and Yamalo-Nenetskaya.

As you can see from the list these are the ethnic entities, which have rights not to apply the same approaches to privatisation as in the rest of Russia. Obviously if other legislative entities of Russian Federation had this opportunity, then for personal political reasons of leadership of certain Oblasts this list could have been considerably longer.

4.2 Processing land documents

In 1992 - 1993 agricultural organisations received land title deeds (governmental acts). The deed documents said what part of the land was given into "shared" or "joint" (since 1995 "common")

³³ Government report "On Land use in Russian Federation" 1999, Appendices 13-14

³⁴ The Russian Federation Land Fund as of January 1 1999

ownership of the collective, stated on what terms a farm organisation could use the government land except for the Raion land re-distribution fund.

The deeds were often made out with errors due to the lack of legal culture, time limits and large amount of work. A common error was e.g. that the list of co-owners of the land area given into “shared” or “joint” ownership was not attached, which gave farm enterprise managers ground to state that the land was given to the farm enterprise, not the citizens.

Raion Re-distribution Fund lands were to be leased out to farm enterprises. In large number of cases the lease agreements were not drawn up.

Later, since 1994, the members of farm enterprise collectives, who obtained land through privatisation started to get individual vouchers certifying their land entitlement. The individual land vouchers stated how much land from the “common” land area actually belonged to the person - the land share. Russia had the total of 11,9 million of land share owners. Official statistics believes that 10,9 million land share owners obtained their land share vouchers. In reality this number is much smaller. The above number of land share vouchers was drawn up and given to farm enterprises to give to the people, but even today, 10 years later, many of these have not been distributed.

Example. In Lodeinoye Pole Raion of Leningrad Oblast land share vouchers have been drawn up for all land share owners, but 90% have not been given to the people.

The real situation can be revealed only through a special survey.

Land share transfer on the basis of lease, life annuity lease, sale and purchase should be formalised by contracts and agreements. Official statistics³⁵ says that there were 7,1 million of such agreements, i.e. less than 60% of the total number of owners. The rate of formalising these agreements varied from region to region. Apart from that serious distortion of information blurs the picture.

Example. Tambov Oblast reports that 98% of there land is leased. One of its Raions - Nikiforovsky provided the same information. However as it turned out, it is only their impression, as 90% of the contracts were not formalised.

Non-government farm organisations officially account for 21,6 million hectares. Some of that came from land shares contributed to the founding capital. However very few farm organisations³⁶ have got either land entitlement certificates (given until 1998) or real estate entitlement registration certificates (given after 1998). Even where the land was contributed to the founding capital, the deed is not legalised unless:

- the founding documents were amended to reflect the land share contribution;
- the value of land shares forms part of the founding capital;
- land was allotted in-kind against the land shares contributed to the organisation (same if they were purchased);
- organisation has a document - land entitlement certificate (until 1998) or real estate entitlement registration certificate (after 1998);

³⁵ Additional study of this issue is required

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- The value of the land plot is reflected on the farm balance sheet.

Taking the above criteria of correct legalisation of land share contributions, the number of land vouchers available with the population, inadequacies of statistics on property of individuals and legal entities, it becomes obvious that there is a problem with confirming property entitlements. Lack of clarity on this issue is an impediment for development of the land market (land transfers).

Example. Closed-type JSC “Borets” in Dmitrov Raion of Moscow Oblast was formed as a result of privatisation of the local sovkhoz. The land area - 3763 ha including 3717 of agricultural land. All agricultural land was given into the ownership of individuals. Total owners - 953. When the JSC was formed, land share owners signed a founding agreement stipulating contribution of their land shares to the founding capital. The actual contribution did not happen. Later on the same people received their land share vouchers. Nevertheless, in the period between 2000 - 2000 the JSC on its behalf leases (under a lease-purchase scheme) over 260 ha of the land. The Registration Chamber provided real estate entitlement registration certificates for the above (leased out) land area. For the rest 3450 ha there are not certificates. The buyers, not convinced that the land belonged to the JSC simultaneously bought land shares for the same land area from local land share owners.

The documents for transactions with land under real estate - lease or transfer into ownership are formalised by a very small number of organisations.³⁷

4.3. Legal restrictions of land transfers

Private land ownership is guaranteed by Articles 9 and 36 of the RF Constitution.

However lands can be sequestered or change owner to the extent allowed by the laws on land and other natural resources. Within the framework of these laws, land owners have freedom to operate with their land unless it damages environment or infringes the rights and legitimate interests of other entities and persons (para 3 article 209 of the RF Civil Code). Article 260 of the RF CC confirms the right of a land owner to sell, donate, mortgage or lease the land since this land is not excluded from transfers and not limited in its transfers. Russian Law introduces the principle of “ensuring target use” and safeguarding the lands for agricultural purposes against “non-targeted” uses. Article 260 of Chapter 17 of the RF CC says that the use of lands for agricultural purposes “for other purposes is prohibited or restricted”.

Historically, land and land market issue in Russia has been subject to broad public and political discussions. Despite this, according to the lawyers, the currently discussed issue about the possibility or impossibility of sale and purchase of land, is not legitimate. Sale and purchase of land plots has already been introduced.

Federal Law #45 dd. April 16. 2001 enacts provisions of Chapter 17 of the RF CC “Entitlement and other property rights on land”. The Chapter 17 provisions pertinent to transactions with agricultural land will be enacted on the same date as the Land Code and the Law “On agricultural land transfers”. However these references to legislation to be enacted later do not mean the land transfers are prohibited now, this means that the rules of land transfers will be specified. The most recent versions of the Land Code do not provide regulations of agricultural land in the ownership of legal entities and natural persons.

The draft concepts of the Law “On transfers of agricultural land” also do not contain any prohibitions of land transfer, but regulations of it.

³⁷ Additional study of this issue is required

The discussions of the issue by the RF top officials can be put in the following chronological order:

- the left-wing majority of the previous Duma has not passed the Land Code with open declarations of free sale and purchase of land;
- 5 years ago the Federation Council rejected the draft Land Code prohibiting sale and purchase of land;
- in Early 2001 President Putin at the meeting of the (Gossovet) State Council declared that one of the possible solutions of the land issue could be various options for various regions. Thus the RF President delegated the decision making to regional leaders and let them bear the responsibility and deal with the left wing politicians.

As proven by practice there are no real limitations to transfers of land used by farm organisations. There is an opinion of the authorities of the legislative entity, who, if they object against the idea of the sale and purchase of land, can refer to the Law “On transfers of agricultural land”. But even in that case the transfers do not stop, but proceed in a different way.

The following cases of land sale and purchase can be enumerated:

- of the land owned by legal entities (later in the text there will be description of an example in Moscow Oblast);
- of the land in “common” ownership (later in the text there will be description of an example in Nizhny Novgorod Oblast);
- purchase of the land from the Raion re-distribution fund;
- sale of the land for agricultural purposes with real estate on it.

Obtaining land into ownership by other ways:

for citizens and legal entities:

- purchase of land shares and allotting them in-kind;

for legal entities:

- contribution of land shares to founding capital, allotment of a land area in-kind. For their land shares the land share owners receive shares of the legal entity, later the legal entity buys the shares off the people, i.e. the following schemes are implemented : land share - plot; land share - share - money.

Lease of land plots and land shares is not restricted. If a land plot allotted against leased land shares is offered for sub-lease, the sub-lessor should obtain prior consent of the original lessors (land share owners).

4.4. Special problems with transfers of land in “common” ownership

These problems are related to the land in “common” ownership only.

Land allotment. The procedure is regulated by the RF CC (Chapter 16). To allot a land plot one requires consent of all the co-owners of the land area in “common” ownership. Usually the co-owners who in the course of privatisation received the land areas formerly used by kolkhozes and sovkhoses totals several hundreds. It is impossible not only to obtain their consent but merely to bring them

together in one place. When privatisation took place, 50% of co-owners were pensioners. 10 years later there successors have not claimed their inheritance.

In principle, if unanimous agreement of co-owners on the location of the land plot (or plots) to be allotted has not been obtained, the procedure is to appeal to court. Plaintiffs in this case are those willing to allot and the defendants are the rest several hundreds of co-owners.

To have a court hearing like that is technically very difficult as the court is supposed to send a notification to each one and listen to each one. The court has no money for such a number of notifications and their postage costs and even room to have a hearing with such a number of defendants. The defendants live long distances away from the Raion centre and may find it difficult or unaffordable to travel to the court.

To simplify allotment of land shares in-kind special simplified procedures were developed and stipulated in the Presidential Decrees #1176 (1993) and 337 (1996).

Since 1998 registration of land plots has become the jurisdiction of local judicial bodies and they doubt the legitimacy of the simplified land allotment procedure.

The second problem is registration fees. The amounts are fixed by the authorities of legislative entities of the RF and often without taking into account the large number of co-owners. For instance in Leningrad Oblast until 1999 the registration fees were charged from each co-owner. Afterwards only one fee for all co-owners of the land areas was fixed. In Moscow Oblast for registration of a land plot in the ownership of several persons a fee between 1 and 3 minimum salaries is charged per each share. Even if the land are is owned by less than 10 people the registration of entitlement to a real estate object goes up to 10 minimum salaries (RUR1000), in addition, the registration of the deed itself will cost another 3 minimum salaries.

The third problem is transfers of land plots within the land area in “common” ownership. The Law “On government registration of realty entitlement and realty transactions” offers a very complex mechanism of their registration. For instance, to register the title to an inherited land share, one must have a notarised consent of all the other co-owners. Or, in another case, a map was required of the land area, where the land share was located (this a map of the land area of several thousand hectares, produced only in triplicate, copies can be made only in a limited number of places and this is expensive and takes long).

Therefore land allotment from “common” ownership and registration of the land plot as a separate realty object is difficult and considerable impedes transfers of land plots.

5. Characteristics of lands of various land users

5.1 Lands used by non-governmental agricultural organisations

Such organisations total 27,5 thousand. They concentrate 244,9 million ha of land including 133,2 million ha, of agricultural land and 88,2 million ha of them is arable land. In the process of privatisation the citizens received 110 million ha of agricultural land³⁸. The government kept:

- forests and bushes - 55,2 million ha;
- water bodies and marshes - 14,2 million ha;

³⁸ By the author’s estimates

- roads - 1,7 million ha;
- buildings - 0,8 million ha;
- lands for Northern Deer grazing- 34,8 million ha;
- other non-agricultural land - 5 million ha;
- agricultural land - 23,2 million ha

The government agricultural land includes lands involved in selection, seed production and testing activities prior to privatisation. The other part of land was land used by farm enterprises prior to privatisation and afterwards was excessive (in accordance with norms) to the amounts of land transferred into collective ownership of citizens, and therefore, given to the Raion land re-distribution funds. Afterwards this land could be given to farm organisations for temporary use.

This organisations mainly use agricultural lands of individuals (see Tables 2 and 3).

The lands used by non-government farm organisations are entering (or can enter) the following transactions:

- sale and purchase of agricultural land and land under government owned real estate objects;
- sale and purchase of agricultural land owned by legal entities;
- sale and purchase of agricultural land in “common” ownership of citizens;
- lease of lands from the government, citizens and legal entities;
- sale and purchase of land shares in the “common” ownership of citizens.

5.2 Characteristics of lands used by government and municipal unitary organisations

Such organisations total a little bit over 6 thousand, they account for 213,3 million ha of land, including:

- 17,6 million ha of agricultural land;
- 72,7 million ha of forests and bushes;
- 24,7 million ha under water bodies;
- 55,4 million ha of lands for Northern Deer grazing
- 42,9 million ha - other land.

These organisations operate on government-owned land. The only possible transaction is leasing land plots from the government, municipalities and citizens. Sub-lease is allowed only with permission of the owner of the property. These organisations have obtained the land under a government deed allowing them to use the land³⁹ of under a lease agreement.

5.3 Characteristics of lands used by other agricultural producers - enterprises, institutions and organisations

The total number of such land-using entities is 16079. Total land area - 21.4 million ha, including:

- 6,4 million ha of agricultural land;
- 7 million ha of forests and bushes;

³⁹ The information needs to be updated

- 1,5 million ha of water bodies and marshes;
- 0,3 million ha under buildings and constructions;
- 2,2 million ha, of lands for Northern Deer grazing;
- 4 million ha of other lands.

95% of lands of this category of users is government-owned. Land in “common” ownership of citizens are also used (4%). Part of the land shares have been contributed to the founding capitals of organisations - in the ownership of legal entities is about 1% of lands.

Therefore the objects of land transfer for this category of land users are:

- land areas in “common” ownership of citizens;
- land areas owned by legal entities;
- land shares in the “common”ownership of citizens;
- right is lease of government-owned lands.

5.4 Characteristics of lands of individuals involved in agricultural production

5.4.1. Private Family Farms

5.4.1.1. General Information

Private Family Farm (PFF) as a type of ownership is a small business based on a family or a small group of people.

PFFs started in late 80-ies. As of January 1. 2000 the number of PFFs in the country totalled 246,6 thousand with the total land area - 14,5 million ha

Until 1995 PFFs were registered as legal entities. Since 1995 a registration of a PFF automatically means that its manager is an entrepreneur, hence no need to register a legal entity⁴⁰.

The average for the country size of a PFF is 54,7 ha Over the recent 5-7 years the average size has increased by more than 10 ha The sizes of land areas vary significantly from region to region.

Table 4. The Average land areas of PFFs in some regions, ha (2000) :

Oblast	Area
Leningrad	8
Moscow	11
Rostov	83
Omsk	97
Pskov	46

⁴⁰ Procedures for registration of a PFF differ from registration of a usual legal entity, they are stipulated by the Law “On Private Family Farms”.

The sizes of land areas depend on the type of agricultural enterprise (specialisation), climatic conditions, limitations on sizes of land areas in the Oblast, level of development of agriculture and many other factors.

5.4.1.2 Ways to acquire land

Lands for PFFs can be obtained into ownership, as lifelong inherited entitlement and leased.

Until 1995 land plots for the ownership of PFFs were given into the ownership of legal entities. Since 1995 - into the ownership of PFF members: individually (if a PFF consisted of 1 member) or in collective ownership (if PFF consisted of more than 1 member).

PFFs (legal entities and PFF members) own 6,9 million ha of land. The rest of the land is given by the government to be used by PFFs (2,3 million ha) and leased out by both the government (3,9 million ha) and groups of citizens (1,4 million ha).

Privatisation of land used by the former kolkhozes and sovkhoses allowed to considerably increase the land areas of PFFs:

- 3,1 million ha was received into ownership through land shares of PFF member;
- 1,4 million ha was leased from other land share owners.

The rate of increase of land areas of PFFs varied from Oblast to Oblast despite the equal legislative environment. This is explained by the rates of land privatisation works which varied from Oblast to Oblast.

Table 5. Increase of the PFFs land areas at the expense of land shares *

Oblasts	PFF land, thousand ha	Including land of land shares	%
Leningrad	55,2	12,4	22
Moscow	71,3	12,1	17
Rostov	129,4	88,4	68
Omsk	669,0	234	35
Pskov	104,2	23	22
Nizhny Novgorod	89,7	28	31

*Calculated based on the Goskomzem materials "Information of the progress of land reforms as of 01.01.2000", "Ways of use of land shares", "The Land fund of Russian Federation".

The above table allow to draw the conclusion that 83% of lands used by PFFs today were received in Moscow Oblast from the Land re-distribution Funds. Here the lands of former kolkhozes and sovkhoses were only to a small extent redistributed in favour of the PFFs. In Pskov or Leningrad Oblasts each fifth hectare of a PFF was obtained against a land share. Despite the possible comparison and many similarities in size and specialisation of the PFFs in Rostov and in Omsk, they land areas were formed from different sources. The vast majority of lands on Rostov Oblast was obtained against

land shares, the process of redistribution of former kolhkoz and sovkhos land in favour of PFFs is much more active there.

Ways of acquiring land determine the objects of land transfers:

- land areas in government ownership. They can be leased out to a PFF or sold;
- land areas in government ownership, which can be given to a PFF as lifelong inherited entitlement. PFFs can lease the latter out or leave them as inheritance;
- land areas in “common” ownership of citizens-land share owners. These lands can be bought or leased by PFFs. PFFs can even sub-lease these lands if the owners give their permission;
- land areas in ownership of citizens-land share owners. These lands can be bought by the PFF or its members. In future they can be allotted in-kind;
- land shares owned by the PFF and its members. Some of them can be sold or leased out.

5.4.1.3. Legal restrictions on land transfers

This category suffers greatest number of restrictions. The Law defines requirements to an individual willing to obtain a land plot to become a private family farmer - able-bodied, minimum 18 years of age, experience in agriculture. There also are limits to maximum land areas owned by the PFF and its members. These maximum sizes are different between RF legislative entities. In some cases the limit refers to the PFF itself, in other cases to a PFF member or a even an employee of a PFF.

In some Oblasts (e.g. in Voronezh Oblast) there are limits to land areas in ownership or lease which contradicts the existing Land Code.

Another tool of limitation is a ban to divide the land area owned by a PFF if one of the PFF members wants to leave.

The possibility of sale of land of a PFF is still under discussion. There are neither direct permissions nor bans for the sale, i.e. there are no legal bans. But the lawyers⁴¹ believe that there are stereotypes of public opinion which impede the sale and purchase of land by PFFs. Especially as in practice various ways to avoid direct sale and purchase (but sale and purchase in effect) have been widely accepted.

A PFF or its members owning a land plot or having it as lifelong inherited entitlement can lease the land plot out for period of illness or army service of the only PFF member.

The issue of succession rights for a land plot of the successors - not PFF members is unclear.

Mortgage of PFF land is prohibited by the Federal Law #62 dd. July 16. 1998 “On Mortgage”. Land plots under buildings can be mortgaged. Since PFF land area under buildings comprises as little as 0,1% of the total PFF land, this opportunity of funding the PFF development can be assessed as insignificant.

In principle all land of a PFF and its members can be donated. However the recipient of donation will have to register a PFF in his/her name.

⁴¹ V.V.Ustykova. “Legal Status of a Private Family Farm in the Context of Agrarian Reform”. Moscow 2000, page 98.

5.4.2 Private Household Plots

5.4.2.1 General Information

Private household plots (PHPs) are used for agricultural activity. The produce is consumed by the household and the marketable surplus is sold. The income from sales of surplus is not channelled for business purposes but is disposed by the family.

Land plots for PHPs are allotted within the territory of villages and towns (the lands are considered to be lands used for agricultural purposes) and beyond the territories of villages and towns (lands used for agricultural purposes).

As of January 1, 2000 the total number of PHP owners was 15,4 million and their households used 6,1 million ha of land, including 5,5 million of agricultural land. Land characteristics is provided in Table 6.

Table 6. Structure of lands of PHPs (2000)

	Million ha	%
Total	6,1	100
including agricultural land	5,5	90
arable	3,9	64
perennial crops	0,2	3
feed crops	1,4	23
forests and bushes	0,6	10

It is allowed to build up houses and household constructions on the lands of PHPs.

PHPs account for over half of the total Russian agricultural production. The share in potato-growing is 92%, with vegetables - 77%. The average size of a PHP is 0,39 ha. Comparison of the land areas to the outputs of PHPs proves that statistics does not give the real picture of the size of land areas used by PHPs. Official statistics says the citizens are using some land areas (without a name) the size of which on average does not exceed 10 ha. These land plots are not for gardening, vegetable gardening, livestock rearing, fishing and hunting. The issue of revealing the real size of PHPs can be the subject of further study.

All municipalities have fixed limits on the maximum size of a PHP given into ownership. Presidential Decree #337 (1996) allowed the citizens-land share owners to increase their PHP to the size of their land share. To effect this local self-governments were to pass resolution allowing to expand the size of a PHP. Such resolutions were passed in 851 out of 1927 Raions of Russia⁴². (this statement requires verification in the course of a further study).

Taking into account the fact that the size of a land share ranges between 5 and 49 hectares, PHPs become comparable with PFFs. In some places local authorities rule to increase the size of a PHP to the size of a land share, in the other places to the size of land shares of all its members (e.g. Lodeinoye Pole Raion of Leningrad Oblast).

⁴² I.I.Kalinin "On some problems of current land legislation development". State and Law, 1997 #3, page 34

5.4.2.2 Ways to acquire land

Plots for private households are given to citizens into ownership, lease and lifelong inherited entitlement.

On average over 65% of land officially used by PHPs is owned by the citizens. The information on certain Oblasts is given below.

Table 7. The share of PHP land owned by the citizens *

	Average size, ha	Including in ownership	%
Leningrad	0,18	0,17	94
Moscow	0,17	0,17	100
Rostov	0,30	0,28	93
Omsk	0,59	0,39	66
Pskov	1,20	1,05	88
Nizhny Novgorod	0,26	0,26	100

* Goskomzem materials "Information of the progress of land reforms as of 01.01.2000"

The area exceeding the fixed maximum size of a PHP can be leased out. The lease payments for PHP plots are almost equal to the land tax on these (requires additional study).

For the majority of PHPs given into ownership, the entitlement is confirmed only by temporary certificates of title to the land. Distribution of permanent certificates is impeded because cadaster plans of each plot need to drawn up. The cost of drawing up a cadaster plan is quite high and is to be covered by the citizens themselves.

Example. In Lodeinoye Pole Raion of Leningrad Oblast the cost of taking measurements and drawing up a map (plan) of a land plot of 0,5 ha is 500 roubles, which is 50-70% of the average salary of a rural resident.

The prices for drawing up the above documents are fixed following old instructions of early 90-ies and price indices. As a rule there is only one organisation in the Raion doing this type of plans. Since it is a monopoly, the prices are artificially fixed and inflated.

Only less than 2% of all PHPs in Russia have got cadaster plans. The Law "On government registration of realty entitlement and realty transactions" says that the absence of a cadaster plan cannot be the ground for rejecting the application for registration of PHPs. However the in-office instructions of Land Committees and Registration Chambers put cadaster plans on the list of documents compulsory for submitting to the registration body.

5.4.2.3 Legal restrictions on land transfers

PHPs in private ownership can be sold, inherited, donated, leased and mortgaged. Their owners can dispose of a PHP in any way compliant with the existing law.

If there is a building on a PHP, but the land was not given into ownership, sale and purchase of the building is allowed. In this case the new owner of the building can make new agreement with the administration to lease the land under the building. The administration in this situation is under no

obligation to lease out the rest of the PHP (not under the building), but, as a rule, the administrations agree to lease out the entire PHP.

5.4.3 Characteristics of Other Plots

5.4.3.1 General Characteristics

General characteristics is presented in Table 8.

Table 8. Number and size of land plots used by citizens(2000)

Land plot for:	Number, thousands	Land area, mln ha	Including agricultural land	Share of government-owned land area, %
Gardening:				
- in groups		1,25	1,0	35
citizens in groups	12932,5			
groups	69,2			
- individual citizens	1176,3	0,1	0,1	34
Vegetable gardening:				
- in groups		0,2	0,2	92
citizens in groups	2369,3			
groups	9,4			
- individual citizens	2764,9	0,3	0,3	93
Livestock-rearing:				
- in groups		1,9	1,8	99,8
citizens in groups	803,6			
groups	5,5			
- individual citizens	967,7	2,9	2,7	98
Other plots	5153,4	23,5	0,5	100

5.4.3.2 Ways to acquire land

As per Russian Law (Article 67 of the RF Land Code) lands for collective gardening, vegetable gardening and livestock-rearing (groups of citizens) are made up of lands in use of groups and associations of citizens and lands in ownership of member of these groups and associations. However in reality this land to a great extent (about 35%) is still in government ownership. We can assume that such high percentage is due to the regions where private ownership on land has not been introduced. However the share of PHPs of these regions is insignificant. The reasons of this need an additional study.

Example. Over 91% of lands of citizens associations in Orenburg Oblast has not been privatised, 76% in Perm, 64% in Sverdlovsk and 75% in Rostov.

The Law (Article 67 of the RF Land Code) specifies that the lands of groups and associations of citizens cannot be leased, only owned. In reality the share of government ownership in this category is about 34-35%.

Article 67 of the RF Land Code says that land of associations of vegetable gardeners and livestock-rearers can be given into ownership only of associations, in exceptional cases to individuals. In reality almost all lands of this category are government-owned.

Another Article of the RF Land Code - 69 lets citizens involved in individual vegetable gardening and livestock-rearing only to lease the land plots. This approach was applied in practice.

Transfers of this land can be done through:

- all ways of transfers for the land in private ownership;
- sale and purchase, donation, inheritance of realty (houses and constructions, perennial crops) not in ownership. Land under a realty object can also be transferred. If statutory associations of citizens permit admittance of new property owners, this means that these property owners will be allowed to use all of the land plot;
- lease of government-owned plots for vegetable gardening and livestock-rearing. Since on these plots capital construction is not allowed, the transfers of these land plots through the alternative way of property transfers is not possible.

Among other land plots (not significant areas) are plots for housing construction. These plots (5 million on the area of 517,9 thousand ha) are in private ownership and their transfer is not restricted. Deer farms, hunting and fishing estates, ethnic community farms, and individuals involved in keeping Northern deer, fishing and hunting are using government-owned land under arrangements lease or use.

18. 5.5 Conclusions on the possibility of land transfers

The study of all types of land plots proved that there are objective conditions of land transfers for:

1. Lands owned by legal entities involved in agricultural production. Non-agricultural lands of legal entities can be transferred without any restrictions. Agricultural lands of legal entities can be transferred on condition of their "targeted" agricultural use. Mortgage of these lands is prohibited. The impeding factor is the unclear status of lands owned by legal entities.
2. Agricultural lands in "common" ownership of citizens. These lands can be transferred only with unanimous agreement of co-owners. This is a serious impediment. Requirement to new user and owners - to retain "targeted" agricultural use of the land. Other impeding factors - the ban on mortgage of these lands, large number of co-owners, large number of unrequited land shares in "common" ownership, cumbersome and costly decision-making and registration (of both title and transactions) procedures.
3. Individual land-shares of Agricultural lands in "common" ownership of citizens. Limiting factors are:
 - in terms of sale and purchase, exchange, lease and life annuity lease, other land share owners are in a more advantageous situation;
 - cumbersome and difficult to implement procedure of registration of the land share entitlement and transactions with it;

- some transactions require allotment of the land share in-kind (e.g. lease). There is no legitimate and clear procedure for defining the location of the land plot to be allotted;
 - the system of registration fees in some regions significantly adds to the cost of the process;
 - there are limits on land share allotment in-kind. This can be done only if the land share is to be leased or a PFF or PHP is to be started in it. One cannot allot the land share in-kind to sell it, donate or leave as inheritance;
 - Registration Chambers have no experience of registration of transactions with land shares and entitlement to land shares, therefore they often put forward such requirements which a land share owner simply cannot meet.
4. Land of PFFs. These can be sold with the property of the farmer, it is possible to sell part of the land area. PFF lands can be sold to an individual to start a PFF, if that individual meets the eligibility criteria listed in the Law “On private family farms”. When leaving a PFF, its member cannot have a part of this land. PFF land cannot be mortgaged, apart from the land under buildings.

The bias of public opinion and local authorities is a common impeding factor for the categories of 1 to 4 and often creates additional problems in the process of registration or even leads to refusals of requests to register.

5. Land for PHPs, gardening, vegetable gardening, housing constructions, owned by citizen. All transactions with these lands are permitted. Limiting factor - high percentage of government ownership, no permanent land entitlement documents with the majority of owners, no cadaster plans, high cost of land management and organisation works.

Lands for PHPs and gardening used by citizens and owned by the government can become objects of transfer through sale of buildings or perennial crops on them.

6. Government or Municipal-owned Lands. These lands can be leased or sub-leased with consent of the owner.

17. 6. Analysis of Actual Land Transfers

19. 6.1 General Information

Despite the existing restrictions, Russia has objective conditions for land transfers:

- existing law allows land share owners to enter basic transactions;
- most of the land is in private ownership;
- land ownership is dispersed among a large number of owners;
- there is demand for part of the lands.

In reality land transfers are going on in a variety of ways depending on the type of lands and region. Only part of the land transfers are registered by official statistics.

The summary data on transactions with land presented in Table 9 allows to draw the conclusion about the trend of activation of the land transfers within the recent years:

Table 9. Transactions with land plots (RF)

	1997	1998	1999
Number of transactions, million	4,0	4,4	5,2
Land area in transactions, million ha	23,5	24,6	72,2

These transactions do not include transactions with land shares. As it was mentioned above the procedure of registration of transactions with land shares was practically stopped after enactment of the Federal Law "On registration of realty entitlement and realty transactions" (1998). The vast majority of transactions with land shares occurred before enactment of this Law.

The majority of these transactions are transactions with non-agricultural lands. The structure of transactions is presented in Table 10 below.

Table 10. The structure (and number) of transactions with land plots

	Amount			Area		
	1997	1998	1999	1997	1998	1999
Total Transactions	100	100	100	100	100	100
	(4043)	(4415)	(5227)			
including lease of government and municipal lands	88,09	90,49	90,56	99,47	99,57	99,83
	(3561)	(3995)	(4733)			
-sale of lease rights			0,16 (8)			0,01
-sale of government and municipal lands	0,52	0,26	0,43	0,03	0,03	0,02
	(21)	(11)	(22)			
-sale to citizens and organisations	6,57	5,31	5,58	0,25	0,17	0,06
	(266)	(235)	292)			
-donation	0,83	0,60	0,43	0,03	0,03	0,01
	(34)	(26)	(23)			
-inheritance	3,92	3,28	2,82	0,21	0,19	0,01
	(158)	(145)	(148)			
-mortgage	0,07	0,06	0,02	0,01	0,01	0
	(3)	(3)	(1)			

Almost all transactions registered by the Land Committees are those of lease of government and municipal lands. Other transactions with government and municipal lands constitute less than 0,1%. Transactions with participation of citizens and organisations constitute 5-6% of the number of transactions and less than 1% of the land areas. The analysis of transactions with lands (which in accordance with the official statistics can be categorised as agricultural lands) will be given below. In the tables below the author tries to single out transactions with agricultural land from the whole amount of transactions. There is no data on purely agricultural lands and their breakdown.

6.2 Lease of Government and Municipal Lands

These transactions are regulated by the Civil Code, the Federal Law "On Payments for Land", regulatory acts of the RF legislative entities and municipalities. The number of lease transactions with government and municipal lands (which can be categorised as agricultural lands) is presented in Table 11 below.

Table 11. Lease of government and municipal lands

	1997	1998	1999

	Amount	Area	Amount	Area	Amount	Area
Total, thousand, Thousand ha	2372,5		1456		2851,9	
%:	100	21,1 100	100	21,9 100	100	61,8 100
1. Lands of towns and settlements						
– lease by citizens and their groups for PHP, gardening, vegetable gardening and housing construction	23	0	25	1	25	0
2. Lands the territories of towns, settlements and villages	39	5	36	3	32	1
– lease by citizens and their groups for PHP, gardening, vegetable gardening and housing construction						
– lease by farm enterprises	0	6	0	2	0	0
3. Lands beyond the territories of towns, settlements and villages						
– lease by citizens and their groups for PHP, gardening, vegetable gardening and housing construction	36	7	35	7	41	4
– lease by farm enterprises, PFFs	2	82	4	87	2	95

The share of agricultural land in the total number of lease transactions with government and municipal lands in 1999 was around 60% (in 1997 - 67%), and the share in the total area was 85% (in 1997 - 93%).

For the period under consideration the number of lease transactions has increased from 2,4 to 2,9 million and their total area almost tripled. The area of lease transactions of government and municipal lands by citizens and organisations in villages has reduced by a factor of 2. The reason could be that the leased lands are transferred into ownership, and the opportunity to lease large land areas beyond the territories of villages. This is confirmed by the fact that the areas of leased land have grown more (by over a factor of 2) than the number of transactions with lands beyond the territories of towns and villages (by a factor of 1,5), i.e. the average size of land areas leased by citizens has increased.

Over the 3 years the number of lease transactions with land plots for PHP, gardening, vegetable gardening and housing construction has not increased significantly. The number of these transactions constituted only 9% of the total number of plots for these purposes.

Over this period the number of transactions lease of government and municipal lands beyond the territory of towns and villages by farm enterprises has reduced, but the total areas leased have increased (almost by a factor of 3). The total area of such lands constitutes - 11% of the agricultural lands.

Average lease payments for lands beyond villages and towns have been 40 RUR/ha (USD1,48/ha at the May 2001 rate) for farm enterprises and 90RUR/ha for citizens. The lease payments have been only slightly above the land tax. The differences in lease payments are explained (additional study is needed) by the fact that citizens usually lease lands beyond territories of villages but under the jurisdiction of rural administrations and farm enterprises usually lease lands under the jurisdiction of Raion administration. Usually the land tax for the land in different jurisdictions is different.

Lease payments for agricultural producers - individuals and legal entities are significantly lower than for other land users. Thus, trade and service rural businesses pay within the range between 0,7 to 3,5RUR/ha², other businesses from 3,9 to 18RUR/ha².

The average size of leases land plots (breakdown per regions and farm enterprises and PFFs) proved that PFFs are the most major lessees. Thus in Krasnodar Kray it is – 89 ha, in other Oblasts of the Northern Caucasus Area - about 200 ha (exception –Dagestan– 500 ha).

Table 12. Average size of leased land plots (beyond the territories of villages and towns). Breakdown for some Oblasts

Oblasts	Ha
Leningrad	197
Moscow	200
Rostov	191
Nizhny Novgorod	224
Omsk	150

Sale of government and municipal lands. In 1999 22191 land plots with a total area of 15,8 thousand ha were sold in Russia. This number includes:

- lands for housing construction, PHPs, gardening and livestock-rearing - 19988 plots (less than 1% of the total number of plots for these purposes);
- PFFs - 108 plots (0,04 % of the total number of PFFs).

30 plots beyond the territory of towns and villages with the total area of 1648 ha were sold through tenders and auctions. 25 of the above plots were sold in Saratov Oblast. Average sales price was 0,03 RUR/1². More detailed information is presented in Table 13.

Table 13. Auction Sales of government and municipal lands (beyond the territories of towns and villages) in 1999

Land plots for:	Number of Transactions	Area, ha	Price per 1 i ² , RUR
PHPs	2	0,20	0,10
- gardening	3	0,45	0,11
- farm enterprises and PFFs	25	1647,68	0,03

Analysis proves that the market for such land plots is poorly developed.

6.3 Sale of Land Plots by Citizens and Legal Entities

291,8 thousand contacts were registered in 1999, the total areas 45,4 thousand ha of sale and purchase of lands under buildings and without them. The share of sale and purchase of PHP land is 42%, land for gardens - 30%. The dynamics is presented in Table 14.

Table 14. Sale and purchase of land plots for PHPs and gardens

Land plots for:	1997		1998		1999	
	Number of Transactions	Area, ha	Number of Transactions	Area, ha	Number of Transactions	Area, ha
For PHPs						
• beyond the territory of towns and villages	1557	329	1452	851,8	2361	1385
• within the territory of villages	85329	22790	81828	19371	106006	21486
For gardens						
• beyond the territory of towns and villages	59790	4363,2	43486	3365	51950	3691
• within the territory of villages	5600	567	5398	532	6640	829

After the 1998 crisis in 1999 the number of transactions increased. Their number in 1999 exceeded (except for land plots for gardens beyond the territory of towns and villages) the level of 1997 .

With account of sale and purchase transactions for PHPs in towns and villages (13122 transactions) the share of sold land plots of the total number of land plots has been 0,8%.

That means the transfer is insignificant.

As for garden plots (including those in towns and villages) the share of sold plots to the total number of garden plots (individual and in gardening co-operatives) has been 0,6%.

The prices for PHPs vary between 0,13 RUR/i² in Bryansk Oblast and Khakasia up to 18RUR/i² in Moscow Oblast. The lowest prices has been observed in Oryol Oblast– from 0,15RUR/i² to 21,8 RUR/i² in Irkutsk Oblast. The low prices can be explained by the policy of local administration, which in the course of agrarian reform offered land plots for free to every citizens willing to obtain one.

Other transactions with land plots between citizens. 22,4 thousand agreements of donation for the total area of 5,8 thousand ha were registered in 1999. This has been 0,05% of the total number of land plots owned by individual citizens.

147,5 thousand land plots with the total area of 47,6 thousand ha were transferred through inheritance in 1999 . This has amounted to 0,4% of the total number of land plots owned by individual citizens.

6.4 Transactions with lands of former kolkhoses and sovkhoses in the ownership of legal entities and natural persons

There are 3 types of transactions - with land shares, with land areas in “common” ownership of citizens (i.e. land shares of the group of people) and with land areas owned by farm enterprises.

Official statistics does not single out transactions with these lands from the total number of transactions between legal entities and natural persons. Bringing these transactions into the spotlight should be an object of a survey of sample territories.

6.4.1 Transactions with land plots

In practice transactions with land plots owned by legal entities and groups of citizens are quite common.

These can be transaction connected with alienation of lands owned by legal entities (Example 1) or in “common” ownership of citizens (Example 2).

Example 1. JSC Borets in Dmitrovsky Raion of Moscow Oblast (60 km of Moscow) is selling lands: during 2000 they made 8 transactions for the area of 267 ha. Type of transactions: lease-purchase - 7 contracts for the term of 49 years, one contracts for 10 years. The price of a land plots of 218 ha (lease-purchase within 10 years) has been about 3 million roubles or 103 thousand USD. The buyers - commercial companies, one is planning to build a downhill skiing track and an entertainment centre, the other - to build a “Rus-Safari” Park. The transactions have been registered by the Registration Chamber already. This means transactions of sales of agricultural land for non-agricultural purposes have been acknowledged legitimate.

Example 2. LLC “Tsentrnoye” located in Balakhninsky Raion of Nizhny Novgorod Oblast (25 km of Nizhny Novgorod) is using land in the “common” ownership of citizens. The citizens-owners decided to sell some of their land for construction of a petrol station. Since this involved changing of the “targeted” use of lands, the land area was first exchanged to another land area “of different purpose”.

In the Oblasts with high level of agricultural development transactions with the land in ownership of citizens and legal entities are very wide-spread. Experts believe that in Rostov Oblast about 20% of land is farmed by not traditional farm organisations, which lease land areas from farm enterprises and citizens. Some of them obtain lands through contributions of land shares to their founding capitals.

6.4.2 Transactions with land shares

Apart from transactions with land shares in “common” ownership, there is an active transactions making process with individual land share in the “common” ownership of collectives. In cases when the authorities do not let transfers of land plots, transfers of land shares allow to overcome these obstacle. The buyers or other recipients of land shares into ownership (donation, inheritance, life-annuity lease) and lessees of land shares can allot land shares in-kind. Therefore re-distribution of land plots between new owners and users is achieved.

Official Goskomzem statistics informs only about how many land shares were leased, contributed to charter capitals, how many land shares were allotted in kind for PFFs or to expand PHPs - see Table 15.

Table 15. Use of Land Shares

	Land Shares		Areas allotted against land shares	
	Amount, thousand	%	Million, ha	%
Total	7669	100	75,8	100
1. Leased	5426,2	70,8	55,1	72,6
2. The right of use contributed to founding capital	1699,3	22,2	14,6	19,3
3. Contributed to founding capital included those registered in founding documents	254,3	3,3	2,5	3,3
	83,2	1,1	1,0	1,3
4. Land share allotted in-kind for a PFF	218,1	2,8	3,1	4,1
5. Land share allotted in-kind for a PHP	70,6	0,9	0,5	0,7

Taking into account that the number of land shares (and, accordingly, owners) in the time of privatisation was 11,9 million, it becomes obvious that this information is not complete. Apart from that there is absolutely no system of recording sale and purchase of land shares, donation and inheritance.

There were surveys in Russia aimed at studying the transfers of land shares. Under an IFC project “Land Privatisation and Farm Reorganisation in Russia” there was a survey covering over 221 thousand of land shares. The information of sale and purchase of land shares and donation is presented in Table 16.

Table 16. Certain Transactions with Land Shares*

	Amount, units	% of the total
Total Land Share Vouchers	220996	100
Total sold	696	0,3
to farm enterprises	148	0,1
PFFs	499	0,2
Other land share owners	49	0,0
Donated	401	0,2

The table suggests that transactions of sale and purchase and donation of land shares are scarce. The price of a land share is formed randomly and we cannot speak of any established level.

Example. 60 km away from Nizhny Novgorod when land reforms were in full swing (1994) one land share of 5 ha cost USD1000. In 2000 in Leningrad Oblast (about 200 km from Saint Petersburg) a land

* Socio-economic analysis of the results of reorganisation of farm enterprises. Moscow 1999. “Encyclopedia of Russian villages” - 187, pages 32,33.

share of similar size cost USD10. In 2000 in Moscow Oblast (40 km of Moscow) there were many offers to sell land shares of natural persons of 3,6 ha at USD310. Legal entities in Moscow Oblast were also selling land (see the example of JSC Borets). The buyer purchased about 218 ha at USD500 per ha. This variance of prices was observed in one area and at the same time period. Interesting fact, that the more heated were the discussions in the Duma on banning land sale and purchase, the more citizens were willing to sell their land share.

As we can see from the table the prevailing transaction with the land share is lease – over 70% of land shares were leased out (with the total area of 55 million ha). The mechanism of leasing land shares was as follows:

- the lessee is making one agreement with several lessors or several individual agreements;
 - the term of the agreement is the minimum of 3 years (as per legislation);
 - the lessee allots land plots for each leased land share. This right is given to the lessee by lessors.
- Thus, a lease agreement of undefined land shares becomes a land lease agreement.

Analysis of lease payments in various regions and Raions proves that these a better developed than the prices of sale and purchase of land shares. The amount of lease payments depends on competition between lessors, specialisation of the Raion and nature and climatic zone. The minimum lease payments equal land tax, the maximum - 10% of the yields of the area equal to that of a land share area.

633 lease agreements were analysed in Lodeinoye Pole Raion of Leningrad Oblast. The Raion is located 200 km of St.Petersburg, its specialisation is dairy farming. The Raion is characterised by low level of development of agriculture. The lease payments per land share of 5,3 – 5,6 ha are as follows:
 114 land shares – 500 RUR/share per year;
 344 land shares – land tax – 100RUR/share per year;
 175 land shares – 200 – 300 RUR/per share per year

In Rostov Oblast lease payments per land shares of 7 ha (where the owner had the right to choose among lessees) were RUR1500-2000 (50-70\$).

In some Oblasts of Russia the authorities are trying to regulate the lease payments (for example in Belgorod the lease payments are fixed at the rate of 5% of the value of yields).

Way of making lease payments. As a rule, the lease payments are made with produce grown on the land area or with services. The lessee usually assumes the responsibility of paying land tax.

The share of lease transactions in to total number of transactions varies between RF legislative entities. In 31 of them the share is over 80%,in 20– over 90%.

The transaction of contribution of the right to use a land share to the founding capital was effected for 22,2% land share owners.

The idea of this transaction is:

- the owner and the potential user - a legal entity - agree that the user will use a land plot allotted against a share/ land share for a number of years stipulated in the agreement of transfer of the right to use a land share;
- users and owners of a land share evaluate the right to use a land share for the entire period. Usually these evaluations equal lease payments for the analogous period;
- evaluation of the right to use forms the founding capital of an organisation alongside with other contributions;
- the owner of a land share becomes a participant in the organisations. The share of participation equals the share of the value of the right of use in the founding capital of the organisation;
- the land shares (the right to use these was transferred) are allotted in-kind from the lands in “common” ownership of those who transferred the right to use;
- land share owners do not have guaranteed payments for their land shares. They become entitled to dividends, the share in the founding capital or shares (formed against the evaluation of the right to

- use a land share). Dividends will be paid on conditions common for other share-holders - if the enterprise is profitable;
- after the term of use expires, the allotted land plots are returned to the owners. The share in the founding capital remains with the owner.

This transaction is of interest for the organisations as it is similar to lease, but the organisation does not guarantee payments for the use. The disadvantage is that the number of participants of the organisation is increased by the number of land share owners, while the use of their land shares is not guaranteed in future.

Most popular these transactions (in relation to other transactions) turned out to be Aginsky Buryatsky autonomous Okrug, Krasnodar Krai, Karelia, Kaliningrad and Irkutsk Oblasts (99,5 – 70,4%).

Contribution of a land share to the founding capital. This transaction was most acceptable for officials of all levels. For instance in Moscow Oblast, the Moscow Oblast Ministry of Agriculture was sending out letters with instructions how to formalise contribution of land shares to the founding capital.

The advantage of this transaction for officials was that the citizens lost their title to the land (against the land share). However neither the citizens nor the organisations used chose this option. These transactions total– 3,3% of the overall number of transactions. The greatest share of such transactions took place in Murmansk - (75%), Moscow (26%), Kamchatka (23%), Kursk (21%).

However in case of any dispute most of these transactions could be nullified. Of these 3,3% only 1,1% of transactions were documented. With the rest the land share ownership can still be considered to be with the natural persons (land share owners).

One of the problems in formalising such a transaction is that the land shares have to be evaluated in the absence of an established market of land shares. Often normative land prices were used for the evaluation.

However during the first years of reform the evaluation was too low. In subsequent years most of regions fixed new very high normative prices on land, which made contributions of land shares to founding capital not beneficial for other participants of the organisation.

7. Impediments to Land Market

Section 5 described the factors limiting land transfers for each category of land users. This section is devoted to problems common for all categories. These are the problems of inadequate information about on-going processes and real obstacles of market development.

7.1 Official Statistics

The study proved that despite existing prerequisites of active land transfers, official statistics shows that land transfers are not wide spread. Lands are mainly held by those whom the government gave it to during privatisation.

In the course of further study this information will be specified, as there are many facts redistribution of lands of former kolkhozes and sovkhozes not only in favour of economically viable farms, but also new agents of agricultural production and non-agricultural business. Official statistics does not keep track of this redistribution.

7.2 Large Land Areas Outside the Market

Large land areas have still remain outside the land transfer process. These are the lands:

- of land shares which are being used, but their use is not legalised. This means that the owners have not realised their rights, they often do not know that they have them. According to official statistics these are some 41,8 million ha;
- of land shares unrequited by owners. Even official obviously underestimated statistics data gives a figure of 8,3 million ha. Part of that land is used by farm enterprises, but these lands cannot be leased, sold, etc., unless the owners themselves or their successors do it. Today there is no mechanism of claiming this land back into government ownership, it cannot be redistributed to other users and owners;

- of Raion land redistribution funds. This fund was formed of the lands used by kolkhozes and sovkhoses following the Decree of the Presidium of the RSFR Supreme Council #1240-XI dd. 25.04.90 at the start of privatisation. It was meant for the lands to be given into ownership or leased to PFFs and other land users. As of 1.01.2000 the land area of this fund totalled 37,2 million ha, including 25 million ha of agricultural land. 15,5 million ha of that is given into use, but 9,5 million ha remain to be unrequited;
- of villages. These total 1,7 million ha which were not distributed between users of municipal lands of agricultural purposes. As a rule these lands are used by local residents without any legalisation. In many rural administrations there is no system of recording of spare lands and no work to transfer the lands to users is being done.

Example. In the Volosts of Lodeinoye Pole Raion of Leningrad Oblast out of 3,1 thousand ha of agricultural lands 1,7 thousand ha are still formally undistributed. In fact rural residents are using these lands but without paying land taxes and rent payments.

- Lands of government and municipal enterprises. Many of these are usual farm enterprises. When privatisation started they were put on a “special list” of farm enterprises. Most of them could be privatised normally, but the officials made them stay in government ownership. Now these farm enterprises do not carry out any breeding or selection work (necessary condition for keeping them in government and municipal ownership). Their large land areas are attractive for new major agricultural producers, who can use these lands on more beneficial terms than making lease agreements with citizens.

Example. In Rostov Oblast an organisation called “Yug Rusi” (South of Russia) cultivates and finances farming on the territories of 15 former sovkhoses. To avoid dealing with numerous land share owners the organisations makes agreements with government unitary enterprises to lease their lands or even the entire enterprise. The unitary enterprises operate on government-owned land, to enter such transactions with “Yug Rusi” they need permit from the government represented by the RF Ministry of Agriculture. Such permits were obtained. Either the lands or entire farms are being leased. The term of lease 10 – 20 years. Lease payments equal land tax.

Availability of such large land areas leads to their almost free use - either for a land tax paid or in case of informal use even without this payment. This reduces demand for other land, impedes land transfers.

7.3 Low Land Tax

Low land tax, low collection of it, no efficient penalties for non-payment does not give incentive for transfer of unused lands, search of new more efficient users.

Farm enterprises do not use all lands officially registered with them. Land tax is being charged for the unused lands. The amount of land tax for farm enterprises is so small (from 3 to 22 RUR/ha), that does not always cover the cost of its collection.

The average rate of land tax collection in the entire country in 1999 was 60%. With just agricultural lands the rate would be much lower (statistics does not record this neither for the entire country nor for the regions, it needs to be calculated in the course of further study).

Example. In Lodeinoye Pole Raion of Leningrad Oblast farm enterprises of the Raion (6 in total) have 17,6 thousand ha of agricultural land. Outstanding land tax payments as of 1.01.2001 amounted to 1004 thousand roubles, the number of years of non-payment ranges between 1,5 and 7 years.

Most of the land tax (88%) is collected by the Oblast (legislative entity) and the municipal budgets. These, as a rule, do not take action against the non-payer to avoid social problems which they, as local authorities will have to tackle. This policy does not stimulate shedding unused lands by the farms, which impedes transfers.

7.4 High Normative Price of Land

High normative land price is also a limiting factor of land transfers. Normative price is an important tool of the land transfers. It indicates the value of a land plot. The normative price is fixed by the RF Government Resolution. RF Legislative entities and municipalities are allowed to use indices

(increasing or reducing) to the normative price fixed by the RF Government. However, as per legislation, the normative price cannot be higher than market. In reality these rules are not followed, as there are no established market prices on agricultural lands or land shares. The normative price is often fixed at random or in proportion to the land tax. The normative price for PHP varies between– 0,002 and 82 RUR/i², gardens – between 0,002 and 60 RUR/i², agricultural production entities – between 0,006 and 24,4 RUR/i².

The price is fixed randomly when:

- contribution to founding capital is evaluated;
- when calculating tax to be paid at selling the land plot or the land share, if the price of the deal was normative;
- when calculating property tax for the property donated or inherited.

Overestimated value of a land share contributed to the founding capital not only goes against the interests of other participant, but creates inflated value of the organisation.

Property tax for inherited property is fixed at 5 – 20% for inheritors of different priority from the amount exceeding 850 minimum salaries – 71 thousand roubles. This pertains to all property, not just land or land shares. If the normative price was overestimated, so is the tax on inherited property. As a result the owner will not leave it as inheritance and the land will not be returned to the government unless the inheritor officially refuses the title to inheritance.

Property tax for the donated property is usually about 3 – 10% of the amount 80 Minimum salary – 6,7 thousand roubles.

Example. In Lodeinoye Pole Raion of Leningrad Oblast the normative price of a land share is 30 thousand roubles. One can buy a land share for 1 thousand roubles. If the land share is donated e.g. to a grandson, the grandson will have to pay 2,33 thousand roubles in tax. This is a major expense, as 92% of the population live below the poverty level, and moreover - the tax is more than the actual sale proceeds.

20. 7.5 Understaffed and Under-budgeted Raion Land Committees

Understaffed and Under-budgeted Raion Land and land Management Committees are a limiting factor to land transfers. Raion Committees are not motivated to increase volumes of their work. Their budgets are low and do not depend on the number of processed transactions with land, amount of land tax collected, lease payments or sale proceeds from sale of land plots.

Similarly the rural administrations responsible for control over the use of the rural territory lands, are not motivated to increase the volume of work.

Hence, land inventory is not conducted, informal land uses and unused land plots are not tracked, all other activities aimed at activation of land transfers (making lease agreements, tenders of plots or rights to lease them, etc.,) are impeded.

18. 8. Stakeholders of Transfers of Land Shares and Land Plots

21. 8.1 Owners of Land Plots and Land Shares

The first category of citizens-owners is quite stable, the second is potentially very active. Only less than 5% of land share owners want to use the land themselves. The rest are potential lessors and sellers. 5. At least 50% of them are pensioners, most of them do not have inheritors or want to sell their land shares.

Most of those leasing their land shares out are free in the choice of a lessee. The reason they lease to former kolkhozes and sovkhoses is that the organisations which replaced them provide social services or jobs. If new other users start providing the same guarantees, the land shares will easily be transferred to them.

Municipalities are also stakeholders as land transfers can increase their budget collection.

22. 8.2 Users of Plots

Rural residents producing marketable surplus on their plots are stakeholders. Many of them are using the lands informally. To provide them with guarantees legalisation of their right to use these lad plots is required.

Another group of stakeholders are traditional land users - organisations which replaced kolkhozes and sovkhozes and PFFs. Over the recent 5 years another group has emerged - other (non-agricultural) organisations. The scale of the activity of the latter, ways of penetration in agricultural business, methods of acquiring lands - all this needs to be studied additionally.

Example. In Dmitrovsky Raion on Moscow Oblast in JSC Borets the stakeholders are: “Safari-Park” - a business specialising in sport and entertainment, “Sugar House” - a business interested in development of potato growing and dairy . They are acquiring land through sake ad purchase of lands of JSC Borets.

Example. In Lodeinoye Pole Raion of Leningrad Oblast the stakeholders interested in obtaining agricultural and are successful PFFs, dairy processors, owner of a cafe chain in St.Petersburg. Lands are transferred under lease agreements from lands in “common” ownership of citizens.

Organisations of “Gasprom” (gas -providing monopoly) are active players in agricultural business, same with “Lukoil” (oil business, oil processing).

Non-traditional agricultural producers are characterised by active penetration strategies, target-oriented and no-alternative policy of land acquisition.

19. 9. Conclusion

At the beginning of the study there were several suppositions. After initial phase of the study only two of them survived:

1. Conditions for the land market have been created - most of the land is in the ownership of numerous private owners. The market of PHPs, garden plots and the plots for housing construction is successfully functioning. Development of the market of lands of former kolkhozes and sovkhozes is impeded by gaps in legislation on “common” ownership, discrepancies between local and federal laws, high land transaction costs.
2. The land market is functioning but because of the moratorium on sale and purchase of land it is in the shadow (gray sector of economics), which leads to many misappropriations and abuses of the rights of land share owners and their inheritors.

Additional study is required to confirm one of the two suppositions.