Land policies and agricultural land markets in Russia

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Abstract

Russia has experienced dramatic changes in land ownership and land tenure since the dissolution of the Soviet Union at the end of 1991: agricultural land has been largely privatized, individual landowners now have legal rights to most agricultural land in the country, and previous prohibitions on buying and selling of land have been removed by recent laws. The necessary pre-conditions for the development of agricultural land markets have been met and we are beginning to witness transactions that involve individual landowners, and not only the state. However, further development of the embryonic land market is severely circumscribed by the inadequacy of the administrative and technical infrastructure. The paper reviews the dynamically evolving legal framework for land reform, considers the impacts of land reform on privatization and ownership structure of agricultural land, and analyzes the development of land market transactions. The analysis is based on the results of a questionnaire-based survey conducted by the authors in 2003 in three regions. The survey results are supplemented with data from official statistical sources when appropriate. The paper concludes with a review of the existing constraints on land transactions and some policy recommendations. © 2006 Elsevier Ltd. All rights reserved.

Keywords: Agricultural land markets; Land transactions; Land leasing; Land reform; Transition countries; Russia

Introduction

Land markets act as a medium for the transfer of agricultural land from passive to active landowners, or more generally from less efficient to more efficient producers (Deininger, 2003; Lerman et al., 2004). Through this basic economic function land markets contribute to the improvement of productivity and efficiency in agriculture, while at the same time facilitating adjustment (or optimization) of farm sizes by mechanisms that do not require government intervention. Smooth functioning of land markets is taken for granted in market economies, where farmland is traditionally in private ownership, landowners are free to exercise their property rights through market transactions, and farmers are generally independent to make decisions on disposition and use of land. These prerequisites for normal functioning of land markets were definitely not a feature of the former socialist countries up to the early 1990s. These countries, with Russia as the largest representative of the group, had virtually no land markets during the Soviet era, when land use rights were allocated by the state and farm sizes were determined by fiat. Land markets began to emerge, quite hesitantly, after 1990, as the various transition countries gradually implemented reforms that corrected the previous distortions in property rights (see, e.g., Lerman et al., 2004).

One of the objectives of transition in agriculture is to achieve productivity and efficiency improvements and thus begin to close the notorious productivity gap between former socialist countries and the developed market economies (Easterly and Fischer, 1995). This explains the considerable interest among transition scholars in the development of agricultural land markets across the post-Soviet space. Unfortunately, data on land transactions in transition countries are rare and empirical studies still mainly try to piece together the available information on a country-by-country basis (see, e.g., Rolfe (2003) on Ukraine; Vranken et al. (2004) on Bulgaria; Vranken
Swinnen (2004) on Hungary; World Bank (2005) on Moldova). The present article attempts to contribute to the slowly growing body of knowledge on land markets in transition countries by presenting some recent data on transactions in agricultural land in Russia. The aim is to demonstrate the existence of land market activity in an environment that was characterized by virtually total absence of transactions before 1991–1992.

The main data source for this article is a questionnaire-based survey conducted by the authors in 2003 as a part of a USAID-sponsored BASIS/CRS research project on the development of factor markets in Russia (referred to as 2003 BASIS survey in the text). This was a general farm survey designed to cover broad issues of agricultural land, labor, supply and use of purchased inputs, access to credit, and ultimately farm production with a view to efficiency estimations. The present analysis relies on a subset of questions that have a bearing on land transactions. The survey covered the basic organizational forms of agricultural producers in Russia: corporate farms (the successors of former kolkhozes and sovkhozes) and individual farms (including both peasant farms and successors of former kolkhozes and sovkhozes) and Shick, 2005).

Corporate farms are typically large-scale agricultural producers with more than 1000 ha of land ownership and hundreds of workers, run by hired management. Household plots are the traditional form of individual agriculture in Russia since the 1930s, with rural families (often employed also by the local corporate farm) cultivating less than 1 ha to satisfy own consumption needs and to supplement cash income. Peasant farms are a new form of individual) agriculture persisted on millions of small ownership of land, private (or more properly speaking, individual) agriculture persisted on millions of small subsistence-oriented household plots of less than 0.5 ha.

In October 1990, more than a year before the dissolution of the Soviet Union, Russia adopted a constitutional amendment that actually recognized the right of private ownership in agricultural land, but at the same time imposed a 10-year moratorium on buying and selling of privately owned land. In 1991, agricultural land held by collective and state farms began to be privatized through distribution of land shares to rural individuals. These were paper certificates of ownership to unspecified land plots of less than 0.5 ha.

In October 1990, more than a year before the dissolution of the Soviet Union, Russia adopted a constitutional amendment that actually recognized the right of private ownership in agricultural land, but at the same time imposed a 10-year moratorium on buying and selling of privately owned land. In 1991, agricultural land held by collective and state farms began to be privatized through distribution of land shares to rural individuals. These were paper certificates of ownership to unspecified land plots of less than 0.5 ha.
it remained in joint use by the former collective farm, eventually formalized in lease contracts.

The moratorium on buying and selling of private agricultural land was lifted in January 2003, when the Law on Agricultural Land Transactions came into force. In practice, the legal ban on buying and selling of agricultural land was bypassed even before January 2003 by presidential decrees and government resolutions. These decrees and resolutions first allowed buying and selling of land shares and later (since May 1993) permitted transactions in small household plots (but not in land for commercially oriented peasant farms). A rudimentary land market began to emerge (Wegren and Belen'kyi, 1998). The early land transactions encompassed the traditional household plots as well as the new relatively small plots that were created through conversion of land shares by family members and registered as household plots to take advantage of the legal loophole exempting household plots from the moratorium.

The structure of agricultural land ownership that has emerged as a result of privatization is presented in Table 1. The share of state-owned agricultural land dropped from 95% of Russia’s agricultural land in 1991 to 68% in 2003. The share of the individual sector (household plots and more recently also independent peasant farms) increased from 2% in 1991 to 13% of agricultural land in 2003 (Goskomstat, 2003). Privatization of agricultural land since 1990 has led to a significant transfer of resource use from corporate to individual farms.2

### Emergence of land markets

Land market transactions are divided into two main categories: buy-and-sell transactions that involve transfer of legal ownership; and leasing transactions that involve transfer of use rights from owner to tenant without change of ownership. Land leasing must be included in any examination of land market activity, as it is an important component of agricultural land tenure in all market economies. In the US, for instance, one-third of the farms use leased land, either totally or partially (USDA, 2002, Table 61). Deininger (2003, p. 79) aptly notes that benefits similar to those conferred by permanent transfer of ownership through sales “can accrue from often informal transactions in land rental markets that are less likely to be affected by … the markets imperfections that are pervasive in rural areas of developing countries.”

The existing registration procedures in Russia ensure a fairly complete record of transactions in state land (both leasing and buying), but they do not capture any leasing transactions between individuals—whether plots or land shares. Buying and selling of land plots between private individuals and corporations is in principle covered by the official statistics, but only to the extent that the buyers and sellers choose to go through the bureaucratic difficulties of registering the transaction (see the section “Constraints on land transactions”). Moreover, agricultural land is not monitored separately in official statistics. The authors’ estimates from the published data on the total number of 5.6 million land transactions in 2001 indicate that 1.8 million transactions (one-third of the total) involved agricultural land. Table 2 presents the estimated structure of transactions in agricultural land. Buying and selling of agricultural land by individuals is miniscule compared to land leasing from the state and the leasing of land shares from shareowners. National statistics record

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2Individual farms currently produce 60% of gross agricultural output on 13% of agricultural land and thus appear to use their resources much more productively than corporate farms (Uzun, 2005).
150,000 land-sale transactions annually between private landowners in villages, and the amount of land transacted is about 0.5% of their total holdings (Roszemkadastr, 2002b, 2003).

Because of these difficulties with official statistics, the discussion of land transactions and land market constraints that follows is based on the results of the 2003 BASIS survey. The survey explored agricultural land transactions through interviews with 553 corporate farm managers, peasant farmers, and household plot operators.

Land market activity

The survey shows that only household plots rely mainly on owned land, while leasing is widespread among both corporate and peasant farms (Table 3). In corporate and peasant farms, the share of leased land is on average 60% of the total area of agricultural land used. In corporate farms, three-quarters of the leased land is in the form of land shares, and only one-quarter is leased as land plots. Peasant farms, on the other hand, tend to lease land plots to a greater extent (more than 40% of all leased land). Another distinctive feature of peasant farms is that they tend to buy land (as plots or land shares) more frequently than corporate farms.

The incidence of land transactions in the sample is not very pronounced. Of the 553 respondents in all three regions, only 97 respondents (17%) reported engaging in land leasing transactions during the previous year—practically all land leasing transactions (there was only one case of selling land). The frequency of transactions was virtually the same in farms of different organizational forms. Strengthening the national data in Table 2, this shows that land leasing is a dominant form of transaction in land markets across Russia, and yet most of these transactions remain outside the scope of official statistics.

The survey did not detect any dependence of the frequency of land transactions on the distance from the regional center in the three oblasts studied. Yet we are witnessing a particularly active land market in areas close to Moscow and in Moscow Oblast, where land is bought for non-agricultural purposes. This subject requires a special study.

Of the 96 respondents who reported engaging in land lease transactions of some kind in 2001, 61 respondents (11% of the sample) were lessees, who acquired additional land by leasing in, while 38 respondents (7% of the sample) were lessors, leasing out land to other operators (4 respondents, or 1% of the sample, are double-counted, as they both lease in and lease out land).

Table 4 (columns 1–2) shows the distribution of transactions by main sources of land for lessees and lessors separately. The transactions reported by lessees included 56 instances involving leasing of physical plots (mainly from corporate farms and private individuals) and 13 instances involving leasing of land shares (land shares can be leased from private individuals only). The average area of land per transaction acquired through land shares is significantly greater than the area of land acquired by leasing of physical plots from private individuals and corporate farms. On the other hand, there are no statistically significant differences in the size of physical plots leased from different sources (despite the visual impression that smallest areas are acquired from corporate farms and largest from the district administration and other sources).

Among the lessors, the dominant group is corporate farms, 13% of which lease out land, presumably because of lack of profitability and inadequate business opportunities. At the other extreme, only 1% of peasant farms lease out land—for exactly the same reasons, but in reverse: they are apparently profitable with rich business opportunities, and so prefer to keep the land to themselves. Household plots fall in between, with 9% leasing out land. A working hypothesis suggests that these are probably plots of older families, although lack of household demographic data in
the survey instruments makes it impossible to check this hypothesis. The survey only reveals that farms lease out land predominantly because they are unable to cultivate it themselves. This is the reason provided by 32 out of 38 lessor farms. Yet these responses are equally distributed among corporate farms and household plots and we cannot learn anything about the specific reasons for leasing out land by household plots.

**Payment for land**

The lease prices per hectare per year estimated from the survey for lessors and lessees separately are shown in Table 4 (columns 3 and 4). The prices paid to corporate farms and private individuals were 300–400 Rubles/ha, or $10–$15 (at the prevailing exchange rate of 30 Rubles to $1). The differences in prices reported by lessees and lessors were not statistically significant. The prices reported for land leased from the district administration were an order of magnitude lower: about 50 Rubles/ha, or less than $2.

There were no statistically significant differences in prices paid to private individuals for land leased in the form of plots or paper shares. This issue requires further study in a larger sample, as one would normally expect surveyed plots to fetch a higher price than land shares that involve additional transaction costs before conversion into physical land ready for cultivation (see also the section “Constraints on land transactions”). In a separate unpublished study, Natalya Shagaida found that in three raions in Moscow Oblast the prices paid for land plots were indeed double the prices paid for land shares. A similar result was obtained by Rolfes (2003) in Ukraine, where land shares fetched $25 per hectare per year, compared with $41 for land plots.

Supplementary price estimates were obtained by analyzing the separate partial responses of lessees and lessors regarding the structure of lease payments (Table 5). These estimates gave 450 Rubles/ha for leasing in and 440 Rubles/ha for leasing out, but the differences were not statistically significant. The various price estimates in Tables 3 and 5 thus suggest median lease payments of 350–450 Rubles/ha

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**Table 4**

Leasing transactions and prices by source of land

<table>
<thead>
<tr>
<th>Source</th>
<th>Number of transactions</th>
<th>Transaction size, ha—median</th>
<th>Number of price data</th>
<th>Price, Rubles/ha—median</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>A. Lessees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plots from all sources</td>
<td>56</td>
<td>28</td>
<td>40</td>
<td>212</td>
</tr>
<tr>
<td>1. From corporate farms</td>
<td>22</td>
<td>5</td>
<td>17</td>
<td>324</td>
</tr>
<tr>
<td>2. From private individuals</td>
<td>18</td>
<td>29</td>
<td>13</td>
<td>362</td>
</tr>
<tr>
<td>3. From district administration</td>
<td>10</td>
<td>142</td>
<td>8</td>
<td>48</td>
</tr>
<tr>
<td>4. From other sources</td>
<td>6</td>
<td>425</td>
<td>2</td>
<td>100–143</td>
</tr>
<tr>
<td>Plots from corporate farms and private individuals only (1 + 2)</td>
<td>40</td>
<td>16</td>
<td>30</td>
<td>343</td>
</tr>
<tr>
<td>Land shares from private individuals</td>
<td>13</td>
<td>524</td>
<td>13</td>
<td>420</td>
</tr>
<tr>
<td>B. Lessors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Corporate farms</td>
<td>29</td>
<td>13</td>
<td>15</td>
<td>350</td>
</tr>
<tr>
<td>2. Private individuals b</td>
<td>10</td>
<td>139</td>
<td>8</td>
<td>238</td>
</tr>
<tr>
<td>3. Other</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>24–158</td>
</tr>
<tr>
<td>All lessors</td>
<td>41</td>
<td>28</td>
<td>25</td>
<td>310</td>
</tr>
<tr>
<td>Corporate farms and private individuals (1 + 2)</td>
<td>39</td>
<td>18</td>
<td>23</td>
<td>325</td>
</tr>
</tbody>
</table>

Source: 2003 BASIS survey.

\[\text{aPrices in Rubles; the average exchange rate at the relevant time was about 30 Rubles to $1.}\]

\[\text{bBecause of the small number of responses we do not differentiate between plots and land shares, as for lessees.}\]
per year in the sample ($10–$15). This estimate excludes transactions with the district administration, which command much lower prices of around 50 Rubles/ha (see Table 4).

Given the small number of observations with price data in the survey, the convergence of the various estimates to a fairly tight range of 350–450 Rubles/ha is most satisfactory. When we started analyzing the prices in the survey database, we were very skeptical of our ability to arrive at meaningful estimates. The results are therefore quite satisfying and even surprising.

Most respondents reported lease payments in kind, either fixed or as share of output (Table 5). These two forms of payment in kind accounted for 80% of the estimated price. Payment in cash was less common. Many lessees assumed the responsibility for the land tax, but its contribution to the estimated price was negligible. Leasing is often for medium or long term. About 50% of both lessees and lessors report leasing terms longer than 4 years (and in some cases even longer than 10 years).

**Potential for land transactions**

The potential for land transactions was examined by exploring the perceived need for additional land (Table 6). Nearly 30% of respondents desired to increase their holdings. This potential for future land transactions should be compared with the actual frequency of land leasing in 2001, which covered 11% of respondents (uniformly distributed over the three organizational forms). The greatest need for additional land is expressed by peasant farmers: 50% of respondents in this category desire more land, compared with less than 20% among household plots and corporate farms. Peasant farmers who would like to increase their holdings typically have less land than the rest, although the difference is not dramatic (225 ha compared with 314 ha for those who do not need more land). A similar situation is observed for corporate farms (3350 ha compared with 4320 ha). Among household plot operators, on the other hand, the difference in land holdings between those who say they need more land and the rest is not significant.

In principle, we can expect the demand for land to depend on the financial situation of farms. However, the only indicators of financial performance in the survey were sales revenue and surplus—a very crude profit-like measure of financial sources in excess of uses. Neither of these financial indicators showed a clear association with the perceived demand for land.

The most common option for acquiring additional land is by leasing a plot from a private individual (44% of respondents with perceived need for additional land). Other accessible options (in multiple-choice answers) include getting a plot from the state in leasehold or use rights (35%), buying land shares (18%), and even buying a land plot from a private individual (17%). There are clear differences in potential access patterns of different organizational forms to various sources of land (Table 6). While corporate farms and peasant farms envisage mainly leasing from private individuals and the state, household plot operators primarily intend leasing from the corporate farm and buying from individuals. Buying of land shares is envisaged as a viable option only by peasant farms.

Although the survey contained only one observation of recent land purchase, buying land is not perceived as an impossibility in the current environment. Leasing is clearly perceived as the most accessible option, with more than 60% indicating that they would be able to lease additional land, but fully 30% of respondents indicate that they would be able to buy land as needed. We can perhaps characterize the emergence of land-leasing transactions as the first stage in land market development and the positive perception of buying and selling of land as the second stage that will materialize in some undefined future.

**Demand for agricultural land**

The survey has shown that the demand for land and thus the potential for land transactions vary by region and by type of farm. In all three regions surveyed, peasant farmers (and household-plot operators) revealed a greater demand for land than corporate farms. Thus, 30–70% of peasant farmers indicated willingness to enlarge their holdings, compared with not more than 30% for corporate farms (Table 7). The maximum demand for land among corporate farms was reported in Rostov (a region with a
highly developed agriculture), whereas in the less-developed oblasts corporate farms actually showed a tendency to shed their holdings. Indeed, in Ivanovo (an example of an agriculturally depressed region), 43% of corporate farms plan to reduce the use of land and only 3% plan to enlarge it (Table 7). A similar trend is observed in Nizhnii Novgorod (an example of a region with medium agricultural development). There is demand for land for large-scale agricultural production, but it seems to be limited to agriculturally developed regions.

The corporate farms in agriculturally less developed regions will soon have an opportunity to reduce their holdings when they begin re-registering the use rights in state land and the lease contracts for land shares, as mandated by the new law. Some of the released land will be absorbed in peasant farms, but the growth potential of this segment is limited: while corporate farms control tens of thousands of hectares in each oblast, all peasant farms combined have less than 1000 ha in Ivanovo and Nizhnii Novgorod. Due to the absence of other interested parties, much of the land released by corporate farms may remain unused. The opposite situation will probably occur in Rostov with its highly developed agriculture and a different specialization (more crops, less livestock). There will be no unused agricultural land in this oblast, and unsatisfied demand for land can actually arise.

Factors determining land transactions

The 2003 BASIS survey did not contain the data necessary for modeling the determinants of land transactions in Russia. We have accordingly tried using Roszemkadastr regional data to model land transactions in a cross-section of Russia’s 71 administrative regions. This includes virtually all of Russia’s provinces, territories, and autonomous oblasts, omitting only those few where private land ownership is prohibited and where data are suspect. The registered transactions are a mixture of different types, but the main category includes transactions that involve leasing of state land outside the village limits by corporate and peasant farms. Household plots are not included in this category, since they generally lease land from municipalities inside the village limits.

Our modeling exercise was subject to severe restrictions imposed by the availability of regional data. We have tried a model in which the total number of leasing transactions is explained by the following independent variables:

• The number of potential lessees, i.e., the number of corporate and peasant farms in the region. The expectation is that a higher number of potential lessees will have a positive impact on land leasing transactions. To allow for the possibility of differential effects of farms from the two categories, the number of corporate farms and the number of peasant farms were introduced separately.

• The quality of agricultural land, the expectation being that better land will increase the scope of leasing transactions. Land quality was represented by two alternative measures: the so-called “cadastral price”, which is an administratively fixed value reflecting in a certain sense the normative fertility of land (Model 1), and partial productivity of land, which was calculated by the authors as regional agricultural product per hectare of agricultural land (Model 2).

• Availability of agricultural land in the region: more agricultural land should lead to more leasing transactions.

Other a priori relevant factors, such as the financial situation of farms (farms that are better off would tend to engage more in leasing transactions), could not be used for lack of data. Examples of more extensive modeling of lease transactions in Central Eastern European countries based on appropriate survey data (i.e., a cross-section of farms, not regions) can be found in Deininger et al. (2004), Vranken and Swinnen (2004).

The regression results are presented in Table 8, which also gives the mean values of the variables across the 71 administrative regions. On the supply side, both availability of agricultural land and land quality have a significant positive effect on the number of lease transactions. On the demand side, the number of peasant farms has a positive effect on the number of transactions, while the effect of the number of corporate farms is not statistically significant. This result is understandable because peasant farms exist in much larger numbers.

### Table 7

<table>
<thead>
<tr>
<th>Region</th>
<th>Corporate Farms</th>
<th>Peasant Farms</th>
<th>Household Plots</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ivanovo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce</td>
<td>43</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Enlarge</td>
<td>3</td>
<td>30</td>
<td>14</td>
</tr>
<tr>
<td>Total agric. land, ha</td>
<td>98,000</td>
<td>420</td>
<td>80</td>
</tr>
<tr>
<td>Nizhnii Novgorod</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce</td>
<td>26</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Enlarge</td>
<td>11</td>
<td>67</td>
<td>12</td>
</tr>
<tr>
<td>Total agric. land, ha</td>
<td>99,000</td>
<td>460</td>
<td>141</td>
</tr>
<tr>
<td>Rostov</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce</td>
<td>3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Enlarge</td>
<td>30</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Total agric. land, ha</td>
<td>271,000</td>
<td>57,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: 2003 BASIS survey.
(nearly 3500 peasant farms in the average region) and accordingly engage in more numerous transactions. The few hundred corporate farms in each region (350 on average) cannot produce a noticeable impact on the total number of transactions.

Land transactions are naturally driven by additional factors that could not be formalized for analysis due to lack of data. Three groups of factors appear to be conducive to the development of land transactions in rural areas. These factors include the general poverty of the rural population, which often drives families to sell their property for cash in response to the first offer made by outsiders; the inability of current land users to pay competitive rates, which encourages rural landowners to look for new clients for their land; and the emergence of cash-rich non-agricultural companies looking for new investment opportunities in agriculture (see Rylko and Jolly (2005) for more details on the latter phenomenon).

Constraints on land transactions

Analyzing the 2003 BASIS survey and Roszemkadastr data on sources of land used by agricultural producers, we conclude that farms of all types heavily rely on leased land and some even purchase land from individual and corporate owners. Yet the state land registry contains records of relatively few transactions that represent a very small portion of agricultural land. Two main groups of reasons may be responsible for this curious state of affairs. First, there is a general lack of market information pertinent to land transactions. The agents do not have sufficient knowledge of mechanisms and procedures necessary for registration of land transactions. Many rural people still do not know that land transaction are allowed and prefer to deal informally; many do not know how to draw up a contract or where to get standard forms for this purpose. Second, the legal registration procedures are very cumbersome, costly, and time-consuming. People may be avoiding land registration because of such bureaucratic barriers.

These groups of obstacles have been suggested by the analysis of the survey responses as summarized in Table 9. It may be instructive to note some differences across farms of different organizational types. Thus, the managers of large corporate farms and the operators of small household plots feel that they can disregard the registration requirements. This is much less so for peasant farmers, who are apparently much more sensitive to the protection they get through land registration. At the same time, peasant farmers complain much more frequently of high registration costs and complex procedures. Somewhat paradoxically, however, more than one-third of the peasant farmers report that the registration procedures are clear and they have no problems in that respect (last line in Table 9).

Lack of market information

The respondents in the 2003 BASIS survey were asked a series of questions intended to elucidate the existence of
market constraints. They were asked if they thought land transactions were permitted, if they knew the land prices, if they knew where to find a standard lease contract form and how to register a transaction. Around 25% of respondents indicated that lack of information on these matters was a problem for engaging in land transactions. Around 25% of respondents addressed these issues as a major problem (in other regions, where land transactions were permitted, if they knew the land prices, if they knew where to find a standard lease contract form and how to register a transaction. The percentage was lower among Rostov peasant farmers—only 12%—as respondents in this category were observed to engage more actively in land transactions and obviously felt less constrained. Land price information and transaction registration procedures were mentioned as the most important obstacles from a given list.

The respondents did not know the prevailing land prices. The survey showed that many (though not all) knew the land tax rate: up to 50% of respondents in different groups knew what the land tax was because they paid it once or twice a year. However, most respondents could not answer the other questions on land prices. The response rate was highest among the peasant farmers in Rostov, where 27% knew the price of land shares. This is again attributable to the higher frequency of land transactions and the greater interest in the enlargement of holdings among peasant farmers in Rostov. The fact that most respondents did not know the prevailing land prices apparently means that there are no established prices for land. There is no benchmark that could help rural people with the decision to sell or lease land.

The issue of market price of land is of special importance because the 2003 Law on Agricultural Land Transactions mandates the use of market prices for the conversion of land shares into plots. According to this law, disputes between withdrawing and remaining owners are resolved by applying the market price of specific land plots (on a per share basis). If the agricultural land market is not developed and there are no consistent land prices in the district, it is impossible to speak of the market price of specific fields and plots. The new legal provision may yet prove to be a severe barrier to the partition of joint shared land and to the withdrawal of shareowners with land plots for individual farming.

**High registration costs and complex procedures**

High registration costs and complex procedures are usually regarded by experts as an obstacle to land transactions. This view is confirmed by the responses of the Rostov peasant farmers, who have demonstrated the strongest readiness to engage in land transactions. Most of the peasant farmers in Rostov (84%) indeed regard these two issues as a major problem (in other regions, where land markets are less developed, a much smaller percentage of respondents addressed these issues).

The analysis of registration procedures shows that government bodies have created numerous administrative and organizational restrictions to land registration. The current system suffers from at least two serious problems. The first problem is the refusal of the cadastral chambers to issue registry extracts for land plots in joint shared ownership. In theory previously issued certificates of land ownership rights have the same validity as new entries in land registers, but in practice each new transaction requires full registration of the previous rights. As a result the whole area in joint shared ownership (often several thousand hectares) has to be surveyed. This is not only a very expensive operation (500 Rubles/ha), but it also takes a long time to complete (at least 2 months). The second problem is the multi-step and absolutely opaque operation of the registration and cadastral chambers, especially regarding the requirements for documents. These bodies develop internal instructions that are not always compatible with the relevant law and require additional documents that were not envisaged by the law. These administrative barriers involve additional expenses for the applicants and lead to a sharp increase of transaction costs. A time-and-motion study conducted by Natalya Shagaida in the Moscow Oblast registry suggests that the withdrawal of a single land plot from joint shared ownership requires up to one year of constant occupation (Shagaida, 2005). The cost of the entire procedure of converting a land share into a plot of land can be estimated by comparing the market price of a land share with the market price of a registered plot in the same area. In Volokolamsk near Moscow the price of a plot is double the price of a land share before conversion.

While the registration procedure is determined by law, the law does not specify the precise requirements for documents. That is why officials at the local level set their own demands. In Moscow Oblast, 9 out of the 10 steps that an applicant has to complete are not prescribed by the law, require submission of additional documents, or are part of a list of verbal requirements that are not listed in any official document. In this situation, large corporations (typically created by non-agricultural investors) are in an advantageous position because they can afford to hire advisors and have specialized staff responsible for transaction registration. This is a typical example of market asymmetry, where some agents have more information than others by virtue of their official position, greater financial possibilities, or the ability to hire experts. Landshare owners, peasant farmers, and ordinary corporate farms are weak players in this process: they have to spend so much time and money on registration that they often simply give up their rights or use land that is not legally registered.

In order to simplify the land purchase procedure, buyers resort to general power of attorney or give the land away as a gift. With general power of attorney, the seller gets the money and empowers a third person to sell the land share and complete all the necessary arrangements. With a gift of land, there is no need to offer the share to other preemptive buyers (the joint owners, the oblast government, or the municipality). These “under-registration” mechanisms are risky for the buyer, as a power of attorney can be revoked before the registration of rights transfer to the
buyer is completed, and a gift can be annulled as a fictitious transaction. Still, buyers are willing to take the risk because the prices of land grow so fast (the price of land in Mozhaisk near Moscow increased by a factor of 20 between January 2003 and June 2004).

Conclusions

Russia has met the necessary pre-conditions for the development of agricultural land markets: agricultural land has been largely privatized, individual landowners have legal rights to most agricultural land in the country, and previous legal prohibitions on buying and selling of land have been removed by recent laws. Land markets have responded positively to these changes and we are beginning to witness transactions that involve individual landowners, and not only the state. While the Russian media, politicians, and scholars generally argue that market development is restricted by the low demand for agricultural land, our survey results seem to indicate that this is not really so: a substantial proportion of farms in some regions are actually interested in expanding their holdings.

However, further development of the embryonic land market is severely circumscribed by the inadequacy of the administrative and technical infrastructure. There is no public registry of plans and maps that can be used to complete the transactions, the bureaucracy has created numerous procedural obstacles that complicate land transactions, and the agents effectively do not have access to market information about land prices or demand and supply of land. All these factors contribute to very high transaction costs in land markets. In the absence of competitive demand for agricultural land in many regions, landowners have no motivation to complete the required procedures for registration of their property rights, be it registration of land shares or physical plots. The actual costs are simply not justified by the expected benefits from making their property “ready for the market”. If the registrations procedures are made more transparent and less costly, we will probably see a growing number of buy-and-sell transactions alongside the burgeoning lease market. Measures to create adequate market information systems and to achieve significant reduction of transaction costs will alleviate the main barriers to further development of land transactions in this huge, land-rich country.

References