

Merja Tekoniemi: Private land ownership – a real possibility for all Russians?

Russia is by far the world's largest country by area (about 17 million km²). According to the Federal Land Register almost two thirds of Russia's land area is covered by forests and some 24 % by agricultural land. Despite major legislative changes during Putin's first presidential term and official speeches stressing market-based reform, land is still a very poorly utilised factor of production in Russia. For historical reasons, private land ownership has been a touchy issue for decades. Nearly any proposed change can be counted on to raise a lot of discussion and heated debate.

Lenin nationalised the land in 1917, prohibiting private land ownership and related land transactions introduced under the Stolypin agricultural reforms. Even so, individual farming dominated in Russia until Stalin forced the peasants to collectivize their individual plots into kolkhozy and sovkhozy at the end of 1920s. To calm the displaced peasants, kolkhoz and sovkhoz employees were allowed to cultivate small plots mainly for their own subsistence. By the end of 1930s, these tiny plots, which accounted for just a couple per cent of total agricultural land, were producing about a fifth of Russia's total agricultural output. For a long time, these personal plots provided critical sustenance for the population.

During the war years and the following decades, private land ownership was not discussed openly. The right to private ownership of agricultural land was tepidly suggested in the Soviet Union's Land Reform Law passed just before the collapse of Soviet Union. It was hardly a dramatic move, however – the law still prohibited the landowner from transferring acquired agricultural land for a ten-year period and after that the land could only be sold back to the state.

After the break-up of the Soviet Union, kolkhozes and sovkhozes were reorganised under the "Paper Privatisation." Land of the collective and state farms was divided among member-employees in the form of land shares. Approximately 12 million Russians became owners of agricultural land in the 1990s. However, the land share certificate merely stated the ownership right to a piece of land in an unspecified location. In addition, the 10-year moratorium for unlimited purchase and sale of the land shares kept the new owners mostly passive. Owners generally

preferred to lease their land share to the re-organised farm. Only a small percentage chose to hand on to their share for establishing their own private farm or other purposes.

Land ownership issues today are dealt with in several laws, the most important of which are Forest and Land Codes and the Law on the Agricultural Land Transactions. Under the Land Code, which entered into force in 2001, urban land, industrial land and recreational land can be transferred through purchase, sale, gift or bequest and can be used as collateral. The Law on Agricultural Land Transactions of 2003 finally acknowledged private ownership rights with the possibility to buy and sell agricultural land freely. The recently passed Forest Code entered into force at the start of 2007. It prohibits private ownership of forests, but allows for leases of up to 49 years. Foreigners have the right to privately own urban, industrial and recreational land, but forest and agricultural land can be possessed only through leasing agreements. In border regions, private ownership of land is prohibited for foreigners.

Despite the fact that the needed legislation exists, there are still many practical obstacles to well-functioning land markets. The process of officially settling bounds and metes of plots has been very slow in practice and rife with problems. The Federal Land Register project is still far from complete. When establishing plot boundaries, agreement must be reached with all the surrounding neighbours. Otherwise, the process stops. And even if the neighbours agree on boundaries, the privatisation of the plot may be hindered because of high registration costs and arcane bureaucratic procedures, which also create rich opportunities for corruption. Moreover, despite recent legislative clarifications, buyers of land must still wade into the ongoing official process of splitting up land administration among different levels of government. Taken together, all the challenges make it hard to define the actual fair market price of a plot of land so that it can be sold, bought or used as collateral.

The result of the poor state of land markets in Russia is that land cannot yet be considered as a proper factor of production. The Federal Land Register showed that at the start of 2006 over 90 % of Russian land was held by the state or municipalities.

Only about 7 % of land property was held by citizens and 0.3 % by enterprises. The latter figure, of course, should increase in the near future as enterprises are now required by law to purchase the lots they are located on. Nearly 40 % of the land owned by Russian citizens is individual garden plots; a similar percentage covers individual farms. Taking into account the rapid rise of incomes during recent years, one might expect rising share of plots for individual housing construction. Such a change, however, will require simplification of legislative norms and bureaucratic procedures so that the process of building a house is not overly burdensome in terms of time and expense. At the start of 2006, less than 3 % of the land in private ownership was categorised as being used for private housing projects.

It is estimated that only 5 % of Russia's agricultural land is involved in a transaction - usually leasing - in a given year. While urban and industrial land in good locations obviously see higher transaction rates, it is clear that Russian legislators still have plenty of work ahead to make land a more transferable asset. Russia has a phenomenal natural-resource endowment, the prudent use of which will bring considerable wealth to future generations of Russians. But Russia also has a lot to gain by developing functioning markets for land.

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