

## Analysis

# Russia's Incomplete Land Reform

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## Abstract

Russia's contemporary land reform remains incomplete because very little actual land was distributed to private individuals. The Medvedev government is faced with correcting the shortcomings inherited from previous land reform policies. The task is complicated because original land reform distributed land shares held as collective share property.

## Shortcomings in the Design of Reform

Russia's contemporary land reform was introduced during a period of political turbulence and massive economic and social change. The foundation of land legislation was adopted during 1990–1993. Perhaps because reformers were trying to remake Russia's political, economic, and social systems simultaneously they did not realize that they were creating an incomplete land reform. Furthermore, because of political divisions in the government land reform policies often reflected what was politically possible rather than what was economically optimal. Moreover, during the 1990s emerging economic elites shied away from rural land acquisition and did not view it as a valuable asset, and thus an important economic impetus to well-crafted policies was absent.

Early reform policies contained two main shortcomings that reflected the incomplete nature of Russia's land reform. The first shortcoming was that during the process of land privatization and distribution very little real land was transferred to individuals. The privatization of formerly state-owned agricultural land had three main elements.

- Operators of private plots (*lichnoye podsobnoye khozyaystvo*) were allowed to convert Soviet-era use rights to ownership of those plots. These plots of land were very small, usually less than .5 hectare, and in aggregate comprised about 1 percent of all agricultural land in 1990 in the RSFSR.
- Land held by state and collective farms was "privatized" and distributed to farm employees and service personnel in the form of land shares during the reorganization of those farms.
- Last, persons wanting to become private farmers received free allotments of real land from either the farm where they had been employed or from a raion land fund. In the early 1990s, of these three forms of distribution, land shares accounted for at least 95 percent of agricultural land.

Land shares were paper entitlements to land but not physically demarcated plots of real land. This type of

reform brought relative simplicity to the distribution process, but it also meant that not much real land was transferred to individuals. There was nothing deterministic about the method of distribution that Russian reformers chose – some post-communist states in Eastern and Central Europe chose to restitute land to pre-communist owners. Other post-communist states chose a mixed system of restitution and land shares. For most rural dwellers in Russia, the reality of landownership usually combined ownership of the household private plot with more abstract land use rights represented through land shares.

On paper it appears that Russia's land reform privatized approximately 130 million hectares during the 1990s. However, by the end of the decade, private individuals used only about 11–13 percent of all agricultural land, a statistic that put Russia at the lower end of the scale of post-communist states. By the beginning of 2008, individuals' use had grown to about 17 percent of agricultural land. But a distinction must be made between "use" and "ownership" of land. By the end of Putin's presidency the amount of privately *owned* real land was considerably less than 10 percent of all agricultural land. If private farmers' landownership is excluded, the amount of real land owned by individuals is minuscule. Even including private farmers' land, more than 90 percent of "privately owned" land is owned as land shares, not real land. A main consequence of the land share system of distribution was that large farms retained control over former state-owned agricultural land because most land shareowners rented their share allotments back to the large farm in return for payment (a secondary land rental market was private farmers).

The second shortcoming in Russia's land reform consisted of numerous constraints on the disposal of land. President Boris Yeltsin's decree at the end of October 1993 legalized the sale of agricultural land other than private plots. This decree was originally intended to remain in effect only a short time, until a post-Soviet Land Code and supporting laws were adopted. No one at the

time expected that debates over the Land Code would become so bitter and drag on for nearly a decade more. While Yeltsin's October decree laid the basis for the development of a land market and went farther than any legislation to that time, it also contained several restrictions on the sale of land. For example, farm members who wanted to sell their land shares had to offer their shares to other members of the farm first, and only if no buyers appeared could the shares be offered to outside buyers. Another constraint was that agricultural land could not change use upon sale. In other words, agricultural land had to remain in agricultural use. Due to these and other factors that existed during the 1990s, the Russian land market was a leasing market. Land leases, numbering several million a year accounted for more than 95 percent of all land transactions during the 1990s, while the number of land purchases was relatively small (see Diagram 2 and Table 1 on p. 6).

Yeltsin's decree legalized rural land sales in principle, but did not specify concrete procedures. Indicative of the weak central government that existed at the time, it was not until four years later that the first regional land legislation legalized agricultural land sales (1997, in Saratov oblast). Throughout the 1990s, as many as 10–13 regions within the Russian Federation had legislation that did not recognize the legality of land sales or the private ownership of land.

### Land Reform under Putin

During Putin's first term a new Land Code (2001) was adopted that codified property rights, and in 2002 a Law on Agricultural Land Transactions was passed that came into force in 2003. This law addressed the second shortcoming noted above in that it specified procedures for selling agricultural land and served as a template for regional legislation. Economic growth after 1999 and clarification of sale procedures contributed to a decrease in the number of lease transactions and an increase in the number of land purchases, although Russia's land market remains a leasing market. Land leases in 2007 accounted for about 88 percent of all land transactions, accompanied by an increase in the number of purchases (see Diagram 3 and Table 2 on p. 7). The law on land transactions also has restrictions, the most important of which is the requirement that municipal governments be given the right of first refusal during the sale of all large land plots (small plots used as private plots, collective gardens, or dacha plots are exempt from the law). Therefore, according to this law the sales process is complex and removes direct negotiation between buyer and seller and is open to corruption.

Attendant with strong economic growth that ensued from 1999 through 2007, land began to be perceived as a valuable commodity from which to build wealth. Agricultural land became the new frontier for those with money. By Putin's second term rich urban investors became interested in buying agricultural land, which meant that they had to buy land shares. One method was to approach shareowners directly and to buy their shares, either individually or collectively. A second method was for the urban investor to buy a whole farm, thereby becoming the owner of the shares that had been invested in the farm by shareowners in the early 1990s. When this happened, rural dwellers were dispossessed of their land shares. The second method led to anger and protests in several regions when shareowners found out that their shares had been sold from under them. Former Minister of Agriculture Aleksei Gordeev criticized urban "raiders" and warned of "wars," over rural land. As land "raiding" became more frequent Gordeev advocated greater government regulation of land relations in order to protect the property rights of land shareholders.

### Land Reform under Medvedev

The incomplete nature of land reform – that individuals did not receive much real land – has yet to be resolved and the situation remains in flux. The sociological impact of Russia's incomplete land reform has been that only a small percentage of households have been able to expand their land holdings by a significant amount. Survey data demonstrate that during 1991–2006 factors such as profession, gender, employment status, income level, and income structure greatly affected the size of land holdings and the proclivity to acquire additional land. But for the vast majority of rural households, land holdings remain not much larger than during the Soviet period, and for households not engaged in private farming, private plots continue to be the primary method of holding real land.

The 2002 law on agricultural land transactions originally stated that land shares held by large farms and registered as permanent unlimited use must be reregistered and, upon a transaction, converted to real land by January 1, 2004. That deadline was extended several times and now is January 2010. Failure to reregister land shares results in forfeiting the rights to land, something that the government wants to prevent.

Since 2003, a shareowner who wanted to sell or rent his land share had to get his land surveyed and registered, a process that has proven to be both time consuming and expensive. The problems inherent to re-

registration and conversion have not been easy to resolve. First Deputy Premier Viktor Zubkov revealed in February 2009 that among 12 million land shareholders, only 400,000 owners have been able to convert their shares to private property. A litany of hurdles has confronted share owners such as a cumbersome bureaucratic process of registration, an array of documents an owner must obtain, the expense of survey and titling, and the length of time that reregistration may take (up to 6 months). So far, the federal government has taken some easy remedial steps such as lowering its reregistration processing fee. It has also simplified the amount of documentation that is required during the conversion process, for instance not requiring proof of ownership in order to obtain a survey of the land plot.

The most intractable problem lies in the nature of share ownership that was used during the early stages of land reform, during which households received land shares that assigned a general quantity of land to which the household was entitled. For example, a hypothetical three-person household may have been issued land shares that in aggregate entitled them to 20 hectares of land. At the time of distribution, these land shares were legally registered as either collective-*joint* ownership or collective-*share* ownership. Joint ownership did not specify how much land “belonged” to each member. The share system specified a quantity for each recipient. According to Federal Cadastre Agency, in 2007 collective-*share* ownership comprised 98.8 percent of land shares. In both cases the location of land “owned” by an individual member of the household was not specified because land shares were abstract paper entitlements but not real land. The registration method used in the 1990s means that today land registration services routinely refuse to reregister land shares, and technically they are entirely correct in doing so because it is impossible to reregister land for which the location of a plot is unknown. In early summer the Ministry of Agriculture suggested lowering the number of share holders necessary to constitute a quorum that could make allocative decisions about collective-share land, and it proposed that local administrations take the initiative in organizing meetings of share owners.

Local courts have complained about an overload in cases where there are disagreements over location among owners, and there is no guarantee that the untangling

of property rights can be sorted out by the January 2010 deadline. Unless the deadline is extended, there is fear of mass dispossession of land and widespread protest, which would compound regional protests over economic conditions. In late spring the Ministry of Economic Development and Trade began working on amendments to the Land Code, although there is no indication as to when they might be considered by the Duma.

Aside from a flurry of activity in spring 2009 concerning individuals’ property rights, the Russian government appears to be more interested in raising the productivity of agricultural land use, which fits into its strategy of increasing grain production and grain exports, an orientation that does not address the incompleteness of land reform. Draft legislation suggested by the Ministry of Agriculture will:

- give right of first refusal to large farms to lease re-registered land
- give preference to municipal and regional governments to convert unclaimed, unwanted, and abandoned land to state property
- increase fines and/or land taxes for land that is used inappropriately or is not used for its intended purpose
- create a unified system of state monitoring of agricultural land.

Each of these elements is intended to facilitate an increase in the effectiveness of land use.

### Conclusion

The reform policies of the early 1990s created an incomplete land reform. The institutional structure of reform has locked Russia into a situation in which individuals have relatively little real land. Due to complications in the reregistration and conversion process, agricultural land is often not able to be transferred to the most effective users. This constraint is important because effective land use facilitates economic growth and an internationally competitive agricultural sector. However, attempts to rectify past policy mistakes have confronted problems that are inherent to the type of ownership that was conferred at the beginning of reform. Structural constraints embedded within the institutional design of land reform complicate efforts to increase agricultural production.

#### *About the author*

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*(Further reading: please see overleaf)*

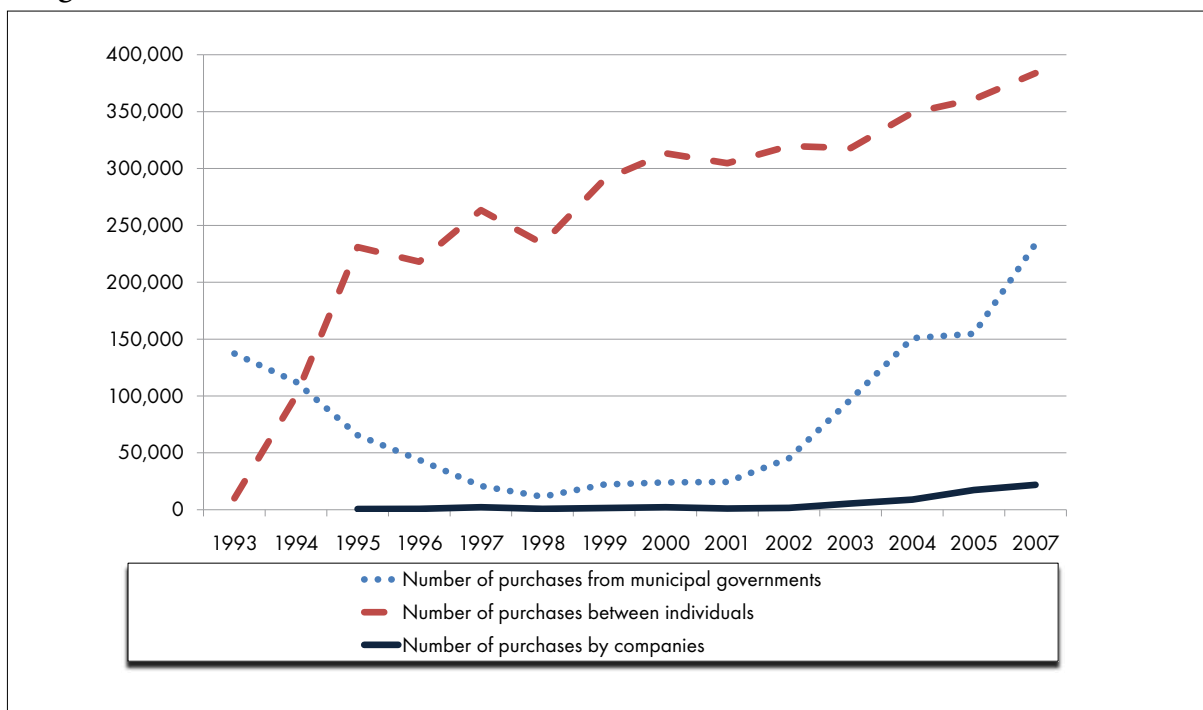
*Further Reading*

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**Tables and Diagrams**

**Land Purchases 1993–2007**

**Diagram 1: Land Purchases, 1993–2007**



Sources and exact figures: please see p. 6 and 7.