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The review provides a detailed analysis of main trends in Russia's economy in 2010. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts

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6.3.2. The Problems of Land Relations in Russia in 2010

Speaking about the problems of land relations in Russia it is extremely important to set the system's "benchmarks" – the key parameters of this sphere and in adjacent spheres having the key impact on absolutely all processes.

Given the huge territory of the country (1,709.8 mln ha), *the amount of land suitable for life-sustaining activities is not that big*. According to expert evaluation, the major portion of land in the country is not suitable for inhabitation and life-sustaining activities, because such lands are located in the regions of the Extreme North and equivalent areas.

In addition the following needs to be taken into account:

- the area of land covered with water and marshes made 225.0 mln ha (13.2% of the total land resources of the Russian Federation) as of January 1 2009¹.
- the area of land covered with woods made 802 mln ha (47% of the total land resources of the Russian Federation);
- the area of low-yielding tundra land made over 10%.

As per the most optimistic estimates, the "good" land share does not exceed 1/3 of the country's territory. Only 13% of land area of Russia is used for agricultural purposes (plough lands, gardens, hay-fields, pastures). The share of the most valuable land (plough land) makes only 7.7% of the total area of the country. More than half of the plough land (52%) is located in the black soil areas ("chernozem"). About 80% of all farming products of Russia are produced here. And it is the sphere of use and turnover of agricultural land where the biggest problems are experienced.

The value of the most portion of Russian land is extremely small, only 1.9% of territory accounts for 82% of cadastral value of all the lands (the land of residential boroughs). All the other lands have extremely low level of infrastructure development.

With that, *the level of land resources registration and management is extremely poor*. In the vast majority of the country state and municipal lands are *not* delineated between the respective levels of government. By the beginning of 2010 only circa 302 mln ha (i.e. 19.1%) of all the lands being in state and municipal property were delineated. The average annual rate of growth of delineated land made only 1.6% over the last several years. Given such rate, 50 more years will be required to complete delineation of state and municipal lands.

In Russia the procedure of acquisition of titles (buying out land from the state) has inherent contradictions for not delineated land. On one hand, it stipulates for the need to register the state title; on the other hand, it allows for the possibility to dispose the land owned by the state without such registration (paragraph 10 of Article 3 of the Federal Law No.137-FZ "On Enactment of the RF Land Code" of October 25, 2001).

Such regulation allows for voluntary decision-making in the sphere of land disposal and is highly corruption-prone.

The regions seeking for preservation of control over all the land have lawful right to deprive local self-government bodies of the right to dispose of the non-delineated land in the administrative centers of the RF constituent entities. And such lands are of the biggest value.

The State Real Property Cadastre system is not functioning in a robust manner, the plan is to complete it by the end of 2011. The Federal Law "On State Real Property Cadastre"² came into force in March 2008. It stipulates for consolidation of two registration systems: Federal Agency for Real Property Cadastre ("Rosnedvizhimost") and Bureau of Technical Inventory (BTI). The

¹ 72.1 mln ha covered with water (rivers, streams, lakes, water reservoirs, ponds, man-made water bodies, irrigation and drainage canals, etc.), 152.9 mln ha covered with marshes.

² Federal Law No.221-FZ of July 24, 2007

new cadastre should create the legal framework for state registration of the real property entirety and define the concept of the tax assessment basis as certain percentage of the cadastre value of a land plot. The provision of this Law about setting up a unified federal information system comprising the State Real Property Cadastre and the Unified State Register of Real Property Rights and Transactions Therewith in the electronic format is coming into effect starting from January 1, 2012.

The following issues are currently relevant for the state cadastre system functioning³:

- a) poor quality of government services provision;
- b) lack of electronic document management practices.

The consequence of this – long "lines" and long time required for registration, a big number of intermediaries and additional costs of title registration.

According to E.S. Nabiullina, the RF Minister for Economic Development, the immediate tasks that need to be resolved in this sphere are the following:

On one hand – decreasing the title registration costs for individuals and organizations, as well as reducing the risk of unlawful forfeiture of real property titles;

On the other hand – the possibility of fact and efficient resolution of number of major political issues (affordable housing construction, real estate tax introduction, national projects implementation, construction of facilities for Olympics and APEC, infrastructure projects).

In the situation when the majority of Russian lands lack cadastre documents, the definition of the plot boundaries remains very difficult, and that is reflected in the sphere of land taxation⁴.

Cadastral valuation remains the tool actively applied by the regions to increase budget revenues. In a number of regions the cadastral value of lands occupied by certain facilities – especially in cities and towns with population exceeding 10,000 persons, is evidently a “scarecrow”, meaning it is set to prevent privatization of such land plots. Mainly it pertains to lands occupied by garages and parking lots, multi-storey apartment buildings, educational institutions and organizations. The motivation behind such decisions deserves special attention and analysis.

For example, in Primorsky Region the cadastral value of land occupied by multi-storey apartment buildings in residential boroughs with population exceeding 10,000 persons is more than 9 times higher the cadastral value of land occupied by individual homes (RUR 603.41 per sq. m versus RUR 65.13 per sq. m)⁵. The cadastral value of land occupied by educational institutions and organizations, garages and parking lots is slightly lower, but still one of the highest in the Region (RUR 597.18 and 566.89 per sq. m respectively). Similar situation may be observed in Khabarovsk and Kamchatka Regions, in Sakha Republic (Yakutia). In Moscow Region the cadastral value of land occupied by multi-storey apartment buildings exceeds the value of land occupied by individual homes more than 10 times (RUR 7,465.55 versus RUR 734.77 per sq. m).

Shares in land remain one of the most important problems. This legal regime of agricultural land use does not provide for ownership/disposal/usage transparency. And 83.2% of all privately owned land falls under shares in land status (circa 110.6 mln ha, i.e. about 6.5% of all the land).

The “weak points” in using shares in land from the agricultural land use regulation standpoint are as follows:

³ See here and further on: Key point of presentation by E.S. Nabiullina, the RF Minister for Economic Development, on February 12, 2010, in the Russian Government Service Academy with the President of the Russian Federation at the all-Russian conference on the outcomes of activities of the Federal Service of State Registration, Cadastre Records and Cartography - http://www.economy.gov.ru/minec/press/news/doc20100212_03.

⁴ See details in: E. Apevalova. The Issues of Land Relations and Their Legal Regulation.//Transition Economy. Outline of Economic Policy in Post-Communist Russia. Economic Growth in 2000–2007, M. Delo Publishers, 2008, pp.612–613.

⁵ Section 228 of the State (National) Report about the status and use of land in the Russian Federation in 2008.

- The right to dispose of shares in land is limited due to the difficulty (in some cases – impossibility) to allocate a separate land plot in lieu of the share in land, without which divestment of land to somebody not being a participant in the share is impossible.
- The fact of a land plot having multiple owners impedes the decision-making on the title and land use.

In reality many owners of shares in land lease them or transfer them in trust, etc. In the current conditions multiple schemes are applied for actual transfer of property rights for shares in land without appropriate registration leading to uncontrolled concentration in the agricultural lands market, violation of rights of owners of shares in land and actual owners of such lands, data about the actual situation with agricultural land use becoming non available for the government, etc.

In May 2008⁶ the legislator amended the procedure of land plots allotment in lieu of shares in land within the common title providing for the mechanism of possible agreeing of a location of a portion of land plot subject to allotment in case there is no resolution of the general meeting of the owners of shares in land. According to this new procedure, in case there is no resolution of the general meeting about location of a portion of land plot subject to allotment, the owner of the share willing to separate the land plot shall be entitled for either publishing in the media or for notifying other owners of shares about his/her intention for such separation listing the specific location. In case no objections are received within 30 days, the location of such land plot shall be deemed agreed (paragraphs 3, 4 of Article 13 of the Federal Law “On Turnover of the Agricultural Land”)⁷.

Formally this simplifies the process of separating a land plot in lieu of shares in land for regional authorities and for those capable of implementing this mechanism in accordance with the legislative language. However, poor level of legal culture, lack of organizational and financial capabilities for getting any assistance in exercising their rights will become the critical factors impeding the residents of rural areas in using this right. So in reality this mechanism of agricultural land redistribution in favor of the state means that either major agricultural holding companies and legal entities or intermediaries will become the ones who dispose the unclaimed shares in land.

Poor level of land resources recording and control leads to *abuse and criminal offense in disposal of land plots*. During the period of 2005–2009 many officials were charged with abuse of their authorities: Mayor of Fryazino, Moscow Region (allotment of land plots for construction on a non-tender basis); Mayor of Scherbinka, Moscow Region (abuse of office in the sphere of land plots disposal); Mayor of Togliatti (unlawful disposal of land plots in 1992–2003); Mayor of Tomsk (unlawful allotment of land plots); Mayor of Saratov (unlawful distribution of land plots); Mayor of Volgograd (unlawful allotment of land plots) and others.

The problem of low level of recording and control in the sphere of land use is also a big problem. Given the system of cadastral records the error makes 20%, i.e. 341.96 mln ha out of 1,709.8 mln ha.

The government practically removed itself from the sphere of territorial development. There is no systematic and planned development of infrastructure (utilities and road construction). Lack of land plots prepared for construction causes the construction costs growth and increase of load on the existing infrastructure. This leads to “pin-point” increase of population density at the same time leaving significant territories undeveloped.

In view of the above, the priority measures to improve land relations would be creating efficient system of state management of land resources meaning changes in the system of recording and controlling the land resources based on assessing the suitability of lands for life-sustaining

⁶ Federal Law No.№66-FZ “On Amendments to Certain Legal Acts of the RF and Invalidation of Certain Legal Acts (Clauses) of the RF in Relation with Enactment of Federal Law On State Real Estate Cadastre” of May 13, 2008.

⁷ In addition, an attempt was made at the end of 2008 to decrease unjustified high costs of titles/encumbrances registration for agricultural land plots. Thus, the fee for registration of a share in land was reduced 10 times.

activities. Valuation of privately owned land should be based not on the total territory of the country, but on the territory suitable for life-sustaining activities. Besides, territories with future development potential should be identified and the required conditions for their development should be created.

6.3.3. Federal and Regional Policy in the Sphere of Land Relations: some specifics

Land regulation in Russia has been under on-going change over the recent years, especially starting from 2006. This was the beginning of the so-called “mini-privatization” and “dacha amnesty”, as well as of cadastral recording and cadastral valuation system, decreasing the prices for land bought-out by industrial enterprises, etc. These new endeavors have started demonstrating some yield fruit by now: new institutions are slowly taking shape, and the privately owned land segment is gradually growing. The demand for government services has remained stable and high in the sphere of land relations, it significantly exceeds the capabilities of the existing organizations – especially, given their current performance. However, the “growth points” described above have very little impact on the overall federal and regional land use policy having formed over the last 20 years, and the quality of government services in this sphere remains very poor.

Segmental development may also be observed in the regulation of land use and land acquisition for various purposes. Active housing construction in 2005–2008 resulted in stricter government control of disposing land plots allotted for construction; mechanisms of selling land plots through auctions were introduced. Special focus on agriculture resulted in various forms of government support to agricultural producers including support in the sphere of land use regulations. Leasing agricultural lands from the state turned out to be the only segment of leasing land where the fees were reduced. Simplifying the turnover of agricultural lands was one of the most important novations of the period in question.

At the same time development of only certain segments of land relations does not serve as a driver for improvements in other segments. For example, it is very easy to bypass the requirement of selling state and municipal lands through auctions (and on pretty lawful grounds!) due to fragmented regulation. There is an RF Government Resolution setting the procedure for such auctions, but it is only selectively observed. Out of 12 land plots sold by the state in 2009 only 1 was sold through an auction.

Such “drop-out” of certain land relations segments from the government attention is followed by insufficient way federal power bodies are working with the regions on implementing the decisions in economics and by their systemic lack of attention towards regional land policies, which in certain cases are quite the opposite to the federal policy, or regions may just ignore the tasks set at the federal level or simply be incapable of implementing them. Regional policy is to a significant extent impeding the activities of local self-government bodies in the sphere of land use depriving them either of authorities or of funds required for implementation of land-related resolutions. Inconsistency of regulatory framework at different levels of government is another important barrier, and often enough the level of regulation at regional level is not sufficient.

In 2007 the Federal Agency for Real Property Cadastre (“Rosnedvizhimost”) audited 375,027 regulatory acts at the level of the Russian Federation constituents (regional level) and at the local level pertaining to land relations. The audits revealed non-compliance with the federal land legislation in 8,093 acts of regional and local level, and 6,522 recommendations were proposed for bringing them in compliance. Out of them 3,947 acts were brought into compliance, in 2,316 cases materials were sent to supervising agencies for invalidation of the respective regional and local acts. In Nizhny Novgorod Region the Prosecutor’s Office initiated enactment of over 200

acts on land use, in Penza Region – 11 draft plot plans and rules of land use and development⁸. However, this activity does not compensate for poor performance of government regulation mechanisms.

Analyzing land privatization laws evidently shows that such privatization is heavily dependent on the regulatory framework of the RF constituents (regional laws and regulations), which provides for the following:

- establishing the norms for land plots allocation for farming, gardening, vegetable production, cattle breeding and construction of summer cottages (dachas);
- defining the prices for agricultural lands;
- granting the right of free privatization of agricultural lands;
- defining the prices of land plots for owners of buildings and facilities;
- defining the initial prices and format of auctions for selling land plots for construction;
- defining the terms of privatization of smaller and medium-size businesses.

The way regional authorities exercise their rights in this sphere influences the trends in land privatization process greatly, especially in the conditions of lack of municipal property.

In reality certain regions are implementing land relations policy based either on setting significant regulatory and administrative barriers and imposing additional tax obligations on land title holders (especially in the construction sphere) making buy-out of land economically unfeasible (e.g., Krasnodar Region in providing land plots for construction; City of Moscow); or on drastic shrinking or complete lack of privatization decision powers of municipal authorities due to undeveloped land regulations at municipal level (the majority of the RF regions).

Zero or close to zero privatization performance for municipal lands is practically a common rule across Russia. Centralization of powers at the regional level allows for any constituent entity of the Russian Federation to unilaterally use its powers for disposal of land or control maintaining of the status-quo. Traditional municipal deficit of municipal budgets is an additional barrier for municipal land ownership development. As a result, there are no adequate mechanisms for allotment of municipal lands and no possibilities for real systematic control.

The need for alignment of federal and regional policies in the sphere of land privatization in terms of shaping the policy, identifying the mechanisms and allocating adequate funds, or acknowledged and agreed refusal from privatization concept in certain regions or segments is the key precondition of effective privatization process. The key issue here is substantiated choice of land policy by the region.

The process of shrinking the area of the common legal framework is going on in the same fragmented manner as land relations development. “Special” authorities were granted to power bodies in Krasnodar and Primorsky Regions with regards to withdrawal of land. Taking into account the growing activity of the Russian Federation in implementing international projects, the number of such “special” procedures is likely to increase. State-owned companies and their managing companies were granted “special” authorities in 2007 allowing them to obtain land plots without participation in any auctions/tenders⁹. Considering all the assets currently controlled by such companies, the market segment being put beyond the general regulations is quite significant. Subsoil users received the right to obtain land plots without participation in any auctions/tenders in December 2008¹⁰.

Exceptions from the common rules are often needed; however, it’s the message dictating such exception which is of special importance here. Like in the case of setting up state corporations, the

⁸ See text of presentation by Yu. Chaika, General Prosecutor of the RF at the extended meeting of the General Prosecutor’s Office Collegiate Body // genproc.gov.ru, February 18, 2008.

⁹ Federal Law No.240-FZ “On Special Economic Zones in the RF” of October 30, 2007.

¹⁰ Federal Law No.311-FZ “On Introducing Changes into Certain Legal Acts of the RF” of December 30, 2008.

message is of quasi-state or quasi-public here and does not demonstrate any positive effect, which makes such exceptions look unjustified.

As for privatization of land, there are no clear-cut objectives and baselines set at the federal level, so privatization efficiency needs to be evaluated based on the overall outcomes (amount of land transferred into private ownership). No assessment is performed with regards to the impact of land ownership status transformation on competitiveness of industrial and agricultural companies, on the level of housing prices, on entrepreneurial activity growth, etc.

To be able to effectively implement land privatization program, its objectives need to be clearly set. If the main objective here is to provide housing to the people, then all mechanisms for construction incentives and support should be engaged (transparent and simplified procedure for provision of land for construction, investment into construction and issue of loans, infrastructure development at plots subject to construction, etc.). Land privatization per se will not necessarily provide for more active construction and decrease of housing prices.

If we are to talk about the agricultural complex, the announced intent is to improve efficiency of land use and to give a new spin to their turnover. However, the legal status of unclaimed shares in land and lands of agricultural producers in bankruptcy is not duly regulated. And those are millions of hectares of agricultural lands which are withdrawn from turnover.

The procedure for turnover of shares in land received a new, simpler regulation. However, those are the buyers who benefit, and not all of them are farmers. So the new regulatory framework promotes the buy-out – not sustainable development of rural territories and their residents.

The Land Redistribution Fund created in the 90-ies is another “black hole”. Back in those days the lands of agricultural producers (Soviet kolkhozes [cooperatives of farmers] and sovkhoses [state-owned agricultural enterprises]) were transferred to this Fund. As of January 1, 2008, the Land Redistribution Fund comprised 46.6 mln ha, i.e. 11.5% of agricultural land. New land plots are still being transferred to the Fund at the expense of agricultural producers in bankruptcy, in case the land is not used or is voluntarily rejected, etc. As of January 1, 2009, 15.6 mln ha were registered in cadastre as land in use by manufacturers of commercial agricultural products, at the same time the respective title holders are excluded from the registers of individuals and legal entities. During 2008 the area of such land grew by 1.3 mln ha versus the preceding year. This group of land comprised 5.5 mln ha of the shares in land and land jointly owned by individuals, as well as 9.9 mln ha of state and municipal land.

Today the federal laws allow government officials (of both federal and regional levels) to fully use their judgment in disposing the lands of the Fund. They have the right to grant this land in someone’s ownership for free, which potentially may be used as a source of unlawful income for such officials, decrease the level of revenues into the federal and regional budgets and deteriorate the regulation of the land use sphere.

The unclaimed shares in land currently making 25.6 mln ha still remain a “gray zone”. Their owners either have not received certificates of a share in land or have not exercised their right of disposal of the share.

As has already become a tradition over the recent years, new organizations were set up by the government to compensate for the inefficient regulation of the land relations. They are the Fund for Housing Construction Support and Residential Mortgage Agency.

The Fund for Housing Construction Support was created in 2008 with the purpose of developing land plots assigned for housing construction. The Fund’s objective is to engage non-used of inefficiently used state-owned land into market turnover (meaning lands assigned to some unitary state enterprises and other government institutions, to Russian Academy of Sciences and agricultural academies). At first the plan was to use the fund for searching such land plots and preparing all the appropriate documentation. The a special Government Commission would review the land plots presented by the Fund and decide either (1) to leave them as federal property or to hand them over to the RF constituent entities under a mandatory condition of connecting to the

utilities and selling through an auction during the next three years, or (2) the Fund will develop such plots itself (prepare city planning documents and create infrastructure) with further selling through an auction. Several years ago such scheme could have certain success, but to today its weak points are obvious. And the main of them is low effective demand for land plots assigned for housing construction.

One of the new schemes engaging the Fund for Housing Construction Support stipulates funding of construction by the Residential Mortgage Agency through earmarked loans to the banks. The banks will then issue loans to the developers and provide mortgages to those who buy housing. In this scheme the Fund for Housing Construction Support will perform as a guarantor for selling the housing, and in case such housing will not be in demand at the market, the Fund will buy it out at a distress price of RUR 30,000 per sq. m. The land plots prepared by the Fund (see above) will most likely become part of this scheme. The scale of the Fund and the nature of its activities does not provide for the possibility of qualitative change in the situation of shortage of prepared (from the engineering point of view) land plots for housing construction, because for massive housing construction allotment and engineering preparation of hundreds of thousands hectares per year is required¹¹.

Summarizing the above it can be said that a whole set of measures is required to improve the efficiency of the current land policy:

- creation of efficient mechanisms for interaction between the federal economic government institutions and regional executive power bodies;
- analysis of regional land policies at the federal level, evaluation of their justification and of their consequences for the regions;
- measures to improve the situation – from invalidation of certain legal acts and holding certain officials liable for offences of competition policy up to initiating criminal law suits;
- change in regulating the activities of Land Redistribution Fund;
- tightening control over buying out agricultural land and some other categories of land.

6.3.4. Lease of State and Municipal Land

Lease-based relations continue to dominate in the sphere of land use, and the situation is not likely to change in the long-term perspective. With that it is especially important for such relations to be stable and mutually beneficial both for the state and for the tenants.

As for the state, we can see that in unstable financial and economic situation in 2009 when effective demand for buying out land from the state fell drastically and budget revenues from privatization and from activities of joint-stock companies with government participation and of unitary municipal enterprises were going down as well, those were the revenues from land tenants (lease fees) that demonstrated growth¹².

It is obvious enough that in volatile and unfavorable economic environment those players who are more mobile and more flexible than the government. So budget revenues from business activities are unlikely to come back to high level until the economy stabilizes. In such conditions fixed budget revenues which are not dependent on companies' performance become especially valuable.

It means that improving the efficiency of state and municipal land resources management is one of the most relevant tasks.

And while discussing the ways to resolve this task it is quite relevant to remember about the problem of Land Redistribution Fund, about contradictions between federal and regional land

¹¹ See details in the Annual Report on the Activities by the Fund for Housing Construction Support for 2009 -<http://fondrgs.ru>; Expert No.26, July 6, 2009.

¹² See details in: G. Malginov, A. Radygin. Privatization Process and Land Relations Status – Economic and Political Situation in Russia, April 2010 - M., Institute of Economy in Transition, p.36.

policies; about the problems of shares in land and of bankrupt agricultural producers who were not excluded from the registers; about the problems of cadastral value of land being the basis for lease payment calculations, etc.

Recent changes of legislation in the sphere of land lease were connected with the changes in distribution of revenues from leasing land between budgets of different levels. These changes have been quite significant over the recent years¹³. Thus, until April 2007 100% of revenues from sale and lease of municipal land plots went into the respective local budget. This became one of the factors impeding delineation of federal and municipal land, because in case of such delineation local budgets would be losing revenues.

In April 2007 the share of revenues in the budgets of settlements and city districts from leasing non-delineated land was reduced down to 50%, which led to shortfall in income in the regions.

Provisions to compensate for such loss were enacted in July 2008¹⁴. The law stipulated in favor of local budgets redistribution of no less than 50% of revenues from leasing federal land plots located under the respective local governments jurisdiction and from selling the rights for leasing such land plots in case the powers to manage and dispose such land were granted to the RF entities and in case the regional legal framework does not stipulate otherwise.

The practice of regional authorities exercising their powers for leasing land brings a lot of questions, including questions from prosecutor's agencies revealing numerous violations. According to Yuri Chaika, General Prosecutor of the Russian Federation, "leasing state and municipal property including plots assigned under the right of economic management and the right of operational management with violations of the effective regulations is observed on a mass scale"¹⁵.

For example, it was identified that in the territory of Mordovia Republic federal property (real estate and land plots) were leased based on the directives of the Head of Federal Property Management Agency without any tenders and without report about the site valuation¹⁶. In Tver Region 87 legal acts of local self-government bodies about regulating agricultural land use and turnover were qualified as contradicting to the federal legislation. Granting land plots with violations of the respective procedure is also one of the key problems in the sphere of land use. As per the results of checks by prosecutors of Kaliningrad Region, 227 breaches of law were identified. In Stavropol Region during similar checks prosecutors introduced 324 representations to officials and companies directors about elimination of laws violations in the sphere of land use.

On top of that, facts about criminal offences – bribes, abuse of powers by the Head of district administration and the Head of Land Resources and Land Use Planning – were revealed in Chelyabinsk and Pskov Regions. In the city of Kislovodsk criminal proceedings were initiated against former Mayor and Vice-Mayor for unlawful allotment of land plots (for bribes)¹⁷. However, the overall context of opposing the corruption does not yet allow for qualitative improvement of the situation 70% of bribery offenses are about bribes below RUR 10,000.¹⁸ That means, the level of anti-corruption fighting is merely "on a household level".

¹³ Article 62 of the RF Budget Code.

¹⁴ Federal Law No.161-FZ "On Housing Construction Support" of July 24, 2008

¹⁵ See Report by Yu. Ya. Chaika, General Prosecutor of the RF, at the meeting of the Council of Federation within the Federal Assembly of the RF, April 28, 2010 - <http://genproc.gov.ru/management/appearances/document-33/?print=1>.

¹⁶ See details at www.genproc.gov.ru.

¹⁷ "Land Allotments.- "Expert Online" of August/29, 2008.

¹⁸ See Report by Yu. Ya. Chaika, General Prosecutor of the RF, at the meeting of the Council of Federation within the Federal Assembly of the RF, April 28, 2010 - <http://genproc.gov.ru/management/appearances/document-33/?print=1>.

Local self-government bodies often lease land plots for construction on a non-tender basis¹⁹, such violating the provisions of law from 2005 and onward²⁰.

Violations of such kind and criminal offenses in the sphere of land redistribution mean that state/municipal property is transferred not to the most efficient owner and the respective budget is likely to lose some revenues.

In July 2007 the Federal Law “On Small and Medium Size Business Development” was enacted fixing one of the types of property-related support of smaller and medium-size businesses as granting the right to lease state and municipal property (land plots, buildings, non-residential premises, etc.) under privileged terms (p. 1 of Article 18).

According to Andrei Sharov, former Director Government Regulation Department in the RF Ministry of Economic Development, though this new law has been effective for a relatively small period of time, positive outcomes can already be observed. List of properties for lease have been developed in 34 regions comprising in total 29.5 thousands plots with the overall area of 6 mln 215 thousand sq. m. Certain benefits were defined in 50 constituent entities of the RF: in Oryol Region, for example, business men were relieved of lease payments, and in some regions including Moscow, lease rates were fixed at the level of 2008.²¹

6.3.5. Legal Framework on Land Issues: 2007–2010

1. In July 2007 Federal Law No.221-FZ “On State Cadastral Records” of July 24, 2007 effected starting from March 2008 stipulated consolidation two registration systems: Federal Agency for Real Property Cadastre (“Rosnedvizhimost”) and Bureau of Technical Inventory (BTI). The State Cadastre System shall be finalized by the end of 2011.

The key issues in acquisition of rights for land plots and land turnover are changes in the procedure for entering a certain land plot into cadastre and cadastral activities. Inefficiency of both mechanisms can materially affect the dynamics of privatization process and land turnover.

2. In 2007–2008 the norms about simplifying the procedure of granting and registering titles for land plots of gardeners, truck-farmers, dacha owners and their associations came into effect receiving the name of “dacha amnesty”. Simplification of the procedure the basis of which was laid back in June 2006 is mainly connected with cancellation of the mechanism of centralized collection of applications, preparation of documents and decision-making about land plots privatization – including for individual use. The legislator introduced another mechanism stipulating for individual acquisition and registration of title for a land plot and a separate mechanism for acquisition and registration titles for land of common use – by non-commercial associations of gardeners, etc.

As the first step the simplified procedure was introduced for the period until January 1, 2010, and then it was prolonged until March 1, 2015.

¹⁹ See, for example, Ruling by Higher Arbitration Court of the Russian Federation of September 10, 2008 N 9652/08 on case N A60-32127/2007 about invalidation of Resolution of Yekaterinburg City Mayor; about invalidation of Resolution of Petrozavodsk City local self-government Head; Ruling by Higher Arbitration Court of the Russian Federation of September 1, 2008 N 8498/08 on case N A26-3935/2007; Ruling by Higher Arbitration Court of the Russian Federation of June 23, 2008 N 7697/08 on case N A54-3588/2007C7 about invalidation of Resolution of Ryazan Regional Government about leasing a land plot to LLC “Semeyniy Ochag” for construction of an apartment building; about invalidation of Resolution of Blagoveschensk City Mayor; Ruling by Higher Arbitration Court of the Russian Federation of June 4, 2008 N 6692/08 on case N A04-7170/06-19/548 about invalidation of Resolution of the Head of Voskresensky Raion Municipal Formation of Moscow Region; Ruling by Higher Arbitration Court of the Russian Federation of April 23, 2008 N 4491/08 on case N A41-K2-19501/06, etc.

²⁰ For details see: “Land Relations and Real Estate Markets” // Transition Economy. Outline of Economic Policy in Post-Communist Russia in 2000–2007, M., Institute of Economy in Transition, 2008, pp.608–609.

²¹ “Amendments to “minor privatization” law are being discussed in the Council of Federation”, April 8, 2009 - www.arena.irbp.ru.

In addition in 2007–2008 other legislative initiatives targeted at improving the “dacha amnesty” mechanism were undertaken:

1. Simplified procedure of title registration was introduced starting from October 1, 2007 for those who have land plots registered in state cadastre meaning they either have cadastre plan of the land plot no matter how old or – in case there is no such plan – a cadastre number of the land plot.

2. The possibility of simplified registration of titles was stipulated in November 2007²² for land plots²³ of citizens having inherited buildings or facilities or received them on other grounds without documents certifying the right for the respective plot²⁴.

3. In May 2008 the period was fixed – until January 1, 2015 – during which no permit will be required for commissioning an individual home or submission of such permit for technical inventory of such home including development and issuance of technical passport.

4. Also in May 2008 changes were introduced into the Land Code²⁵ stipulating for simplification of procedure for land plots titles registration by way of replacing the requirement for having the land plot map by the requirement to have cadastral passport for which significantly less data is needed, as well as less efforts and costs. authorities of state power bodies of the RF regions and of local governments were changed:

1) the RF constituent entities were granted the rights to organize and finance actions to prepare the documents required for cadastre registration of such land plots, while the rights of local self-government in this sphere were expanded;

2) the RF constituent entities were granted the right to set the maximum limits for prices, tariffs, rates, etc. for territorial land use planning and surveys with regards to the above mentioned land plots²⁶.

According to the General Prosecutor’s Office, by the beginning of 2008 almost 50% of the RF constituent entities were not using their right to set the maximum limits for prices, tariffs, rates, etc. for territorial land use planning and surveys²⁷.

According to Pavel Krasheninnikov, Chairman of the RF State Duma Committee for Civil, Criminal, Arbitration and Procedural Legislation, 2.5 mln of Russian citizens used the simplified procedure for registering their real estate titles by July 2009. Some experts believe, there are 20 mln more who still need the “dacha amnesty”²⁸; however, General Prosecutor’s representatives in 2007 claimed there were 30 mln of such citizens.

3. Federal Law No.159-FZ “On Specifics of Divesting Real Property Being State Property of the RF Entities or Municipal Property Leased by Small and Medium-Size Businesses and on Amending Certain Legal Acts of the RF” was enacted in 2008.

²² Federal Law “On Amendments to Separate Legislative Acts of the RF on the Issue of Simplification of Titles for Heirs and Other Citizens” No.268-FZ of November 23, 2007.

²³ Land plots allocated for household farming, dacha farming and gardening, and for individual homes construction before October 30, 2001.

²⁴ In the case of lack of title-confirming documents certificates of inheritance or another documents may be presented setting or evidencing of Article 25.2 of Federal Law “On State Registration of Real Property Rights and Transactions Therewith” and setting/evidencing the right of an individual – any previous owner of the respective building/facility for this particular land plot.

²⁵ Federal Law “On Amendments to Separate Legislative Acts of the RF and Invalidation of Certain Legislative Acts (Clauses) in Relation with Enactment of the Federal Law on State Real Property Cadastre” No.66-FZ of May 13, 2008.

²⁶ The period for exercising these powers was initially set until January 1, 2010, and then in July 2009 it was extended until March 1, 2015.

²⁷ See Report by Yu. Ya. Chaika, General Prosecutor of the RF, at the meeting of the Council of Federation - <http://genproc.gov.ru>.

²⁸ T. Mikhailova “Dacha Amnesty Received a New Term”. – Rossiyskaya Gazetta, July 2, 2009.

The new law introduced the pre-emptive right for small and medium-size businesses to buy-out the leased real property with the possibility of payment by installment at the interest rate equal to 1/3 of the RF Central Bank financing rate for the period until July 1 2010 (later extended until July 1 2013)²⁹. The process of land buy-out started under this law received the name of “minor privatization” – similar to the Eastern Europe countries, where such land privatization took place in 80-ies - 90-ies and was the first step in privatization of all the state assets.

In July 2009³⁰ amendments were introduced into this Federal Law allowing for expanding the circle of entities entitled to use the pre-emptive right for real property privatization. Thus, the lease term entitling for privatization was decreased from 3 to 2 years; also it became possible to settle the lease payment arrears and arrears in payment of fines imposed for untimely lease payments. Previously it was the fact of being in arrears on lease payments that impeded real property privatization for many small and medium-size businesses.

4. In July 2007 lower rates for land buy-out were set³¹, the maximum amount not to exceed 20% of the land plot cadastre value – for cities with population over 3 mln, and 2.5% of cadastre value – for land in other locations. These terms for land acquisition relate to commercial companies and individual entrepreneurs should they own buildings and facilities located in such territories (including those erected in the place of the destroyed or demolished ones or those re-constructed), should these buildings/facilities had been previously divested from state/municipal property (p. 2 of Article 2 of Federal Law No.137-FZ “On the RF Land Code Enactment” of October 25, 2001)³².

Actually mainly the industrial enterprises were meant here – those which had emerged during the privatization process, as well as entities having later acquired the title for real property of such enterprises. The regulations provide for quite a significant reduction of the buy-out price.

5. In 2010 the Government undertook some measures to resolve the outstanding issues in the sphere of cadastral valuation of land. According to the RF Chamber of Industries and Commerce, unlawful or unjustified valuation was identified in 10 regions of Russia.

In July 2010 amendments were made in land valuation regulations having increased the level of protection of the individual citizens’ and legal entities’ rights in the sphere of cadastral valuation of land.³³

1) Mandatory insurance was introduced against the liability for causing damage subject to a certain level of cadastral value – in the amount of no less than RUR 30 mln;

2) Mandatory expert evaluation of the cadastral valuation report by a self-regulating organization was introduced;

3) Mandatory publishing of cadastral valuation reports was introduced;

4) Individuals and legal entities were granted the right to challenge the identified cadastral value – either in court or in the especially established Commission. With that the individuals/entities

²⁹ The refinancing rate of the Central Bank as of the date of publishing the leased property sale notification.

³⁰ Federal Law No.149-FZ “ от 17.07.09 г. “On Amendments to the Federal Law “On Specifics of Divesting Real Property Being State Property of the RF Entities or Municipal Property Leased by Small and Medium-Size Businesses and on Amending Certain Legal Acts of the RF” and to certain legal acts of the Russian Federation” of July 17, 2009.

³¹ Federal Law No.212-FZ “On Amending Legal Acts of the RF with Regards to Clarification of the Terms and Procedure for Acquisition of Titles for Land Plots Being in State or Municipal Property” of July 24, 2007.

³² In addition to that Federal Law No.212-FZ “On Specifics of Divesting Real Property Being State Property of the RF Entities or Municipal Property Leased by Small and Medium-Size Businesses and on Amending Certain Legal Acts of the RF” introduce into the RF Land Code (p. 1.2. Article 36) the clause that the sales price for land plots being state or municipal property if bought-out by the owners of buildings and facilities located in the territory of such plots cannot exceed their cadastre value. In addition it was stated that the procedure for defining the price for such land plots and for payment shall be set by the RF Government for the land plots being in federal property, by the RF entities power bodies – for the land plots being the property of the regional government or for which the share has not been set; and by local self-government bodies for lands being in municipal property (p. 1.1 Article 36 of the RF Land Code as amended by Federal Law No.212-FZ of July 24, 2007).

³³ Federal Law No.167-FZ “On Amendments to the RF Law “On Valuation Activities in the Russian Federation and Certain Legal Acts”” of July 22, 2010.

disagreeing with the identified cadastral value shall have the right for independent market-based real property valuation.

These changes were long expected and targeted at decreasing the level of arbitrary valuation on behalf of governors and unjustified valuations on behalf of specialized assessors.

The weakest element in all the above novations is the prescribed membership of the Commission for settlement of disputes about the cadastral value: it is dominated by regional officials which significantly increases the risk of unjustified arbitrary decisions. Introducing third-party experts into these Commissions membership could have significantly improved the situation.

The respective similar clause was also introduced into Article 66 of the RF Land Code.

Improving the transparency of all data about state and municipal lands sales and leasing could become an additional safeguard against abuse in land valuation sphere (the best option would be to create a centralized Internet site).

6. The most valuable amendments to legislation on agricultural land turnover were enacted in December 2010.³⁴ With some minor exceptions they are coming into effect starting from July 1, 2011.

The law provides detailed regulation of the procedure for withdrawal of agricultural land and plots allocated for construction subject to them not being used for the prescribed purposes. Land may be withdrawn from the title holder or from the tenant in case it has not been used for the prescribed purposes during the 3-year period (without account of time required for this land development – up to 2 years, and time falling under the natural calamities period). With regards to plots allocated for construction such period of non-use shall make 5 years.

As for the privately owned land – only court may withdraw it from the title holder. Same may be done by an authorized agency with regards to state-owned and municipally-owned land. Land withdrawal from the title holder may be reinforced in case violations are not eliminated after administrative sanctions. The withdrawn privately owned land plot shall be sold via public auctions. The ex-owner shall be entitled to the proceeds less the auction organization expenses and cadastral activities costs.

The criteria for recognizing the land as not being used for the prescribed purposes should be approved by the Government. According to some experts³⁵, almost 50% of agricultural land in Russia has been withdrawn from the turnover, and about half of it is land bought out by investors with speculative purposes. It is the most fertile, conveniently located land with capitalization growth rate of 30–40% per annum.

In addition, the new Law

A) Significantly strengthens administrative liability for non-using agricultural land in the prescribed purposes;

B) Approves the mechanism of recognizing land / shares in land as unclaimed, introduces the procedure for their hand-over to the state by way of judicial procedure;

C) Introduces the procedure for the general meeting of the owners of shares in land;

D) Obliges local self-government bodies to organize such general meetings before July 1, 2013, should they not do it on their own initiative prior to July 1, 2012. Such general meetings shall be authorized to approve the land survey draft, list of title holders, size of shares in land, to provide for cadastral activities for forming land plots and to make decisions on other significant matters;

E) Changes the process of forming Land Re-Distribution Fund;

F) Introduces a series of other changes.

³⁴ Federal Law No. “On Amendments into Certain RF Legal Acts to Improve Agricultural Land Turnover” of December 29, 2010.

³⁵ Sergei Lisovsky, Senator, co-owner of Mosselprom Group: “Dmitry Medvedev urged us to work on the draft legislation providing for withdrawal privately owned agricultural land not being in use”, November 26, 2010 – [http // www.n-s-k.net](http://www.n-s-k.net).

6.3.6. Outcomes and Key Areas of Land Relations Development

Here are the key outcomes of 20 years from the start of land market development in the post-Soviet Russia:

- Land market development started;
- Legal framework created for land titles acquisition;
- Benefits were provided for acquisition of land plots into private ownership (prices decreased for land plots occupied by industrial enterprises; benefits for land buy-out by small and medium-size businesses) and their recording and documentation (“dacha amnesty”);
- Mechanisms improved for implementation of the procedure of land title acquisition – mandatory land auctions;
- Land cadastre and cadastral valuation system formation started, as well as delineation of property rights between the level of governments;
- Some other measures were undertaken.

Nevertheless, a great many problems remain outstanding. A number of systemic factors are acting in Russia, and they are the barriers for unhampered land turnover and are significantly decreasing the effective demand for land and the efficiency of using private property. They are:

1. Property rights are not sufficiently protected by the state due to lack of court independency from the executive power, corruption, poor performance of municipalities, nationalization campaign (including special laws about Sochi Olympics and Asian-Pacific Economic Cooperation Forum);

2. The majority of Russia territory and infrastructure is poorly developed, which really excludes efficient land use and leads to manifold decrease of land use efficiency. 18% of the land value is spread across 98.1% of the country territory. Mainly all the most valuable land is concentrated in populated boroughs;

3. Local self-government and power bodies of the RF entities are poorly developed, they do not provide for efficient decision-making and regulation of land allotment and withdrawal, tax assessment and use of land;

4. The mechanisms of land sale and hand-over into state property are non-transparent due to both corruption and lack of budget funds for preparing land plots for sale; land relations regulation at municipal level is at a very low level;

5. Quasi-property exists in Russia: false legal regime for ownership regulation for the sites which are not real property due to significant limitations of their use and disposal (e.g., shares in land);

6. The institutions providing for land turnover are at the very early stage of their development, which explains the poor quality of government services in the land use sphere and high cost incurred by owners and title holders (land cadastre, cadastral valuation of land, self-regulating organizations of assessors, etc.).

The most dangerous or the most negative factors are as follows:

1. Agricultural land is not used for the intended purposes and is part of semi-legal turnover (shares in land), uncontrolled buy-in. Agricultural land makes 97.0% (128.9 mln ha) of the total privately owned land in Russia, and 83.2% of it is distributed among individuals as shares in land. About 1/5 of officially registered privately owned land is actually the unclaimed shares in land (25.5 mln ha). As of January 1, 2009, agricultural producers were actually using 2,096.2 thousand ha of state-owned and municipally-owned land without any formalization in the appropriate documents.

At the same time it is selling agricultural land that provides for sustainable overall growth of state and municipal land sales. During 2004-2008 the area of agricultural land sold annually by the state grew 46 times (from 8.5 thousand ha up to 391.2 thousand ha).

Such extensive development of private property in land sector mainly at the expense of the most valuable land and continuing weakening of government control in the sphere of agricultural land use has a very strong negative impact due to the following:

- Agricultural land in Russia has limited area and strategic value;
- Agricultural land has a very high share in the total private property of citizens, allowing for high turnover of such land between private owners if supported by efficient legal regulation;
- Gray non-transparent turnover of shares in land and delineation of land plots.

2. Poor level of government regulation and control in the sphere of land resources: agricultural producers in bankruptcy not excluded from official registers (1.5 mln); uncontrolled use and turnover of land from the Re-Distribution Fund (46.6 mln ha or 11.5% of agricultural land as of January 1, 2008); slow progress in land delineation (average annual growth rate was 1.6% in 2006-2008).

3. Land policy is implemented without account of land resources and prospects of their inclusion in land turnover. Thus, only 1/3 of land resources in Russia are favorable for human vital function. Only 13% of land area is used in agriculture (plough land, gardens, hay fields, grass land). As for the most valuable land share – only about 7.7% is plough land, and more than half per cent are in the black soil area. And problems are the biggest in this particular area.

4. Poor level of registration of land titles, the error of State Register data about land transactions makes 20%, this means practically 342 mln ha of land is not registered – more than the territory of Finland (338 mln ha) or Italy (301 mln ha) or Great Britain (244 mln ha).

5. Lack of transparent data about land property and land turnover within the segment of land plots acquired by individuals “for other purposes”. This segment of turnover demonstrates different mechanism of sales-and-purchase transactions, however, the trend is same – more and more agricultural land is bought by legal entities. Thus, 3 times more land plots were purchased “for other purposes” in 2008 than in 2007 (23.8 thousand transactions in 2007; 69.4 thousand transactions in 2008). The area of land plots purchased within this category grew 2 times: 106.6 thousand ha in 2007 and 246.3 thousand ha in 2008).

This category and the structure of land titles require details in this part. It is quite possible that legal entities are thus buying-in land, including agricultural land – in such cases when it is not desirable to legalize the beneficial owner.

Today the level of institutional development, including government institutions, providing for use, turnover and protection of privately owned land excludes the possibility of high-quality services in the segment of big size real property.

At the same time, the level of state land property management is also very low.

In relation to all the above, the optimal scenario looks as follows: in privately owned land segment – using land resources as leverage for resolving the most acute social and economic problems; and in the state-owned land segment – improving government management and control of land allotment and registration, including the unused land into turnover.

With the purposes to improve government policy in the sphere of land privatization the priority measures should be targeted at defining the strategic areas for private land ownership development.

Up till now we could define privatization either as a large-scale change of real property ownership profile, or as a way to increase budget revenues (mainly for regional budgets), or as a way to consolidate real estate. In all of such cases what is sold and to whom practically did not matter. The summarized results are unclear and do not allow for talking about some quality change in the situation or about the improvement of land use efficiency.

It seems that the objective for land privatization should be defined differently. Privatization should be used as an instrument for resolving a specific social and/or economic task. For example, increasing the number of middle class may be selected as an objective – and based in this various methods for its efficient achievement may be defined, the key parameters of the process may be specified, as well the required legal, financial and other tools and the potential costs. Besides, the

control over such policy implementation may become more efficient and the required adjustments may be introduced. Given this example, the key areas for privatization could be in individual homes construction and farming development.

The criteria for program implementation efficiency could be: increased provision of housing at the expense of individual construction (maybe – collectively funded), increased revenues from farming sector.

Private farms play a very important role within *the privately owned land segment* (15.9 mln ha of land); as well as *personal subsidiary plots* (7.2 mln ha of land) and *dacha owners associations* (1.2 mln ha of land).

Private title holders are 16 mln families having got their individual subsidiary plots; 14 mln families in gardeningсадоводством; 7 mln families currently building their individual homes; 3 mln families engaged in small farming and 137.7 thousand dacha owners.

Such high engagement of citizens into the process of acquisition of land titles requires the following from the state (if only it has interest in expanding the privatization process):

- create favorable conditions for maintaining and increasing the demand for land plots (provision of utilities under fair and acceptable price at private initiative of citizens; provision of loans for such purposes; simplification of mechanisms for transparency of issuing loans);
- improve the quality of government services in the land sphere;
- develop a set of government actions to enhance each of the mentioned land market segments;
- consider increasing the norms of land allotment in the regions with sufficient lands and expand privately owned land plots;
- create efficient mechanisms for managing the processes of allotment, development and construction on such land plots – both by the state institutions and by self-regulating organizations.

It is quite obvious that such segments of land market as land plots for building individual homes and dacha owners associations are underdeveloped.

The main impediments here are the following:

- A) Inefficient and overcomplicated mechanisms of such land plots allotment;
- B) Underdeveloped infrastructure, high cost of utilities connections, of obtaining construction permits and of commissioning;
- C) Regional land policy in the sphere of building individual homes and setting up dacha owners associations (created only in 56 RF entities);
- D) No right for registration in dacha homes as permanent residency;
- E) Limitations for buildings established for small farms and gardening associations, other unjustified prohibitions for using land plots.

Land privatization for the purpose of building individual homes is a huge factor capable of activating the citizens' demand for land plots. However, land development in this segment is really in embryo state. The share of privately owned land used for this purpose does not exceed 0.05% of total land area (i.e., 0.8 mln ha).

The following factors can provide for significant growth of activity at the land market: substantial household incomes' growth in 2000-s, the amount of loans issued to individuals, high housing deficit (circa 1.6 bln sq. m) and incapability of the government (at least in the mid-term perspective) to resolve this issue (estimated period required is no less than 35 years if the pre-crisis construction growth rate is preserved).

The following will be required for promotion of land privatization with the purposes of building individual homes:

1. Assure creation and development of the system of land plots allotment and acquisition with the purpose of building individual homes, expand opportunities for access to such systems;
2. Assure efficient mechanisms of challenging the results of land auctions and land plots valuation; assure control on behalf of the RF Ministry for Economic Development, RF

- Ministry of Regional Development, Prosecutor's Office over legal acts adopted at the regional level in the sphere of such land lots allotment;
3. Develop the system of incentives for acquisition of land by citizens beyond the boroughs of residential areas including land in undeveloped territories (e.g., lower interest rate for loans issued to finance construction and utilities connections, longer pay-back period for such loans, reduced / socially acceptable costs for utilities connections, etc.);
 4. Develop programs providing for quicker utilities connection (gas, electricity, water, communications, roads) at socially acceptable price for the land plots bought out by citizens for building individual homes. This program should stipulate for provision of services by certain government agencies under public contract terms, the format and terms of which should be defined by the state (best of all – in a federal law), for performing certain work when allocating land plots subject to requests from the title holders. The number of owners requesting such work should be set at the level providing for the contractor's profitability, on one hand; and excluding the possibility to delay the construction and assure socially acceptable price, on the other hand. Payment by installment and delay in payment under such contracts, as well as the possibility to challenge the cost of services provided under such contracts should also be provided for. In addition, the possibility for selecting contractors via tenders in segments with high competition should be provided for;
 5. Consider transformation of certain categories of land plots (except for agricultural land) into land plots designated for building individual homes in cases when increase of their size is possible.

In addition, it is necessary to consider the possibility for increasing the size of land plots allocated to citizens, especially in the regions with vast land resources. The norms of land plots allocated to citizens (6–12 pieces of one hundred square meters, which is a traditional Russian measurement of land) were acceptable in early 1990-ies, however, by the end of 2000-ies they do not match with the level of income and the level of demand on behalf of individual citizens, with medium-level income and higher. Establish an effective system of managerial control and monitoring of activities in the regions with regards to legal framework regulating allotment privatization and mechanisms of land – to exclude the facts of massive violations of citizens' rights, facts of abusing official powers (currently often found in this sphere).

Initially land plots may be leased for building individual homes with the right of further buy-out.

Investment aspect of land privatization should also be revisited, specifically – *privatization of land occupied by enterprises*. The purpose of such privatization should not be consolidation of real property as one single asset, which in practice often turns into buying a land plot with high market value at the underestimated price, which does not have any impact neither on the enterprise growth (micro level), not on the macro-economic development. Privatization of land occupied by enterprises should provide for future development of manufacturing. Land plots should be allocated for buy-out at discounted price to major, medium-size and small enterprises capable of implementing investment projects resulting in their competitiveness growth, cost reduction, growing yields, sales market expansion, etc. (today this practically means shrinking the segment of land plots occupied by enterprises subject to privatization). Otherwise privatization will be senseless for the state.

Besides, land plots designated for gardening private subsidiary farms, etc. may have quite good potential for being in high demand.

Amending legal framework currently providing for intermediaries acquiring land including agricultural land and plots under enterprises is extremely important for efficient land privatization.

The issue of *land property rights (titles) re-registration* is of special importance. Actually we deal here with the already formalized by out-dated rights which will cease to exist in future: permanent (unlimited) use and lifetime ownership with hereditary possession.

It is important that the government policy is targeted at expanding the private property segment, but not by introducing common efficient rules “top down”, but rather by creating the conditions at the ground level (“bottom up”). The costs of such approach are pretty high: for individuals – substantial expenses on land surveying and stock-taking, long period, etc.; for the government – several years of transition (deregulation) period in the private real property segment.

Poor efficiency of such approach we are now witnessing in the process of re-registration under the “dacha amnesty” process, when registering agencies cannot handle the high demand, the established timeline is unjustifiably long, the prices for land survey services are monopolistically high and not affordable to many citizens, which provokes for growing bribery and abuse.

Efficient re-registration of titles in this segment would mean cardinal change of the approach. Citizens qualified for such re-registration and their heirs should be given a fixed period (e.g., 1 year) to send a request for re-registration of their title (according to the established template) to the State Register Agency (local administration may be an option) territorial branch in the jurisdiction of the land plot location (including sending via e-mail). Government agencies shall keep a special register of such individuals and land plots and issue a special notification about receiving the above described requests.

The State Register agencies should have all the necessary authorities to perform the actions required for re-registration of titles subject to agreement with the individual having requested such re-registration (cadastral valuation and delineation, issuing the required inquiries, etc.) and then the re-registration itself. The applicant shall cover all the required expenses.

The following needs to be developed and approved for this purpose:

- socially acceptable tariffs for all government services in this sphere which should be provided to everyone who would like to use the above described mechanism;
- methodology for the State Register agencies work, for interaction with other bodies and with individuals.

Taking into account the existing practice of land title registration, certain elements of legal relations (may be – for a certain period) maybe withdrawn from under such regulations due to big number of errors and mismatches in title documents. The State will bear all the efforts for further title registration of titles and the individual will cover the costs.

The “pros” of the proposed options are the following:

- significant facilitation of real estate market expansion;
- elimination of acute social problems in the sphere of land title registration;
- decrease of corruption level in real property titles registering agencies;
- decrease the level of social costs of monopolistically high prices for territorial land survey and stock-taking services;
- government capability of creating systems for land surveying and stock-taking which would adequately respond to the economic needs and have socially acceptable prices for their services.

The weak points: limited capabilities of State Register network; possibility for abuse on behalf of citizens; need for additional state funding.

This methodology could be tested in certain regions selected based on high level of effective demand of population and capabilities of territorial agencies of the State Register network.

In a similar way a possibility could be stipulated for legal entities using their land plots under the terms of permanent (unlimited) use: in case such entity does not apply for the land title registration, the lease agreement shall be executed, when the executive agencies draft the required documents and the expenses are covered by the tenant.

In addition, it looks feasible to consider introduction (or using in a wider scale) the installment scheme for buying out the leased land plots. With that, buying out the most valuable (expensive) land should be delayed until their prices go up (currently land plots are significantly

underestimated). Today land privatization may be used as a way to get additional income into the budget, but tomorrow it may result in systematic problems, resolution of which may take decades.