Transformation of Land Mortgage Relations in the Market Economy

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Abstract: The contemporary stage of economic relations transformation assumes improvement of efficiency of utilization of the country's land reserves, revision of views on the role and position of land in its function as a critical element of national wealth, as a business facility and an object of economic relations in the market circumstances. The development of agricultural entrepreneurship is one of the key factors of stabilization, recovery and gradual rise of the Russian economy. Special place in the mechanism of financial procurement of enterprises belongs to the efficiently organized lending system. This article studies the problems and prospects of development of land mortgage lending in Russia.

Key words: Mortgage • Development • Innovations

INTRODUCTION

Land plays a multifunctional role in the life of the society due to its natural limitedness, irreplaceability in any economic activity and the necessity to maintain environmental balance in the course of utilization of land resources. Land as a production resource has not been ignored by both classical and Marxist political economics. The works by A. Smith [1], D. Ricardo [2], J. S. Mill and other classical school authors as well as K. Marx and F. Engels [3] paid much attention to the issues of land rent.

In Russia, the land issue was approached and solved in principally different ways during the 20th century depending on the changing state legal system: from negation of private property for land to formation of the land market in the current economic circumstances.

Lately, economic research of land relations has been focused usually on separate problems of land tenure, including study of the land condition, planning and arrangement of rational land utilization and protection, land register issues, etc.

The contemporary stage of transformation of economic relations assumes improvement of efficiency of the country's land reserves utilization and revision of views on the role and position of land in its functions as a critical element of national wealth, as a business facility and an object of economic relations in the market circumstances.

Due to changes taking place in the country, the problems of government control of land title relations, issues of their efficient implementation in terms of disposition of land shares, their sale, rent, receipt of land rent and mortgages become the key aspects of the study.

When considered as a commodity and a collateral, land has certain peculiar features. First of all, it is the unique natural production factor, which cannot be recreated or replaced with another production factor. Secondly, the evaluation object here is not the land itself, but the cost of a certain package of rights, the quantity of which is determined by the entrepreneurial income that the land plot is capable of generating in case it is involved into the economic process. Thirdly, in the market circumstances, land is a capital, i.e. it has the property to create added value even if it is not involved into economic circulation [4].

Currently, we can state that the land condition worsens both in qualitative and in quantitative terms in its function as a reproduction resource. In 2012, agricultural land covered only 23% of the total land reserve of the country, of which only 196 million hectares are farming lands. Compare: in the USSR, farming land
(cultivated land, permanent hayfields and pastures) covered 27% (607 million hectares) of the territory. The square of all farming land of the world is equal to 4,407 million hectares, so the share of the USSR equaled to 13.8% where the Russian share is only 4.4%. The planted acreage in the USSR equaled to 217.3 million hectares [5]. In 1992, the square of the Russian crop land was equal to 130 million hectares, forage lands – 78.3 million hectares, which is equal to as little as 34.3% of the agricultural land of the USSR. Besides, during 1990s, the square of crop land in Russia decreased by over 8 million hectares and the square of forage land decreased by almost 9 million hectares. By the end of last century, they were equal to 191.3 million hectares. Currently, the territory of cultivated area in Russia covers 189.6 million hectares, including 121.6 million hectares of crop land and 68 million hectares of forage land.

Economics describes land as a production factor, which usually must be united with labor and capital in order to become efficient [7]. It is to be noted that among other production factors, land is the least mobile and the most deficient factor, as the increase of land resources is rather difficult and, therefore, is extremely limited due to objective reasons.

Entrepreneurial activity in the agricultural sector of economy is distinguished for the variety of forms and dynamism of relations. The thesis research understands agricultural entrepreneurship as an activity in any sphere of the agricultural sector of economy, the purpose of which is profit gain in the circumstances of extremely limited financial, material and labor resources and absolutely limited land resources, which results in a low level of sales turnover.

The structure of agricultural economy, just like any other economy, includes economic entities (enterprises) of various scale. Analysis of the used classification of market economy entities in developed countries shows variety of criteria used for categorization of enterprises. In the EU member countries, all economic entities are divided into microbusinesses (with the staff number between 1 and 9 persons); small businesses (with the staff number between 10 and 49 persons); medium businesses (with the staff number between 50 and 249 persons); and large businesses (with the staff number equal to 250 or more persons); the second criterion is the sales turnover – not exceeding 40 million euros, or the balance cost of assets – not exceeding 27 million euros [8].

On January 1, 2008, the Federal Law regulating development of small and medium businesses came into effect in Russia [9]. One of the key innovations of this law was the principally new approach to criteria of categorization of small and medium businesses, which became the average number of personnel despite the activity and the marginal values of sales revenues or balance cost of assets. Currently, the following criteria have been stated for small and medium businesses (Article 4 Clause 2):

- Between 101 and 250 persons inclusive for medium businesses;
- 100 or less persons for small businesses; small businesses with the staff number equal to 15 or less persons are classified as microbusinesses” [9].

The second innovation of the Law is the introduction of one more index – revenue from sales of goods (works, services) without VAT or balance cost of assets for the preceding calendar year. The reference values of these indexes will be adopted by the Government of Russia once per five years taking into account continuous statistic readings of the performance of small and medium businesses.

According to the order of the Chamber of Commerce and Industry of Russia, analysts of the Resource Center of Small-scale Entrepreneurship calculated revenues of the small and medium entrepreneurship sector and proposed the following threshold limits for the revenue amount: microbusinesses (between 1 and 15 persons) – 65 million rubles; small businesses (between 16 and 100 persons) – 250 million rubles; medium businesses (between 101 and 250 persons) – 1,550 million rubles [10].

Small and medium enterprises in the agricultural sector include farms and private plots (so-called households or farms of individuals) and among legal entities – full partnerships, partnerships en commandite and consumers’ cooperatives. We also believe that private plots, which are engaged in production of goods, can also be included in this category as well as private non-agricultural structures.

Farms, private plots and consumer cooperatives are the most common in practice and they will be the subject of our research.

In the current circumstances, the issues of maintaining stability of agricultural enterprises functioning based on the specificity of their formation and development become the most important ones. Research has shown that agricultural enterprises have changed drastically, which changes were determined by objective and subjective causes. These changes are typical of the whole process of agricultural reproduction (Table 1) [11].
Table 1: Changes of enterprises in the course of agricultural reproduction

<table>
<thead>
<tr>
<th>Reproduction process stage</th>
<th>Description of changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>Due to fluctuation of the demand level for the products of agricultural enterprises, the increase of the crop farming production is observed with the prevailing production of food grains and industrial crop and considerable reduction of animal products production.</td>
</tr>
<tr>
<td>Exchange</td>
<td>Due to underdevelopment of the agricultural market and its infrastructure, agricultural businesses typically face inequality when selling agricultural products and purchasing industrial products, with all ensuing consequences.</td>
</tr>
<tr>
<td>Distribution</td>
<td>Due to the weakening government control, the employees of agricultural enterprises have the lowest salaries and real incomes if compared to the employees of enterprises in other sectors of the national economy.</td>
</tr>
<tr>
<td>Consumption</td>
<td>Due to poor solvency, agricultural enterprises and their employees typically show insufficient consumption level and, as a consequence, degradation and increase of poverty of the rural population</td>
</tr>
</tbody>
</table>

Certain conditions are required in order to develop enterprises in the agricultural sector of the economy: economic, social, legal, etc. The economic situation is greatly influenced by the availability and the accessibility of financial resources, the level of return on investments and the amount of borrowed funds, which entrepreneurs are ready to apply for in order to finance their business operations and which credit institutions are ready to lend to them.

Special place in the mechanism of financial procurement of enterprises belongs to an efficiently organized lending system. The specificity of agricultural production, which is mainly determined by climate conditions, greatly influences both the formation of financial demands of enterprises in the agricultural sector of economy and the organization of their credit support. Therefore, the forms and methods of lending to agricultural enterprises must to a maximum degree account for the following peculiar features of the circulation of assets:

- The slowed turnover of assets at the production stage in view of long technological process in cropping and cattle breeding;
- The uneven increase of expenditures, which in the end of the production cycle ends with the return of funds in the form of products sale;
- The impact of unfavorable climate conditions and disasters, which causes the necessity to create fodder reserves [12].

We can distinguish several main causes that hinder the mass cooperation of lending organizations with small enterprises in the agricultural sector of the economy [10].

- High risks: First of all, banks find it very difficult to estimate the extent of stability of a certain potential borrower, because the turnover of small and medium businesses in agriculture is not large and their business is of a non-diversified unilateral nature by definition. Secondly, the activity of the majority of small and medium businesses is not transparent; therefore, they do not provide truthful information on incomes and expenses of their businesses and of the status of their businesses to banks. Obviously, this makes lending to them more risky.
- High expenditures. It is to be noted that labor costs for processing small businesses are much higher than the costs for processing large corporate clients. For example, an average loan of a large business equals to $20 million; for a medium business, it is $5-6 million; and for a small business, it is just $10-20 thousand. Consideration of a large number of investment projects accompanied by the high primary cost of the project processing operations is not profitable for banks [13].
- Insurance of loans provided to small and medium businesses is one of the least developed segments of the lending sector. To develop this business, it is necessary to invest considerable funds along with adjustment of the system of interaction between banks and insurance companies.
- Collateral. Banks when refusing to deal with small businesses in the agricultural sector of economy name this reason due to the complex nature of the collateral return procedure according to the current legislative base and the trial procedures applied at commercial courts. All this consumes much time and money. Besides, there is no adequate collateral law and no infrastructure for forced collateral sale. Therefore, lending banks require the potential borrowers to provide 200% collateral, which is not bearable for the majority of small businesses.

Thus, only few of them can make use of the bank capital, as there are issues of accessing long-term loans, because of absence of any collateralized property sufficient for securing the return of a loan and absence of long-term lending programs.
At the same time, the institution of mortgage of land plots out of the agricultural land is in the very center of the system of functioning and development of the agricultural sector, as pledging land of the considered category is one of the most efficient collaterals and must encourage attraction of investments in the agricultural sector, thus encouraging its development [4]. Therefore, we must pay due attention to the development of an efficient system of land mortgage lending.

In the market economy, the improvement of efficiency of land utilization and the increase of the production and social potential of the agricultural land are directly related to the efficiency of investing in this sphere, which, in its turn, depends on the securing of the rights of creditor-pledgees in the sphere of investment return. Therefore, a fine-tuned, transparent, unburdened and quickly operating land mortgage mechanism ensuring investment return in the agricultural sector would meet the interests of both the lender and the borrower (agricultural producer), which is relevant to the market economy behavior based on interdependence of the parties' interests.

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