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## Development of the Land Market in the Republic of Kazakhstan

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**Abstract:**

*The paper provides the analysis of improving the land reform in the Republic of Kazakhstan.*

*The authors examine the main development stages of land ownership relations, during which the work has been performed to transform agricultural enterprises, privatize land and change the land use.*

*The main legal acts, intended to regulate the issues of land ownership and territorial organization and creating conditions for the development of the land market, are shown.*

*The analysis of the results of the land reform shows that its main result has been the formation of land relations, which are oriented to market conditions.*

*The most important element of the new land system in the republic is the payment for the land use, the formation and functioning of the land turnover.*

*The purpose of the study is to assess the progress of the land reform, as well as to improve the methods for assessing agricultural land.*

**Keywords:** *Land relations, private property, market turnover, land market, land price, product price.*

**JEL Classification:** *Q15, Q19.*

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## **1. Introduction**

At all times, the issue of land has occupied the central place, since land is national wealth and, possessing natural and economic qualities, is an object of socioeconomic and sociopolitical relations. At present, in the conditions of developing market relations, land resources are of special significance. Land relations in the republic have begun to develop since 1990, when the state gained independence. The land reform was aimed at changing land relations in the Republic of Kazakhstan by means of agrarian and land reforms.

First, land relations are the relations of an individual or a legal entity concerning the ownership of land. This kind of property is necessarily associated with the management pattern, referring to agricultural lands (Spektor, 2005; Sedova *et al.*, 2017; Danilina *et al.*, 2015). According to Lipski (2001), land relations are a kind of social relations that are established among people in the process of their joint practical and spiritual activity. Land relations are a system, formed by a set of diverse socioeconomic links regarding the investment, use and disposal of land (Osmanov and Dyusenbekov, 2001).

According to Kurmanova (2010), land relations are the relations among the state, owners and users of land plots to obtain market products, and the main emphasis should be placed on the ecological land use and land tenure, which allows solving the issue of rational use and protection of land for the future generation. As a result of the land reform, several shortcomings have been identified, one of which is an imperfect economic mechanism for regulating the turnover of agricultural land.

In 2003, the Land Code of the Republic of Kazakhstan was adopted, which introduced private ownership of agricultural land to create conditions for the market development and market turnover of land (Land Code of the Republic of Kazakhstan No. 442-II, 2003). The purchase and sale of agricultural land are performed at the cadastral value, stipulated by the Land Code of the Republic of Kazakhstan adopted in 2003. The cadastral value is determined by multiplying the base rate by the correction factors. The base rates were approved 15 years ago in the context of the republic's regions. In market conditions, the economic indicators that affect the value of agricultural land are constantly changing. Thus, the use of the base rates based on regulatory indicators is considered unacceptable. It is becoming pertinent to elaborate proposals for the development of the land market and recommendations for the further improvement of the methods for assessing agricultural land.

## **2. Literature review**

In the conditions of the planned administrative economy, land was in exclusive state ownership. Only one form of land relations was recognized – the use of land. During the socialism period, land was provided to land users free of charge, the tax

was not levied, and land did not have the status of real estate. This led to the inefficient use of land, which was one of the main resources of the state. In the first years of the reform, it became evident that land as an object of real estate should have a price, its value should be included in the charter fund of agricultural enterprises, and it should participate in transactions. Under the circumstances, the objective necessity of a gradual change in land relations and the implementation of land reform arose.

The reform of land relations in independent Kazakhstan officially began on December 16, 1991, after the adoption of the Constitutional Law on the State Independence of the Republic of Kazakhstan. But in practice it began in 1990, when the Supreme Council of the Kazakh SSR adopted a new edition of the Land Code, Article 3 of which established that in the Republic of Kazakhstan land was exclusively owned by the state (Land Code of the Kazakh SSR No. 332-XII, 1990). During the period of market reforms, the development of land relations in the state was performed in stages. Let us examine in detail the development stages of land relations.

At the first stage (1990-1993), the "Land Code of the Kazakh SSR" (November 1990) was adopted, as well as the laws "On Peasant Farms in the Kazakh SSR" (May 1990), "On Land Reform in the Republic of Kazakhstan" (June 1991) and "On Land Tax" (December 1991). From the point of view of Sabirova (2006): *"The peculiarity of the first stage of land reform was applying the mechanism of dividing the land property of former state farms and collective farms into land shares, depending on labor participation and the scope of the village inhabitants' activities. As a result of the land redistribution, there were 2.3 million owners of land shares, which were issued the certificates of the right to a conditional land share"*. One can agree with this opinion; a conditional division of land ownership into land shares occurred. It should be noted that only plough land was subject to division into land shares. Pasture areas and hay fields were, for the most part, not subject to division and remained in collective use.

The second development stage of land relations (1994-1995) relates to the adaptation of land legislation to market conditions. Several statutory acts have been adopted on regulating land relations and their improvement, which facilitated the involvement of land in market relations through introducing the procedure of sale and purchase of the land right while maintaining the constitutional foundations of state ownership of land.

Meanwhile, Mataeva (2006) highlights the following shortcomings of the second stage of the reform: "The lack of private ownership of land hindered the formation of an actual "landlord" and intensified the irrational use of land. Due to the impossibility of free purchase and sale of land, shadow trade of administrative decisions was growing to divert the land and its illegal use and to conceal the revenues". It is possible to agree with this opinion, since many peasant farms have

been formally created, aiming to obtain tax benefits, loans, life-long inherited land plots and much more.

With the adoption of the law "On Land" No. 2717 in 1995, a new, third stage of land reforms began, which was different from many provisions of the earlier adopted legislation. For the first time in the republic, private ownership of land was constitutionally recognized. In accordance with Article 6 of the Constitution of the Republic of Kazakhstan, adopted at the republican referendum on August 30, 1995, state and private ownership of land were recognized and equally protected in the Republic of Kazakhstan. This law is the Decree of the President of the Republic of Kazakhstan, adopted on December 22, 1995, having the force of the law, "On Land" (Decree of the President of the Republic of Kazakhstan No. 2717, 1995).

The Decree "On Land" formulated the basic principles of regulation of land relations, the direction of land legislation development in the conditions of entering the market economy. For the first time in the history of land legislation, the system of property rights to land was legally formalized. Due to the Decree "On Land", a significant part of land relations acquired market orientation and the scope of administrative regulation of land relations was narrowed" (Khadziev, 2002). Thus, for the first time, land in Kazakhstan became the object of purchase and sale.

The fourth stage in the development of land relations was the adoption of the Law of the Republic of Kazakhstan "On Land" dated January 24, 2001. In the law "On Land", the standards concerning the ownership of land, both public and private, did not change in comparison with the 1995 law. Agricultural lands remained state property and could be transferred for agricultural use only temporarily. At the same time, amendments were made in terms of temporary land use, that is, land lease: short-term use – up to 5 years instead of 3 years, long-term use – 49 years instead of 99 years, as it was applied in the former legislation (Law of the Republic of Kazakhstan No. 152-II, 2001).

From June 20, 2003, the fifth stage of land relations began. As a result of long discussion, in June 2003, the Majilis deputies of the Parliament of the Republic of Kazakhstan adopted the Land Code of the Republic of Kazakhstan and it came into force. Private property of agricultural land was introduced in the republic (Land Code of the Republic of Kazakhstan No. 442-II, 2003).

Additionally, the provisions of the previous laws on temporary short-term and long-term land use (leasing) and permanent land use were upheld, and the Government of the Republic of Kazakhstan adopted a Decree on the base rates of payment for agricultural land for their provision to private ownership (Decree of the Government of the Republic of Kazakhstan No. 890, 2003). The Land Code, adopted in 2003, is aimed at developing the land market and introducing state-regulated market land relations that allow the state to efficiently manage the rational use of land resources, to protect and reproduce it on the basis of market

legal and economic mechanism, which in its turn is based on the payment and efficiency of land use.

### 3. Methods

Currently, the development of land relations is impossible without determining the objective value of land. The system of land payments should be founded on land price indicators, based on a solid information base, monitoring and cadastral evaluation of land.

In accordance with the land legislation in Kazakhstan, land, which is owned, assigned for permanent use or initial temporary uncompensated use, is subject to land tax in accordance with the Tax Code of the Republic of Kazakhstan. Land plots, provided by the state for temporary paid land use, are subject to the rental fee for the use. The payment for the purchase of agricultural land in private ownership based on the cadastral value is also provided for. The main function of payment for land is to stimulate the rational use of agricultural land. In this connection, under the conditions of a market economy, there is a definition of an objective assessment of agricultural land.

According to the world practice, where the land market is developed, there is a cadastral (Burger, 1998, p. 191) and market value of land (Sklenicka *et al.*, 2013; Abelairas-Etxebarria and Astorkiza, 2012; Beglova *et al.*, 2017). The cadastral value of agricultural land in the Republic of Kazakhstan is determined by the competent authority in accordance with the base rates of payment for land with the application of correction factors to it.

For the first time, the cadastral value of a land plot, which characterizes the average value of one hectare of agricultural land by its type according to the types of soils in the regions, has been approved by the Decree of the Government of the Republic of Kazakhstan dated May 8, 1996 No. 576 (Decree of the Government of the Republic of Kazakhstan No. 576, 1996), aiming to determine the unified land tax for peasant (farm) households (which amounted to 0.1% of the cadastral value of a land plot).

At present, the cadastral value of agricultural land is determined, considering the base rate of the payment (Decree of the Government of the Republic of Kazakhstan No. 890, 2003) and the correction factors (Land Code of the Republic of Kazakhstan No. 442-II, 2003). The methods for calculating the basic rates of payment (standard price) to determine the cadastral value of agricultural land were elaborated and approved in 2003 by the group of authors of the Land Resources Management Agency of the Republic of Kazakhstan (Methods for Calculating the Base Rates of Payment (Standard Price) to Determine the Cadastral (Assessed) Value of Agricultural Lands, 2003).

Base rates were calculated in the context of regions, in accordance with types and subtypes of soils by kinds of land. The basic rate of a payment per 1 hectare of plough land for basic types and subtypes of soils, according to the methodology, was determined by dividing the calculated income by the capitalization ratio:

$$Cost_{value} = \frac{R_l}{K} \quad (1)$$

where  $R_l$  was the calculated rental income;  
 $K$  was the the capitalization ratio of the calculated rental income, which was equal to 0.08.

The estimated rental income was determined by the sum of differential and absolute rent:

$$R_v = D_r + A_r \quad (2)$$

where  $D_r$  was the differential rent per 1 hectare of plough land;  
 $A_r$  was the absolute rent per 1 hectare of plough land.

Differential rent per 1 hectare of plough land was determined by the difference between the value of the gross output and the cost price:

$$D_r = GO_{value} - CP \quad (3)$$

where  $GO_{value}$  was the value of the gross output, tenge;  
 $CP$  was the cost price.

Absolute rent was determined for all regions amounting to 1% of the value of the gross output per 1 hectare of farmland, which in average was equal throughout the Republic, at that time 50 tenge/ha. The value of the gross output was equal to the multiplication of the yield by the sell price of agricultural products:

$$GO_{value} = Y \cdot P_s \quad (4)$$

where  $Y$  was the yield of the agricultural crops, dt/ha;  
 $P_s$  was the sell price of the agricultural products, tenge/dt.

The price of production was determined by the sum of the expenditures of cultivating agricultural crops and the rate of return on invested capital:

$$PP = E_c + R_r \quad (5)$$

where  $E_c$  was the expenditures of cultivating agricultural crops per 1 ha;  
 $R_r$  was the rate of return on invested capital, equal to 8%.

#### 4. The data

Let us provide an example of calculation of the base rate (standard price) according to the existing methods, based on the example of the Akmola Region in the context of districts. The Akmola Region, according to the natural and economic zoning of the Republic of Kazakhstan, occupies the southern part of the steppe zone and the major part of the dry steppe zone of the state. Taking into account the differences in environmental and climatic conditions (landscape, climate and soils) and agricultural practices, the territory of the Akmola Region is divided into 4 natural and agricultural regions: temperate arid forest steppes, arid steppes, moderately dry steppes and dry steppes.

I. Temperate arid forest steppes are in the Zerendi, Burabay and Bulandy Districts and in the northern part of the Sandyktau District, within the Kokshetau Uplands. The territory of the region is located in the chernozem zone of southern and chestnut soils.

II. The arid steppes extend from the plains of the Esil, Atbasar and Sandyktau Districts and the Astrakhan District to the plain hummocky lands with hard rocks, cropping out to the surface, of the Akkol and Enbekshilder Districts. The soils are mainly represented by dark chestnut soils with a medium loamy, heavy loamy and light-clayey mechanical composition.

III. The region of the temperate dry steppes is located in the Esil, Zharkain, Atbasar, Astrakhan and Egindykol Districts, and the eastern part of the region is occupied by the Tselinograd, Arshaly, Shortandy, and Ereymentau Districts. Soils of this region are dark chestnut and chestnut, as well as solonchak.

IV. The dry steppe region is located in the southern and south-western part of the Akmola Region and occupies a pronounced part of the Tengizskaya Depression. The regions of the dry steppes are located within the Zharkain, Egindykol and Korgalzhyn Districts. Chestnut soils were formed in the territory of the district.

**Table 1.** Grouping of 17 districts of the Akmola Region by the agricultural zoning

Zone No.	Name of the district	Square of agricultural land, thousand ha	Square of plough land, ha	Ball-bonitet of plough land
1 – ordinary chernozem	Zerendi	492.2	287.3	56
	Burabay	355.7	209.8	56
2 – southern chernozem	Akkol	479.8	208.8	34
	Bulandy	398.3	287.7	51
	Enbekshilder	849.6	230.3	44
	Birzhan sal			
	Sandyktau	477.4	383.7	57
3 – dark-chestnut	Astrakhan	567.3	396.1	32
	Atbasar	894.4	481.4	37
	Arshaly	470.2	216.3	32

	Egindykol	469.6	352.2	33
	Esil	711.7	557.6	38
	Ereymenau	1,179.3	129.8	23
	Zhaksy	832.6	556.9	42
	Tselinograd	593.9	326.1	31
	Shortandy	386.4	270.5	39
4	Zharkain	996.4	657.5	30
chestnut	Korgalzhyn	502.6	138.2	26

*Source: the Department of Land Relations in the Akmola Region.*

The standard price is estimated according to the types and subtypes of soils and is represented by types of land. We calculated the standard price in the administrative regions of the Akmola Region. Based on Table 1, we selected the following districts from each zone: Zerendi, Akkol, Egindykol and Korgalzhyn. To calculate the base rate (standard price), the following indicators were used:

- average yield for 3 years, dt/ha (Table 2);
- expenditures per hectare, tenge;
- gross output, dt;
- value of gross output, tenge.

**Table 2.** Average statistical yield of agricultural crops over the last 3 years in the administrative districts, dt

Yield for the last 3 years, dt/ha	Zerendi	Akkol	Egindykol	Korgalzhyn
2015	14.4	10.3	9.8	7.1
2016	13.4	10.9	10.4	9.0
2017	13.0	10.1	7	8.3
Average yield, dt/ha	<b>13.6</b>	<b>10.4</b>	<b>9.0</b>	<b>8.1</b>

*Source: The Department of Statistics of the Akmola Region.*

The average price of selling wheat products of grade 3 (Table 3) in the Akmola Region is 40,183 tenge per 1 ton (1 dt = 4,018 tenge).

**Table 3.** Average price of wheat production for 3 years in tenge per ton in the Akmola Region

Years	Wheat of grade 3, gluten 23-24% (purchase, tenge)
2015	36,750
2016	41,100
2017	42,700
Average price for the 3 years	<b>40,183</b>

*Source: Summary Table of Prices of Grain Crops in Tenge per a Ton in Kazakhstan, 2015).*

The value of the standard gross output per unit area was determined by multiplying the average productivity of soils over the last 3 years by the sell price of agricultural products (dt):

- 1) In the Zerendi District:  $GO_v = 13.6 \cdot 4,018 = 54,645$  tenge; (6)
- 2) In the Akkol District:  $GO_v = 10.4 \cdot 4,018 = 41,787$  tenge; (7)
- 3) In the Egindykol District:  $GO_v = 9.0 \cdot 4,018 = 36,162$  tenge; (8)
- 4) In the Korgalzhyn District:  $GO_v = 8.1 \cdot 4,018 = 32,546$  tenge. (9)

The cost of production per 1 hectare in the administrative areas was determined by the expenditures on cultivating agricultural crops per hectare (Table 4) by adding the rate of return on invested capital, which was equal to 8%.

**Table 4.** Expenditures per 1 centner of wheat produced, tenge in the administrative districts for 3 years

Name of the district	Expenditures per 1 dt of products, tenge for 3 years			Average expenditures per 1 dt for 3 years	Expenditures per 1 ha, thousand tenge
	2015	2016	2017		
Zerendi	2,412	2,507	2,636	2,518	34,245
Akkol	2,852	2,346	2,427	2,542	26,437
Egindykol	2,532	2,400	2,423	2,452	22,068
Korgalzhyn	2,197	2,298	2,526	2,340	18,954

*Source:* Department of Statistics of Akmola Region.

The expenditures per 1 hectare were calculated by multiplying the average yield in the districts by an average amount of expenditures for 3 years per 1 dt of the produced goods.

## 5. Results

To calculate the recommended basic rates for agricultural land, the following economic indicators were used: yield of crops (dt), expenditures per 1 ha (tenge), gross output (dt) and value of gross output (tenge) (Table 5). Actual indicators of grain crops in the Akmola Region's districts over the last 3 years were used.

**Table 5.** Calculation of the recommended basic rates of payment per 1 hectare of plough land in the administrative regions of the Akmola Region

Name of the district	Yield, dt	Expenditures per 1 ha, thousand tenge	Rate of return on invested capital, 8% to the expenditures 1 ha	Cost of production, thousand tenge	Value of gross output, thousand tenge	Estimated income	Base rate
Zerendi	13.6	34.2	2.7	36.9	54.6	17.7	221.25
Akkol	10.4	26.4	2.1	28.5	41.8	13.3	166.25
Egindykol	9.0	22.1	1.8	23.9	36.1	12.2	152.5

Korgalzhyn	8.1	19.0	1.5	20.5	32.5	12.0	150.0
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*Note:* It was compiled by the authors based on the methodology for calculating the base rate of the Land Resources Management Agency, Astana, 2003.

The comparative analysis has shown that the recommended base rates have increased in comparison with the existing ones (Table 6). Currently, in the Akmola Region, the base rate per 1 hectare of unirrigated plough land for ordinary chernozems is 49.4 thousand tenge, the recommended base rate provides for the calculation in the context of each district of the region.

**Table 6.** Comparative analysis of base rates for plough land

Plough land's base rates					
Existing base rates			Project base rates		
Region	Types and subtypes of soils	Base rate, th. tenge/ha	District	Types and subtypes of soils	Base rate, th. tenge/ha
Akmola Region	Ordinary chernozems	49.4	Zerendi	Ordinary chernozems	221.25
	Southern chernozems	34.4	Akkol	Southern chernozems	166.25
	Dark-chestnut	24.4	Egindykol	Dark-chestnut	152.5
	Chestnut	18.1	Korgalzhyn	Chestnut	150.0

*Note:* Compiled by the authors.

## 6. Discussion

According to the proposed methods of land value, the standard products, approved 15 years ago, are used. Under the conditions of the market, the economic indicators that affect the cost of agricultural land are constantly changing. Thus, the use of standard products is considered inappropriate. The need is felt to improve the methods for determining the cost of agricultural land. We believe that under the conditions of a market economy, the use of standard products is not correct, since under the conditions of the market, the price is determined by the market's conjuncture. Therefore, to determine the value of land, the average price of products for the last three years, obtained from 1 hectare of land, should be used.

## 7. Conclusion

We consider that in the conditions of market economy, it is not correct to work with standard indicators, since the price of a product is determined by the demand and supply of the market and, therefore, the use of standard indicators is inappropriate. In our opinion, the proposed methodology better corresponds to the

reality and to some extent contributes to the development of the market turnover of agricultural land.

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