



## PROMOTING STRONG LAND MARKETS IN TRANSITION ECONOMIES

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### **Land markets in transition economies**

THERE IS GREAT VARIETY IN THE ECONOMIES in transition, not only in the stage and nature of transition, but also in the resulting state of the democratic market economy. Due to these differences, land markets and land policies vary widely across countries.

There are many problems in the functioning of these markets resulting from the regulatory environment and its stage of emergence. In order to establish strong land markets that can contribute to economic growth, there need to be policies in place to provide legal security to land owners and operators, as well as collection and management of information on land parcels. A freely operating market needs to have conditions that allow for the transfer of land to efficient operators, contributing to agricultural and economic growth.

Land markets in industrialized countries have various constraints: lack of transparency, lack of homogeneity, low solvency, low skill of actors and monopoly of local and central administration. In central and eastern Europe, the obstacles are even more serious, and agricultural land markets have further constraints. In the transition process, privatization of lands has had a great influence on emerging land markets. In certain countries, private use is quite common, as state and

collective land was entirely or in a great part given to individual use.

At the other end of individualization, a great portion of land has remained in the use of post collective farms, as in Bulgaria, the Czech Republic, Hungary, Kazakhstan, Russia, Slovakia and Ukraine. The conversion of land for individual use has experienced many problems in countries throughout the region.

A typical obstacle is the creation of “land shares,” which are a form of virtual ownership. These were first introduced in Russia and later taken to other Commonwealth of Independent States (CIS). The implementation of land shares does not, in principle, make access to individual land use impossible, but it took time until individuals learned how to transform shares to physical land pieces and establish necessary installations to start farming. As a result of this process, individual use of land has increased up to 15-25% in Belarus, Kazakhstan, the Kyrgyz Republic, Moldova and Ukraine, but remained low (below 15%) in Russia, Turkmenistan and Uzbekistan in 2000.

The ability of agriculture to positively affect economic growth depends on overcoming these obstacles and allowing agricultural land to enter into the hands of efficient, effective operators.

## **Indirect impact**

Land markets are mostly thought to contribute to economic growth directly, by way of capital formation. Urban land markets contribute directly to national income, due to the fast turnover when a property bought for development purpose, after a value adding process, is sold for a higher value.

In agriculture, however, the indirect impact is dominant. A sound market moves land titles to those operators who can manage an optimal combination of inputs, including land for production. As the more efficient operators gain ground in agriculture, growth will be higher.

Land in agriculture is not only the venue of production, but also a factor of production. The quality of land is dependent on not only its fertility but also good management. Agricultural lands can be developed by amelioration, soil-improving tillage, environmentally friendly cultivation, land consolidation, etc. Nevertheless, few analyses are available demonstrating the increase in land value due to these improvements, while urban economics present a lot of cases on how land development increases the value of empty sites. However, the indirect impact is no less important, even if it is not well understood.

In order to encourage owners and operators to make optimal decisions about the use of their land, there are some conditions that must be met. As the effect of agricultural land markets on economic growth is mainly indirect, the free transferability of land markets is crucial; if efficient producers can easily take over for inefficient farmers, land markets can contribute to economic growth.

## **Tenure security**

The legal security of properties and leasing contracts, as well as strong land markets are necessary preconditions for sound economic growth. The most important function of land markets in economic growth is to move lands from inefficient users to more efficient ones. Agricultural operators must have sufficient legal security to give them the freedom to decide about the outcome of the production process and to reap the benefits of their short- and long-term investments. The legal framework should provide security for tenants as

well as owners, allowing for an adequately long leasing period to encourage investment.

A sound land market must include institutions for registering properties, deciding on and monitoring land allocation and resettlement, cadastre, and land valuation and taxation. These units should be organized in central, regional and local levels. The following main elements should be clear: ownership and leasehold rights, the legal definition of land titles, freedom to buy, sell and lease land titles, a fair administration of transactions and broad and available information on land markets.

The information should be organized into a parcel-based registry, detailing the natural characteristics, as well as records showing the extent, value and ownership and tenancy of the land, including maps. Such a cadastre was originally compiled in many countries for purposes of taxation. However, in several countries there is no longer any land tax, and, in practice, the cadastre serves two other equally important purposes. It is a ready means of precise description and identification of particular pieces of land, and it acts as a continuous record of rights in land.

The situation of clear land titles is important not only for the land market, but for financial markets as well. Secure land ownership is often necessary for credit access, so that the land can be used as collateral. Efficient use of agricultural lands often requires credit for purchasing inputs and other investments. If a lack of transparency and clear titling in land ownership limits credit access, operators may not be able to realize the full potential of their lands, which inhibits growth over time.

## **Improving information**

In addition to regulations providing secure tenure, a sound land information system should exist for acquiring, managing, processing, storing and distributing information about land.

In many CIS countries, the property registration system is deficient. Land shares, being a virtual property, do not make permanent or long lasting contact between owner and physical land, nor to the user of land. Surveyed and registered areas are more valuable in the land market. At the moment, however,

there is no authentic information about such lands available for potential competitors in land use. In spite of up-to-date mapping and surveying technologies, a shortage of land registries is quite general. The value of transactions is recorded in other files and often registered at other institutions. Centralizing records and making them available for researchers would help in the establishment of efficient, transparent land markets.

In most countries, however, the access to some land information is limited. Information is a business, where private entrepreneurs have an important role, but the responsibility of the state administration cannot be neglected, because all data relevant to the land markets are under state control.

Countries in central and eastern Europe and the CIS should elaborate the data series that describe land markets in a legitimate system and regularly provide (sell) this information to companies. However, in some CIS countries, more simple information services also would be a great help in indicating those owners who have already transferred their paper certificate of virtual property to physical land pieces.

## **Policy interventions**

There are a variety of supportive and restrictive policy measures that also have effects on land markets. Restrictive measures modify the function of property rights, including the exclusion of potential owners, establishment of ownership and leasehold ceilings, and the broad implementation of preemption criteria.

Further restrictions can be made in land use policies and the transformation between land uses, i.e., converting natural land to agriculture or rezoning agricultural land for commercial use. These restrictions might exclude potentially efficient operators or prevent using land for maximum benefit, thus inhibiting growth.

There are further restrictions on the sale of land. Albania banned the free transaction of lands in the early 1990s, and in some CIS countries, as in Belarus, Turkmenistan and Uzbekistan, not only land shares but use rights cannot be transferred. Land use rights are transferable in Kazakhstan and in Tajikistan, where the paper shares cannot be sold. Restriction of property

rights has had a long-lasting effect, even where the restrictions have been or will be lifted.

There is a broad literature on the land privatization in countries of central and eastern Europe and the CIS, explaining where foreign persons and legal persons were excluded from the distribution of land (shares). Similar measures have restricted ownership and leasehold ceilings in some countries. The exclusion of possible actors such as foreigners from the land purchase market suppresses the demand for land. This restriction of the land market makes prices lower for domestic farmers, but may hurt the market overall.

Supportive policy measures can improve the role and efficiency of land markets. Supports can be implemented to improve land administration, cadastre, land information systems and land consolidation. These improvements make land markets more efficient and the use value of lands higher, thus contributing to agricultural growth.

Governments may support certain types of land owners or lessees by direct supports or indirect preferences. Governments can also play an active role in land markets through public land funds. Land funds usually work as non-profit organizations, buying lands often on preemption and selling or leasing them to preferred types of owners or lessees. It follows that land funds play important role in structural policy.

Another area for intervention is land consolidation policies, which are especially needed in those countries where agriculture has a dual structure, as in Bulgaria, Czech Republic, and Slovakia, and in those countries where the agriculture is “over-fragmented,” as in Armenia, Georgia, Latvia and Lithuania. These projects help consolidate smaller holdings by an individual into a single, larger holding. Their purpose is to improve competitiveness, and this can be a tool in rural development overall.

## **Toward agricultural growth**

Agricultural land markets have mainly indirect impacts on economic growth. The function of the land markets is to allocate lands to efficient operators either by ownership or tenancy, and those operators can work to maximize the usefulness of the lands. Efficient operators need tenure security and clear titles in order to be



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able to make long-term decisions and to be able to gain access to credit.

Governments should provide the conditions of legal security and take responsibility for making land information available in a form that is compatible with existing laws, and accessible and useful for the actors. A freely operating land market allocates land to efficient operators, and, by increasing efficiency of agriculture, contributes to agricultural growth. As countries transition to market economies, governments should encourage conditions that enable the smooth functioning of these markets to increase productivity and promote economic growth in the agricultural sector.



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