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LAND FRAGMENTATION AND LAND CONSOLIDATION IN THE AGRICULTURAL SECTOR

A CASE STUDY FROM BULGARIA

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Land Fragmentation and Options for Land Consolidation in Bulgaria

1 Introduction: Land reform history and initial conditions

The transition from a centrally planned economy to a free market economy in the Republic of Bulgaria called for changes in the agricultural sector. Agricultural reform started with land restitution and was carried out in a framework, which led to land fragmentation where efficient agricultural production was not a primary concern. The reinstatement of property rights to small plots dispersed within a certain territory and belonging to a settlement, hampers the establishment of viable and profitable farms and becomes a bottleneck for effective agriculture. Liberal inheritance law and traditions in land tenure exacerbate land fragmentation furthering the negative effect. Small plots hinder the implementation of new technologies, utilization of machinery and new production patterns. Dispersed parcels inhibit spatial planning for the administration, use and management of land. Although the land reform in Bulgaria has almost been completed (98 percent of the land claimed was restituted by the end of July 2000), its outcome – *land fragmentation*, has created a negative impact on the sustainable development of rural areas where agriculture is the main, and sometimes the only, source of income and employment for the resident population. The improvement of livelihood in rural areas depends on making use of the possibilities for effective resource allocation. Basically, this means *land consolidation* and spatial planning.

Strategies for land consolidation are especially important in post-communist countries that have implemented radical land restitution and re-distribution programmes that have often encouraged, or exacerbated land fragmentation. Land consolidation is aimed at optimising agricultural land use and is usually considered an important step in enhancing a country's agricultural and ecological development. The most common benefits of optimal land consolidation are as follows:

- **Greater efficiency and productivity:** allocation of a farm in fewer, larger parcels of better shape, close to the farmstead, provides considerable economical advantages. In addition, it reduces the amount of unused land in-between the parcels.
- **Positive ecological effect:** Generally, larger parcels enable farmers to use less intensive methods, decreasing adverse environmental effects, such as nitrite and phosphate production, as well as improving water resource planning.

Naturally, a greater quantity and better quality of farm production is not the only goal of land consolidation. The process must also generate resources for the overall improvement of rural life, including better housing, education, health services, transportation, as well as recreational and cultural opportunities. Land consolidation in the framework of a successful land reform is also a part of a more effective social policy attracting people to rural areas, and providing them with new opportunities rather than driving the poor out of these areas into the cities.

However, the problem is not that simple, and the solution is not as straightforward as it may seem. The most important issue to be considered is the degree of consolidation in each case as well as the overall agricultural and economic development of a given country. For instance the optimal farm size will vary depending on the type of the farm, geographical and

climatic conditions. It is crucial not to fall into the trap of ‘the larger, the better’. It is often claimed that large farms are always more efficient and more productive than smaller farms, yet when examined, the actual data illustrates exactly the reverse for both productivity and efficiency, i.e. the overall output of farmland in Sub-Saharan Africa, Asia, Mexico, Colombia and Honduras actually tends to fall as the size of the farm increases. In developed countries, this pattern is less clear, but, for instance, the research carried out in the 1940s in California’s San Joaquin Valley showed how large-scale farming destroyed local communities and economies. On the other hand, in many regions and states of the USA small farms continue to proliferate and remain vital to the economy. The consensus is that very small farms are inefficient because they can not make full use of expensive equipment, while very large farms are inefficient due to management and labour problems inherent in large operations. This seems to indicate that efficiency is likely to be achieved in mid-sized farms that have several employees.

Land fragmentation (defined as ‘a multiplicity of non-contiguous plots within single ownership’) is traditional in Bulgaria. It characterised the customary smallholding, labour intensive structure of pre-war Bulgarian farming, with just a few exceptions in specific geographical regions. This initiated problems concerning farm efficiency and land use. Land markets could not provide comprehensive solutions to fragmentation problems. The Co-operative Movement developed and gained momentum in the 1920’s, achieving economies of scale. Within this farming environment, in the 1930’s and 1940’s some early land consolidation schemes were applied with the aim of increasing agricultural efficiency, and introducing agro-technical modernisation, land amelioration and improved rural infrastructure. The 1941 Law on Cadastre and Land Consolidation demonstrates that the concept is familiar in Bulgaria.

In the 1950’s and 1960’s, however, the communist regime caused the co-operative movement to degenerate into collectivisation and land consolidation became one of the most forceful instruments for the suppression of farmers and the violation of landowners’ rights. Thus, despite the technical progress and improved productivity brought forth by land consolidation, it provided an effective tool for collectivisation and subsequent practical expropriation of farmlands by the communist state. The following mass-consolidation of farmlands and the expansion of farming enterprises in the 70’s and 80’s caused disproportion and a decline in efficiency. These processes contributed to an ongoing demolition of social structures in rural communities, aggravating the depopulation of rural settlements and leaving a mostly ageing workforce in agriculture.

Accumulated land tenure issues throughout almost five decades of communist ruling were addressed by the radical land reform in 1991. Its underpinning philosophy was predominantly farmland restitution, defined as reinstatement of land ownership from the pre-collectivisation era. The inevitable fragmentation was partly limited by adjudication of ownership to the original pre-collectivisation owners rather than to their current heirs. Upon recognition of the ownership claims, two technical approaches to satisfy rightful claimants were applied: restitution within existing or restorable real physical boundaries, or under newly designed land reallocation plans. By law, the reallocation design, being the prevailing restitution approach, had to apply some land consolidation principles, including the following: lands equal in quality and size; grouping of plots within distinct localities; transport access; shapes fit for cultivation; smaller plots closer to settlements; preservation of existing public works; erosion control; land amelioration, and other environmental control measures; retention of special land uses; irrigation schemes; rice-fields; perennial plantations.

Implementation of these principles, especially grouping, encountered serious resistance from original owners or heirs. Neglecting the principles, under pressure from the rightful claimants, was not an uncommon practice. Alongside restitution, the Bulgarian land reform liquidated the established collective farm structures, and divided the collective farm assets. New private farm structures were set up instead of the collective farms. Some landowners established new co-operatives.

Managed farmland in Bulgaria totals 6.2 million Hectares.¹ Arable lands make up 77 percent, and 23 percent are pastures and meadows. By the end of August 1999, farmland restitution was finalised over 94 percent of the subject lands. Arable farmlands held by private farms make up 96 percent (40 percent of which are held by co-operative farms), the remaining 4 percent are held by state or municipal farms. Meadows and pastures in private hands total 29 percent (including 33 percent held by co-operative farms) and 71 percent are in public (state and municipal) ownership. Estimates show that the reform will end up with more than 2.6 million private farmland titles for an average holding of 2 Hectares. Our forecast is that over 12 million plots averaging 0.4-0.5 Hectares will be established.

In the areas where land reform has already been completed, a further reduction in average holding size by a factor of 1.6-1.7 is observed within the first three years after restitution.² The reason for this is the ongoing subdivision of restituted land among the present heirs of original titleholders. Subdivisions are currently the most frequent transactions of farmlands. Extrapolation indicates that average plot size may fall to 0.3 Hectares, which is the actual legal minimum for plots used as fields. (The minimum for orchards is 0.2 Hectares and for vineyards 0.1 Hectares. However, the restitution process especially within existing physical boundaries resulted in even smaller plots).

At the same time, consolidation through sales is still insignificant. Radical changes in this market seem unlikely, considering the Bulgarian mentality. Otherwise, the leasing market might achieve some consolidation but is still underdeveloped and provides insufficient security of tenure for farm enterprises to invest in land improvements.

The practice of economic development planning at national, regional and local levels was virtually abolished during the first few years of transition. The Regional Development Act of 1999 is a new legislation attempting to revive this activity. The National Plan for Economic Development 2000 - 2006 (NPED) is based on this legislation and sets the overall objectives for the development of competitive, sustainable agriculture. The Law on Territorial and Urban Planning, which is the effective spatial planning legislation was essentially amended in 1990, yet a new Bill on Physical Planning of Territory to replace it was submitted to Parliament in 1999. Thus, much of the economic development and physical-planning framework for land development is unstable and major changes are still pending. Additionally, there is little experience in setting up, funding and monitoring development programmes.

As far as rural development is concerned, NPED is in compliance with the National Development Plan for Agriculture and Rural Areas (drawn up under the SAPARD Programme). It is co-ordinated with the European Commission. NPED points out the piecemeal approach as one of the major drawbacks of rural development so far. Instead of

¹ Source: National Plan for Economic Development 2000 - 2006, *GoB, October 29, 1999*

² Source: Ownership and Land Market in the Dobrich Region, *Batanov, USLMB Symposium, Sofia, Nov. '98*

integrated solutions and sustainable results, regional and local administrations struggle with short term or narrow issues and miss long term overall objectives.

Generally, there is a recognised underdevelopment of the government land management institutions. Also, functions are traditionally fragmented by land domains: urban land management is vested within local authorities, while rural land management is at the central / regional government level, within MAF. Again, this is an indication that the legal and institutional framework for development, planning and zoning regulations is in transition, and there are grounds and scope for serious changes in the immediate future.

Farmland fragmentation is a phenomenon with manifold aspects. Fragmentation of legal ownership refers to the number of holders of a single title, sharing equal real rights (multiplicity of undivided shares). This type of fragmentation hampers efficient and flexible property management because of frequent complications securing the consensus of owners required to make and implement decisions. Generally, this type of fragmentation is one of the land reform outputs throughout the country. At present, landowners deal with it either by subdivision, or by making informal intra-family tenancy arrangements. Physical fragmentation within farming units is the multiplicity of non-contiguous plots (regardless of whether owned or leased) within a single farm enterprise. The latter two types of fragmentation most directly affect farm efficiency and are common in Bulgaria. Social and demographic processes throughout rural Bulgaria in the past five decades, and land reform during the last decade generated a vast group of absentee landowners who have hardly any other involvement with farming or rural economy. The consequence is that most farms have to gather the land they manage from a number of owners. Thus, there is a considerable difference between land fragmentation and land ownership, or farm holding patterns, the latter being much less fragmented than the former. Achieving consolidation based on ‘farm holding’, however, often involves several layers of underpinning tenancy (*e.g.* ownership, leasehold, block exchange agreements on parcel and land use between farm enterprises). The general belief is that these uneconomic types of fragmentation should be partially adjusted to accommodate some relative advantages in certain farms. These aspects are commonly addressed by land consolidation schemes.

The objective of this research is to analyse and assess the impacts of land fragmentation in predominantly agriculture based societies; design and to develop strategies and policies for land consolidation, land amalgamation and rural development, integrating experiences, lessons learned and best practices from elsewhere.

As the assessment of the conditions needed for land consolidation in the Republic of Bulgaria is one of the main objectives of this study, it is important not only to assess the existing regulations, but also to understand the institutional and social environment, in which they are applied. That is why this study is based on the current laws and regulations, official publications of governmental agencies, National Statistical Institute data and on the data collected in a survey carried out by the Working Group in several regions of the country. The Group interviewed farmers and local/regional authorities regarding infrastructure, services, economic activities, demographic trends, social patterns, and their opinions on land consolidation issues. The results of this survey should be considered factually indicative of the actual situation.

2 Legislation around land reform

Current land tenure systems and property rights are based on implementation of a number of laws and regulations that were enacted after 1991. These laws in many ways contributed to and created the problems of land fragmentation in Bulgaria. Relevant laws concerning law include the following:

- The Law for Ownership and Use of Agricultural Land (LOUAL) – The law was adopted by the Parliament in 1990, amended 25 times (last time in 2000). Official publication in State Gazette –different years and issues.
- Land Lease Law – Adopted in 1996, amended in 1999; Published in State Gazette
- Cooperative Law –Adopted in 1999 (effective from 1 January 2000), Published in State Gazette.
- Regulations on the Terms and Conditions for Establishing the Current Market Prices of Agricultural Land – 1999, State Gazette
- The Law on Unified Cadaste – 1981, State Gazette
- Cadaste and Property Registry Law (effective from 1 January 2001) – 2000, State Gazette
- Laws on State Ownership and Municipal Ownership – 1994, State Gazette
- Inheritance Law – 1992, State Gazette
- The Constitution of the Republic of Bulgaria – 1992, State Gazette.

All the above-mentioned laws have direct or indirect impact on land fragmentation. Bulgaria does not have any laws specific to the issue of land consolidation. The objective of this section is to analyse and assess the influence of the current legal framework on land fragmentation/consolidation.

2.1 Historical Background

The first attempt at preparing a Land Consolidation Law in Bulgaria dates back to 1908 when the issue of land cadastre was under consideration. A Land Consolidation Bill was presented to the Parliament but was not voted for. Land consolidation in Bulgaria began because of a private initiative in 1911 by the Simeonovi brothers from the village Madan, who performed a consolidation of their lands through numerous exchanges. Thus, the first act of land consolidation was implemented without regulation and evaluation of the land.

In 1921 the adoption of the *Law for Labour Ownership of Land* marked the first efforts of the state to implement land consolidation. Under the Law, farmers were given the right to consolidate their fragmented parcels in one place on the territory of the respective state land fund property. Under the Law, consolidation of land of an entire village was not carried out. The *Agricultural Production Improvement and Preservation of Agricultural Property Law* (1922) envisaged certain incentives and privileges for land consolidation such as financial assistance, and free of charge measurement of land property of persons, co-operatives and counties, initiating land consolidation.

In 1924, the *Agricultural Production Improvement and Preservation of Agricultural Property Law* was amended and a separate article on Land Consolidation was added. While the original Law dealt only with state owned lands, the amended Law included both private and county lands, defining land consolidation methods and expenditure allocation.

In 1941, a new *Cadastre and Land Consolidation Law* was adopted paving the way for the preparation of a national cadastre. This had a significant economic effect since cadastre is

instrumental in clarifying land property rights, separating individual parcels and building roads to access them.

2.2 Legislative Framework

2.2.1 Law for Ownership and Use of Agricultural Land (LOUAL)

After the fall of communism in Bulgaria, land reform was pursued through land restitution. Land restitution can be considered as the first step in agricultural reform, which must be followed by the development of agricultural sector. Clear documentation and legally registered property titles constitute secure ownership. Although, the problem with farmland ownership documentation is relatively clear, the state has not ensured transparency in land relations yet. In accordance with the last amendments to the land legislation *Law of Ownership and Use of Agricultural Land*, promulgated in the State Gazette No 17, dated 1 March 1991 (further referred to as LOUAL, and the *Regulation on Implementation of LOUAL*, promulgated in the State Gazette No 34, dated 24 April 1991) documents issued by the Land Commission (decision and sketch-map) will *ex officio* provide the owners with a proof of ownership rights. This will facilitate owners in proving their ownership rights and will facilitate the document turnover as well. However, secure ownership is supported not only by the ownership documentation, but also by the setting up of a secure and transparent land registration system and cadastral mapping. As already stated CRA (needs to be supported by many by-laws to ensure smooth implementation of cadastre reform.

The law includes rules for dealing with large number of technical issues and procedures, and lists institutions handling land redistribution. The institutions primarily responsible for the initiation of land restitution process throughout Bulgaria are the 301 Municipal Land Commissions (LC). They are responsible for over 4800 so-called Territories Belonging to Settlements (TBS), which cover nearly 5.6 million hectares of land.

The main objective of the Law is to reinstate private property rights to the owners, or their heirs, of land in their possession before 1946, in accordance with the land property determined by the Law for Land Ownership (1946).

Under the LOUAL, land can be restituted in the following two ways:

- a) *Restoration within existing or restorable old (Lawual) boundaries (Article 18g (1) of the Regulations)*. Actual old boundaries that have been preserved on the terrain are defined with respect to topographical features such as roads, fences, areas of trees or shrubs, rivers or reservoirs, ravines and dry riverbeds, if their location had not been changed after inclusion in the lands of the communist collective farms. In addition, restorable boundaries of former estates are those, which can be determined from the cadastral maps of settlements and the reinstatement of survey plans developed prior to the establishment of the collective farm. The size and category of an estate, its location, borders, neighbours and any reductions in the area of the property must be specified.
- b) *Under plans for land reallocation (Article 18 g (2) of the Regulations)*. Land reallocation takes place in cases where it is impossible to provide evidence of boundaries but in which the former owners or their families are deemed entitled. Importantly, owners should receive consolidated land to avoid the problems of farm fragmentation. If possible, the owner should receive land of equivalent quality and quantity in the area where the main part of the original estate was located. Moreover,

restituted land should have an appropriate form for cultivation (width/length ratio) and access to road. It was preferable that the estates with smaller size be located close to the settlements.

It is important to note that land restitution under reallocation is implemented in two stages. First, ownership rights are restored in abstract. In other words, the right of ownership of land of certain category and in a certain area is officially recognised before any specific location is decided upon. However, when people wish to cultivate their land immediately but have to wait for the completion of the plans for reallocation, land can be allocated for temporary use under Article 18i of the Regulations.

The procedures for reinstatement of property rights are lengthy. The following stages are involved in incorporating the aforementioned provisions:

- Former landowners or their heirs petition the relevant MLC for restitution of their property.
- Within one month of receipt of the petition, the MLC should issue a decision on the reinstatement of property rights. This is either: (a) when land can be restituted in its real boundaries and the decision issued is final. Owners then recover their land property, which they can farm immediately; or (b) when land cannot be restituted in its real boundaries, but the ownership right is acknowledged, owners must wait until after the plan of land reallocation is enacted, for the final decision regarding the specific area in which their land is to be allocated. If they want to use land in the interim, they must petition separately under the terms of Article 18i.
- A sketch for each plot must be prepared by the MLC with reference to existing or new cadastral maps. Owners are considered to be ‘granted into possession’ on receipt of the sketch from the MLC.
- The notary office issues a legal deed of ownership based on the MLC final decision and the sketch of the plot. After the amendment of the law in 1991, final decisions issued by the MLC along with the sketch of the plot have juridical power corresponding to the notary deeds. Landowners can use them as collateral for any land transactions.

According to the law, therefore, a distinction is drawn between economic (1 and 2 above) and legal (3 and 4 above) restitution of property rights.

Land restitution in real boundaries predominantly takes place in mountainous and/or semi-mountainous regions. The outcome is high fragmentation. While the process of land reallocation is inevitably and an even more protracted process than restitution of ownership in real boundaries, there are longer-term economic advantages. Under reallocation, landowners receive consolidated holdings within the TBS. Unlike land restitution in historical (real) boundaries, which tends to exacerbate problems of land fragmentation, land consolidation is a basis for an efficient farm organisation. In any event, the process of land restitution through reallocation is administratively complex. According to the LOUAL under the reinstatement of land property rights by reallocation, if a landowner possesses a great number of plots allocated in different parts of the TBS, the MLC can consolidate them in two or three different places taking into account the quality and size of the land. However, the results show a high degree of land fragmentation in all regions of the country.

2.2.2 *Land Leasing Law*

Land tenure involves and affects the rights, restrictions, and responsibilities of people regarding land. From a legal perspective, **land** can be defined as any portion of the earth to

which rights of ownership or use may be exercised. Often the land and the buildings on the land are referred to as **real estate** and the various rights associated with land are called **real property**.

Any type of real property can be recorded in a Cadastre if the right or restriction can be associated with a definite unit of land. The most important types of land tenure or real property can be characterised as follows:

- **Ownership** is the exclusive right to use a parcel and enjoy the crop from the land and all profits from its improvement. In addition, it contains the right to transfer the parcel to another person, as well as mortgage or lease the property. All these rights can be relatively restricted by legislation.

Nowadays it is common that landowners' legal rights are restricted to using the parcel of land in a manner that is beneficial and appropriate from the community perspective. Restrictions may also include measures protecting the environment. Land ownership usually incorporates ownership of the buildings on the land, but in the Bulgarian jurisdiction, land and buildings may be owned separately.

- A **lease** gives the lessee the right to use a parcel (or a part of a larger parcel) for a limited time, in compliance with the regulations stipulated in the legislation as well as in the contract with the lessor.

The leasehold tenure is transferable to a third party, if the leasehold agreement provides for this. Leaseholds can also be used as collateral for loans.

- An **easement** is a legal right of way, or similar right, over another person's land.

The most common institutional forms of holding land for farming purposes in Bulgaria are co-operatives and lease agreements. The reason is that often the land was restituted to former owners and their heirs who live far from the restituted land (absenteeism). On the other hand, the land owned by the farmer is usually insufficient in quantity and fragmented, so the only possible way to set up an optimal-sized commercially competitive farm is through purchase of land or land leasing.

The Land Lease Law (LLA) (State Gazette 82 as of 27 September 1996) was amended twice in 1999. As a result, the restrictions of its implementation were abolished. The Law was largely harmonised with European legislation. However, the procedures envisaged by the LLA are not observed in practice. According to Article 3, lease agreements must be concluded in written form and the parties' signatures must be certified by a notary. After that the lease agreements are recorded in the notary books upon presentation of a sketch map, issued by the respective Land Commission, which should then register them.

The interviews we conducted have once again shown that the envisaged procedures are more often neglected. In most cases the deal is struck by word of mouth. In cases where an agreement is drawn up, the signatures are not certified by a notary and are not registered in the notary and land commission books. It is obvious that the procedure in its present form is not working. It is impossible to take advantage of the positive elements envisaged in the Law (sub-lease and pledge of rights under the lease agreement). In our opinion the procedures envisaged by the LLA are correct. The majority of the respondents indicate that the fees for a notary certification and registration greatly exceed the amount of the lease payment itself. In

reality, this is not the case. For instance, expenses for certification of signatures and registration of a lease agreement in the town of Baltchik would amount to BGN 44 to a lease of 10 hectares of land for a period of 4 years while the rent is BGN 20 per hectare.

Ongoing land consolidation types are based on land leasing. The existing procedure for registration of the leasing contracts affects land consolidation through increasing the transaction costs. Measures for overcoming people's negative attitude towards notary's certification by precisely explaining the advantages of complying with the procedures envisaged in the LLL should be undertaken. At the same time the state should also make efforts to reduce bureaucracy.

2.2.3 *Law on Cooperatives*

A new *Cooperative Law* was adopted in 1999 (State Gazette No 113/12 of December 1999), which provides better transparency of co-operative relationships. As a result, the rights of co-operatives' members are better protected. The Law states that establishing farmland ownership right excludes the possibility of joining the co-operative. Thus, the co-operatives will be encouraged to buy their own land or to lease land, which will stimulate the land market as whole.

2.2.4 *Regulation On The Terms And Conditions For Establishing The Current Market Prices Of Agricultural Land*

Current market prices are based on the provisions of the *Regulation on the terms and conditions for establishing the current market prices of e agricultural land* (State Gazette No64/5 June; amended in 1999). This Regulation is applied in cases of reimbursement to the former owners when restitution is impossible as well as in cases of land exchange, buy-outs, sale and other transactions between the state and persons or corporate enterprises.

The calculation of the land price is based on several criteria such as: the status of land, and the location, as well as some other economic factors. The initial price is determined using a coefficient, which is established depending on:

- The size of the parcel;
- Irrigation conditions;
- The distance from major markets;
- The distance from the Black Sea;
- The distance from a populated area;
- The distance to main roads.

From a legal point of view, the above criteria are precise. According to the Regulation, valuations vary between BGN 80 and BGN 600.

2.2.5 *Cadastre and Property Register Law*

Land privatisation and ownership security is pointed out a prerequisite for a successful introduction of market economy in transitional countries in Central and East Europe. In order to perform the agricultural reform the Government must ensure effective and efficient **land administration**.

Land administration refers to the process of recording and disseminating information concerning ownership, value and use of land and its associated resources. Land administration includes *inter alia*, cadastre, land registers, land consolidation, land valuation and land information systems.

Bulgaria is going through harmonisation of its land administration legislation with the EU legislation. After a long process of preparation, the *Cadastral and Property Register Law* was finally adopted (CRA) and published in the State Gazette on 25 April 2000. It will be effective as of 1 January 2001. Only a very small part of the CRA regarding Cadastral Agency became effective on 25 April 2000. The positive result from the adoption of that law is that the CRA provides title registration, which will replace the insecure deed system. Therefore, the new cadastre shall be a parcel-based system, i.e. information is geographically referenced to unique, well-defined units of land. Each parcel will be given a unique code, or parcel identifier. Graphical indices of the parcels, known as cadastral maps, show the relative location of all parcels in a given region.

The performance of the bilateral link between the cadastre and the registration will be of great importance. According to Article 6, paragraph 2 of CRA the main information on real estate registration originates from the cadastre. On the other hand according to Article 71, paragraph 2 in case of a transfer of real estate where the preliminary batch is not prepared, the judge, responsible for registration, shall prepare a preliminary batch for the respective real estate.

The Regulation on implementation of the bilateral link between the cadastre and registration to be issued under Article 6, paragraph 3 must assure the correct implementation of the cadastre and land registration. Actually the CRA is only the framework and requires an immediate preparation and adoption of by-laws for its implementation. The following steps should be undertaken:

- Determination of all the stages and terms for its implementation;
- Clear definition of the ways of transforming data into the newly formed Cadastre Agency.

Determination of the philosophy and the model of the new Information System:

A rapid preparation of the by-laws is of a special significance and a priority for the agricultural land, where the system could and must be implemented immediately. It is also necessary to expedite the establishment of a Cadastre Agency as well as to devise a mechanism for achieving close co-operation between both institutions.

Despite long-standing discussions about the necessity of having only one agency responsible for the cadastre and registration, the CRA defines two responsible agencies, the Ministry of Justice and the Ministry of Regional Development and Public Works. It will be a challenge for them to achieve full synchronicity because:

- They are not financially interdependent;
- The efforts of these two institutions to cooperate have so far been unsuccessful;
- The coordination mechanism has not been clarified in the Law in question.

The Cadastre is a land information system. Traditionally the Cadastre was designed to assist in land taxation, transfer of real estates and land redistribution. The Cadastre helps by providing those involved in land transactions with the relevant information and as well as improving the efficiency of those transactions and security of tenure in general. It provides

governments at all levels with complete inventories of land holdings for taxation and regulation. Hopefully this information will also be used for land development, urban and rural planning, land management, and environmental monitoring. An important function of a land registry and consequently cadastre is that it meets the needs of the public. This entails the perception of the cadastre as a land information system, which gives information on rights, use and value of land. Land administration is the process of using the cadastre and other legal instruments for management of land tenure system and land market policies.

The cadastral reform can support:

- Land reform, aiming at redistribution of land assets between different owners or protecting land use by land tenants, squatters, ethnic minority groups, and women.
- Protection of land use rights and establishment of security of tenure for land users: Better protection could enhance the law and the attitude towards property rights, reduce land disputes, and contribute to more sustainable land use methods and economic development.
- Promotion of a land market.
- Promotion of economic investments, the use of land as collateral or mortgage.
- Increasing the financial revenues for the state and/or the municipalities by imposing land tax or other taxes and fees relating to the use of agricultural land.

A protracted cadastre reform along with numerous amendments to the basic agricultural laws concerning restitution and agricultural land ownership, slowed down the agricultural reform as a whole. The deed system applicable under the rescinded Cadastre Law did not provide enough security in transactions, moreover, banks did not accept land as collateral due to the lack of both a land market and a secure registration system.

2.2.6 *State and Municipal Ownership law*

The law regulates state and municipal land ownership. Three types of land ownership exist in Bulgaria: private land, state land (State Land Fund) and municipality land (Municipal Land Fund). The State Land Fund is managed and controlled by the Ministry of Agriculture and Forestry (MAF) through its regional offices. Regularly, before the beginning of the crop year, the regional offices announce the availability of land that could be leased for cultivation on a temporary basis (one-year land leasing contracts) to landless and/or indigent population. One household cannot apply for more than 1 hectare with size of the parcels being from 0.3-0.5 hectare.

2.2.7 *Inheritance Law*

The Bulgarian *Inheritance Law* has a negative impact on land consolidation and increases land fragmentation. According to that law, all heirs have equal rights and thus the land that they receive becomes further fragmented by being divided among them into equal parts.

2.2.8 *The Constitution of the Republic of Bulgaria*

The Constitution is restrictive regarding the possibility for foreigners (physical persons or legal entities) to buy agricultural land. To overcome the problem, they can establish a Bulgarian company with which to operate in the land market.

Conclusions

Assessment of the legislative framework concerning land ownership and land consolidation definitely highlights the conclusion that there are no favourable conditions for land consolidation in Bulgaria (Table 1). All laws dealing with these issues have negative influence by stimulating land fragmentation. The level of land fragmentation requires the adoption of a land consolidation law.

The Influence of the existing legislation framework on land consolidation in Bulgaria

<i>Laws/Regulations</i>	<i>Impact on Land Consolidation</i>
Constitution of the Republic of Bulgaria	Neutral
LOUAL & Regulations of its implementation	Negative
Inheritance Law	Negative
Land Leasing Law	Neutral
Cooperative Law	Neutral
State and Municipal Ownership Law	Negative
Cadastre and Property Register Law	Neutral
Regulation on the terms and conditions for establishing the current market prices of agricultural land	Negative
Ordinance for Land Settlement of the Indigent and Landless Population	Negative

Source: Authors' expert assessment

2.3 Current Legislation on Land Consolidation

There is no law in Bulgaria dealing with land fragmentation issues. The current legislation does not provide any method for land consolidation. Such method existed in one of the draft versions of the LOUAL, in which it was postulated that land consolidation is possible in the presence of at least 51 percent of the owners of at least two thirds of the land in a given territory. They could make arrangements to consolidate the land so that each owner has their plot in one place. The promulgated new sketch map was open for claims for a certain period of time. This procedure was obviously too complicated and difficult to operate.

Article 10 of the Regulation on Implementation of LOUAL defines the minimum size of different types of farmland, under which further division is not allowed (0.3 hectares for fields; 0.2 hectares for meadows and 0.1 hectare for vines). Article 17, paragraph 5 stipulates that under a re-allotment plan, one owner's parcels in a specific district shall be located in one place.

Notice should be made here that a "natural process of land consolidation" has already begun, whereby private owners and/or legal entities **exchange their land for state-owned land**. These owners are prepared to lose part of their property in order to obtain consolidated land. The exchange of land between the state and the private owners is calculated on the basis of current market prices of agricultural land. These current market prices sometimes differ from the real market prices, that is why the question of land evaluation is of great importance for a successful land consolidation.

At present, the state does not have a clear-cut agricultural policy, or a mechanism to encourage land consolidation. Since the problem in question is of major importance for the revival of agriculture and land market, the state must immediately define its own strategy for

the encouragement of land consolidation. It is necessary for a separate Land Consolidation Law to be adopted or additional provisions in the current legislation to be included. Since land consolidation is a part of land management and land administration policy, it is the state that should define the policy for the long-term perspective in this field.

The historical background and the mentality of the people should be taken into account when the problem of land consolidation is discussed. The restitution took over 10 years and since no land consolidation was implemented simultaneously, it is now appropriate to follow a less rigid model. In other words, legal preconditions for a voluntary land consolidation in which strict compliance with the legal provisions would provide maximum protection for the farmers should be set out. In practice, land consolidation is still possible if all landowners in a certain TBS agree to it. However, it is essential for them to reach consensus on all issues, which realistically is very difficult. From this point of view the state should be involved in introducing clear land consolidation procedures and defining the degree of participation of the state administration in the process.

2.3.1 *Legal initiatives to encourage land consolidation*

Two approaches are possible from a legal point of view:

1. Adoption of a comprehensive Land Consolidation Law
2. Amendments of all relevant land laws and regulations to provide legal basis for land consolidation and to encourage it.

All the respondents we spoke to for this study pointed out that they would not want to see a tough administrative land consolidation. It is a well-known fact that land consolidation is a protracted and expensive process so it is absolutely necessary to assess both the positive and negative effects of its implementation. The social effects of land consolidation should be also taken into account. In other words, the current situation in Bulgaria calls for a more flexible approach that should make use of all possibilities for a natural land consolidation supported by the necessary changes in the legislation, as well as by the extension services in respective regions.

To begin with, the following changes can be recommended:

- LOUAL - Provisions should be made, allowing all owners in a given TBS (or 50 percent+1 of all landowners) to carry out land consolidation in the case of reaching a unanimous agreement. A precise and fair land valuation in such cases will be necessary. It is suggested that valuation expenses could be covered by the state.
- Providing incentives for the buying of neighbouring parcels through reducing or even eliminating legal and administrative fees.
- Valuation of land for the purpose of exchange of land from the state/municipality fund should be carried out on the basis of current market prices (entailing changes to the *Ordinance on current market prices*).
- Another possibility is land consolidation in terms of its use, not in terms of property rights. Under the new Lease Law, only lessees can transfer their rights under the lease agreement. This could be applied to lessors as well.
- According to the *Support of Agricultural Producers Law* (State Gazette 58 as of 22 May 1998) a special fund is created, namely The State Fund for Agriculture. The Fund supports the agricultural producers by offering investments, establishing farms, and providing information and consulting services. The Fund grants subsidies and credits,

covers entire or partial expenses such as interest on bank credits; provides guarantees for financial institutions; allocates resources for joint financing of projects within the framework of the European Union, namely SAPARD. The Fund accepts land as a collateral for credit requests. In a case of the borrower failing to fulfil his obligation, the Fund takes possession of the land, which it is then obliged to sell.

- The idea of setting up a Land Bank has been under discussion in a number of countries. To this end legal provisions are made enabling the state or the municipalities to set aside its land in order to establish a Land Bank. Such an initiative may also have a mixed public/private origin allowing a private person to provide financial resources. An executive agency is set up to manage the land and the finance. Wherever the state has instigated a public infrastructure project (e.g. roads construction), the land from the Land Bank can be used for exchange with landowners. Thus the land received in exchange for the land from the Land Bank can be later sold to relevant investors. Since the value of such land will be greater than that of agricultural land, the state/municipality will make a profit. The state and the municipalities are always involved in the process of buying and selling land, and when there is enough land in the Land Bank, a land consolidation project may be initiated.

Despite the fact that this idea is not entirely based on market principles, it can be applied as a means to broaden the scope of options offered by the *Property Law* and *Environment Protection Law* for the purpose of land expropriation.

- A more moderate way of implementing land consolidation is to carry out a pilot project in order to assess the results of this process and its significance for future activities.
- Land consolidation through expropriation: In Bulgaria people are sensitive to the issue of expropriation, however, this option is envisaged in LOUAL, Article 4, paragraph 3: 'Expropriation of agricultural land for important state and municipal needs shall be performed in accordance with the Property Law and Agricultural Land Protection Law following the MAF Minister's decision'. Under the property Law, expropriation is possible only for special state and municipal needs which cannot be otherwise met as expropriation shall be performed in full accordance with the provisions of the law following a complete reimbursement of the owner. The valuation shall be performed on the basis of current market prices.

3 Land Administration in Bulgaria

3.1 *The Progress of Land Reform at the National Level*

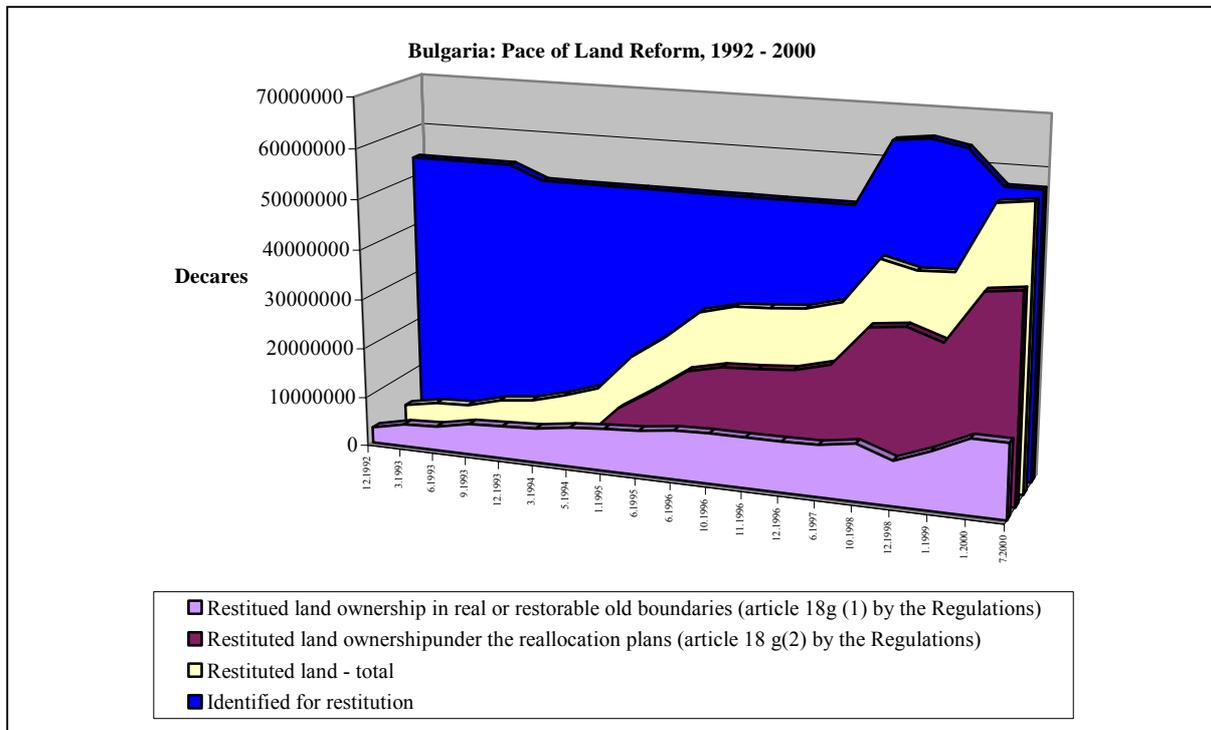
Accumulated land tenure issues throughout the nearly five decades of the communist regime were addressed by the 1991 radical land reform. Its underpinning philosophy was predominantly farmland restitution, defined as reinstatement of land ownership in the pre-collectivisation era. This meant that the inevitable fragmentation was partly limited by adjudication of ownership to the original pre-collectivisation owners rather than today's heirs. Upon acknowledgement of the ownership claims, two technical approaches were applied to satisfy rightful claimants: restitution within existing or restorable real physical boundaries, or under newly designed land reallocation plans. Reallocation, being the prevailing restitution method, by law had to apply some land consolidation principles, these were:

Lands equal in quality and size; grouping land within distinct localities; transport access; shape fit for cultivation; smaller plots closer to settlement; preservation of existing parks,

erosion control, land amelioration, and other environmental control measures; retention of special land uses: irrigation schemes, rice-fields, perennial plantations.

Implementation of these principles, especially grouping, encountered severe resistance from the original owners or heirs. Neglecting the principles under pressure from the rightful claimants was a common practice. Simultaneously with land restitution, the Bulgarian land reform liquidated the collective farm structures, and shared out the collective assets. New private farm structures have been set up to replace the previous ones.

The Land reform started in 1991 and has almost been completed. The deadline for submission of claims was set for August 4, 1992. Applicants had to provide both a description of the estate concerned and evidence of ownership. Proof of ownership could be given by act of notary, notary deed, deeds of partition, TKZS protocols, land registers, applications for TKZS membership, rent ledgers and any other written evidence. Some 1.7 million applications had been submitted, mostly by Bulgarian residents, and only about 0.4 percent by legal entities. These included churches, monasteries, agricultural schools, municipalities and the state. Of nearly 5.7 million hectares available for restitution, 91 percent was claimed by individuals, mainly Bulgarian residents, 1.4 percent by the state, 5.1 percent by municipalities, which held common land before the collectivisation, and 2.4 percent by other legal entities. By the end of July 2000 restitution of the land subjected to real boundaries (Article 18g(1)) was almost completed. In total, 26.12 percent of total claimed land (1,481.4 thousand hectares) was restituted within real boundaries. Nearly seventy three per cent (4,123 thousand hectares) of all claimed land is restituted under the plans for land reallocation. So, by the end of July 2000 – 98.84 percent of agricultural claimed land was restituted.



The paradox of land reform through restitution, a necessary process in terms of human rights, is that it has resulted in inevitable fragmentation, presenting the problem of how to consolidate land into viable units.

Cultivated farmland in Bulgaria totals 6.2 million hectares, 0.4 million hectares being unsuitable for farming³ Arable land is 77 percent, and 23 percent pastures and meadows. By the end of August 1999, 94 percent of the farmland was restituted. Private farms hold 96 percent of the arable farmland (40 percent of these being co-operative farms), while the state or the municipal farms hold the remaining 4 percent. Meadows and pastures in private hands are 29 percent (33 percent of which is held by cooperative farms) and 71 percent are in public (state and municipal) ownership. Estimates show that the reform will result in more than 2.6 million private farmland titles with an average holding of 2 hectares. Our prognosis is that, on average, over 12 million plots of 0.4 - 0.5 hectares will be established, i.e. the average number of plots within one holding will be 4 to 5.

Fragmentation during land reform was partly limited by the adjudication of ownership to the original pre-collectivization owners rather than to the current heirs. Upon recognition of the ownership claims, two technical approaches to satisfy the rightful claimants were applied: restitution within existing or restorable real physical boundaries, or under newly designed parcel boundaries within land reallocation plans. The reallocation design, being the prevailing restitution approach, by law had to apply some land consolidation principles (lands equal in quality and size, grouping lands within distinct localities, transport access, a shape fit for cultivation, smaller plots closer to settlement, the preservation of existing public works, erosion control, land amelioration and other environmental control measures, retention of special land uses: e.g. irrigation schemes, rice-fields, perennial plantations, etc.).

Implementation of these principles, and especially grouping, encountered serious resistance from the original owners or heirs. Neglecting the consolidation principles under pressure from the rightful claimants was not an uncommon practice. A further reduction in average holding size by a factor of 1.6 to 1.7 is observed in the first three years after restitution.⁴ This is due to the ongoing subdivision of restituted land among the present heirs of original titleholders. Subdivisions are currently the most frequent transactions of farmland. Extrapolation indicates that the average plot size may fall to 0.3 hectares, which is the actual legal minimum for plots used as arable fields. (This minimum is 0.2 hectares for orchards and 0.1 hectares for vineyards, but restitution, especially within existing physical boundaries, produced even smaller plots).

Presently, land tenure in the country is still under radical transition. From a pattern based on large scale agro-industrial complexes and collective farms, agricultural structures are being transformed into private individual farms, farmers' associations, farming companies and privately operated co-operatives. Practically, all farmland is farmed privately today, a situation that is almost the opposite of that in 1990. The newly set up farming enterprises, however, are still not well established. There are only a small number of cases where farming enterprises have a history of more than three years. For a number of reasons, many of the co-operative farms face chronic financial and management difficulties, so their future is both uncertain and questionable. Small private farms also encounter enormous difficulties in surviving within the new environment.

³ cf. «National Plan for Economic Development 2000 - 2006», *GoB, Oct. 29, 1999*

⁴ Source: Ownership and Land Market in the Dobrich Region, *Batanov, USLMB Symposium, Sofia, Nov. '98*

3.2 State of Land Administration / Land Use Planning with an Emphasis on Rural Areas

The cadastre/land registration function is in radical transition. The old land administration structure does not efficiently perform its tasks, however, no new institutional structures have yet been established. The new Cadastre and Property register Law (CPRL) passed on April 12, 2000 and published in the State Gazette no. 34 / 2000 takes effect as of January 1, 2001. The changes include the integration of the current fragmented cadastral survey/mapping records and transformation of real right records into two institutions: the Cadastre Agency and the Registration Offices (RO) at the District Court, combined with a transition to a parcel-based deed system.

The effective 1981 Law on Unified Cadastre did not correspond with the real property right registration system, since the legislation was pertinent to a land use cadastre regardless of ownership implications. Legal land records generated by land reform, and especially by the subsequent conveyance, are still kept in an outdated negative personal deed registration system, covering only private land transactions (both rural and urban real estates). Institutionally it is run by the RO's at the District Courts. The cadastral survey/mapping and land reform output information are kept by either the Land Commissions (LC, Ministry of Agriculture and Forestry) – for agricultural and forest domains, or by the Technical Services (TS, Municipal Administrations) – for the urban areas. As a rule, there are conflicts between the records at the LC's and at the TS's, especially the edge-matching issues of land domains (i.e. between agricultural, forest and urban land domains)⁵.

Maintenance of the cadastral survey/real rights record is now insecure, because the registration system is not mandatory for transactions between public bodies. It is triggered only on a sporadic basis, and the passing on of title changes from the RO's to the LC's / TS's is not guaranteed in practical terms. The problem of keeping the cadastral records up to date is not as dramatic for rural property as it is for urban property, because the number of transfers of farmland property is small. However, this unreliable flow of information reduces data quality and the value of the cadastral records in rural areas. Hence the cadastral/land registration records are not comprehensive, complete, or integrated, and have to be checked, refined, verified and updated before any land consolidation initiative is implemented.

In terms of planning, there are critical deficiencies in the relevant policies and practices. The most important issues for regional development, including rural development, are⁶: the lack of a comprehensive, conceptually sound and long term policy; the weakness and lack of experience in the institutions (especially at local and regional levels); the unsatisfactory co-ordination of sectors at all levels; insufficient local and regional initiatives and activity; and a shortage of up-to-date and reliable specific regional and local information. This is not a good environment for land consolidation initiatives, as already evidenced by the dropping of a land consolidation law in the revised legislative program of the Government.

The land use planning function in the past was deeply involved with the former collective farm organisations of Bulgarian agriculture. The land restitution and liquidation of the collective farms in the early 1990s caused the collapse of the institutions and practices of land use planning in rural areas. These have not yet been replaced, leaving a spatial planning gap

⁵ cf. Phare TA to Land Registration / Cadastre, phase III; MATRA TA project in Dobrudja

⁶ cf. «National Plan for Regional Development 2000 – 2006», *GoB, 1999*

in rural areas. The instability of the new farming enterprise structure, which is still being established throughout the country, is one of the major reasons for the continuing absence of a comprehensive planning framework for farmland use. The spatial planning draft legislation, presently under review, contains very detailed regulations on urban planning procedures, but says little about rural areas. Thus, farming enterprises today rely on outdated land use patterns designed for a different economic environment. These land use patterns hardly correspond to any public needs, as they neither reflect the present farm structure, nor conform to the newly established land tenure pattern.

The fact that the newly established ownership pattern is totally inadequate for viable modern farming (due to uneconomic land fragmentation), combined with the absence of land use planning institutions and practices, explains why the physical land use patterns follow, in general, the designations of the old plans and usually disregard property boundaries, dirt road networks, etc. Thus, on top of the ownership and leasehold pattern of land tenure, there is often superimposed a different, traditionally established, land use format, which, in its turn, underpins a set up based on informal land exchange. This redistribution of leasehold rights creates land tenure practices, with hardly any legal regulatory framework, which, strictly speaking, are legally irrelevant and unenforceable. On the other hand, it is a pragmatic solution arrived at by the mutual agreement of the concerned parties, driven by sound economic logic. On many occasions this is the way that large commercial lessee-farmers, farmers' associations and farm co-operatives arrange sufficient consolidation of their farmland holdings to realise significant economies of scale.

3.2.1 Available Land Records and Mapping Coverage

Legal Land Records: RO jurisdictions generally coincide with the territories of one to four municipalities. There are exceptions where a municipality is split between two or three offices. The 112 RO jurisdictions cover the whole territory of the country. They keep the deed registers, in which the records are arranged in paper ledgers by alphabetical order of the names of persons, vested in the real rights. All deeds refer to the parcel identifiers in their description of the real estate. Most of the RO's keep only a paper-based system, and no more than 50 of them have some form of computerised information system, whereby the root of title may be traced back in time, albeit for a limited period. In order for a farm land parcel to appear in the register, either it should have been subject to a transaction (e.g. a subdivision, sale, etc.), or else a 'fact-ascertaining' deed should have been issued on the initiative of the land owner or his heirs, verifying that all the pertinent title documentation was duly issued by the LC's and that the act of restitution was registered in the legal records. However, land can be legally held, not only by deed, but also simply by LC title documentation, meaning that the legal land records in the RO's are incomplete. Due to their outdated paper index systems, the RO's rarely offer easy access to land records (e.g. by parcel identifier, or by attributes other than the name of a person).

Mapping. One outcome of farmland restitution is that the available national large-scale topographic map (1:5,000) was updated in the agricultural and forest domains, and is available in hard copy. As a rule, there is no digital topographic mapping prepared with the graphic detail and accuracy for a scale of 1:5,000. In terms of ortho-photo or aerial photo images, the available materials are more than 10 years old. Within the last 10 years there has been hardly any attempt to apply aerial photography.

The original paper format 1:25,000 soil maps, on the basis of which land category is determined, were mechanically enlarged for land reallocation purposes with very little, if any, additional soil surveys. Thus the land category attributes of rural properties are by now very imprecise, despite this they are critical in any statutory valuation of farmlands. Presently, there is no government-supported maintenance and updating of these spatial data. From a land consolidation perspective, the updating and refining of this mapping is highly desirable, but also highly expensive.

Cadastral Land Records: The cadastral land records of farmland are kept in LC's on a temporary basis, while the new institutional structure of the Cadastre Agency is established. After that, this database will be transferred to the new institution, where, after verification, additional checks and updating, it will become the cadastral register. In principle, LC jurisdictions coincide with the territory of municipalities. The database kept by the LC's covers only the agricultural and forest domains. For the forest domain, land restitution is still ongoing, with an expected deadline for completion by the end of 2001. The database is arranged by Territories Belonging to Settlements (TBS), which, within the municipalities, range in number between one and more than 80 (e.g. more than 80 in the municipality of Dobrich.). There are 272 municipalities in Bulgaria, and approximately 5,000 settlements in the country with their own territories. TBS boundaries are both administrative and property boundaries.

The usual indicators of the land restitution schemes within villages/TBS's are the new land reallocation plans (in practical terms, cadastral plans) to the scales of 1:2,500; 1:2,000 and 1:1,000, depending on the predominant plot sizes. These show the coordinated legal parcel boundaries and parcel identifiers, the present land categories within the established national 10-grade scale of soil suitability (fertility/productivity), and the easements and encumbrances that have a geographical location and extent. A standard minimum of topographic detail is also shown on the maps, in both paper and digital format. The computerised information system in the LC's also maintains a real rights component that has no ultimate legal value, but, with some updating and verification, could be transferred systematically to the new registration system. Data refers to the original (mostly deceased) landowners, and the present heirs/owners are hard to identify or contact, especially when they live outside the villages. The estimated proportion of absentee owners/heirs is 70%. The data kept by the LC's is maintained through private survey contractors to the Ministry of Agriculture and Forestry. The legal component is kept up to date only if there is some feedback from the RO's, which in most cases, does not happen. In practice, this is one of the weakest links in the present cadastre/land registration system.

In terms of convenient public access to the farmland records, there is still much to be desired. The present information system at the LC's, although computerised, can hardly be described as client oriented. LC's, who have the monopoly among land information service providers are very inflexible and still cannot offer meaningful information services and information products to their potential clients, to support the land markets, etc. A further obstacle is the unclear procedure and level of public access to the real right records, both from the LC databases and from the RO's. At present, only land owners/heirs have unlimited access to the cadastral and legal land records. This issue should be resolved if any land consolidation initiative is to be successful.

3.3 *The Land Market*

3.3.1 *The state of the farm land market*

Sales. It is generally agreed that the land market, though liberalised, is not functioning properly. A major constraint to the agricultural land market is the fact that there are multiple claimants to the same piece of land. This is because land was often restituted in joint ownership to a group of heirs of the original owner. To exercise these ownership rights jointly is often practically difficult, so a process of subdivision usually precedes all acts of individual disposal/sale of land. With the exception of Dobrudja, where farmland markets do function properly, subdivisions are the most common farmland transactions. The Government does not have a policy to manage this process, causing further fragmentation of land ownership. Another constraint to the sales market is the present low-level of market values. This is clearly a disincentive for landowners to sell, and by an overwhelming majority they prefer to forgo this irreversible decision and keep their farmland property intact, even if it is not generating any income for them.

Leases. Far more widespread, are farmland transactions involving farmland leases. There is much more experience of this, because leasing out started effectively as early as 1991, on the basis of ‘provisional’ titles to land issued to the rightful restitution claimants. There are two legal options to obtain the right of use to farmland: a rental agreement (usually up to 4 years, but not more than 10 years), and lease (for more than 4 years). So far, rental agreements have been preferred, because these short-term agreements are more informal and easier to conclude. Leases have to be notarised and registered at RO’s and LC’s, thus transaction time and costs are higher than for ordinary rental agreements. After the last amendments to the Co-operatives Law, the co-operatives, as tenants of numerous individual farmland properties, are also obliged to sign formal lease agreements with the owners. Despite the legal provisions, the instances of registered farmland leases are still infrequent. The rental values of farmland have been stabilising recently. Both rents in kind and cash are common. Co-operatives usually agree in kind rents, while private lessee-farmers tend to prefer cash rental agreements.

A common market constraint is the lack of simple, inexpensive, quick and secure legal procedures for transferring an interest in land. Usually transfer procedures are sophisticated, cumbersome, and sometimes of questionable security. In contrast with the large number of citizens with a vested interest in farmland, public awareness of land market issues is low. There is no incentive for real estate brokers to offer client-oriented services or consultancy in the rural land markets. Thus, the institutional environment for essential infrastructure to support the market is not in place. An indirect market constraint is the lack of accessible and reliable market information at all levels, i.e. government decision-making, regional/local economic development, regional/local administration, including the tax authorities and authorities providing market services, farmers and landowners. These limitations of the farmland markets are potential obstacles for the process of land consolidation through market forces.

3.3.2 *Characteristics of the Land Market in Bulgaria*

Returning agricultural land to its previous owners was expected to lead to the creation and revival of the market for agricultural land and its development was expected to proceed at an acceptable rate. Nine years after the launch of the restitution process in agriculture, the

country offers a rather motley view in terms of the supply and demand for agricultural land and the location and size of land that is available. Generally speaking, the initial expectations of the new owners and the governing bodies were not lived up to. Currently there is an existing market for land only in certain regions, i.e. Dobrich, Plovdiv & Silistra. In other regions the first signs of a real land market are present, i.e. Veliko Tarnovo, Varna, Rousse and Lovetch. In the rest of the regions, i.e. Sofia, Bourgas, Sliven, Shoumen, Razgrad, Blagoevgrad, Vidin, Vratza, Stara Zagora, Targovishte, Gabrovo, Pleven, Montana, Pazardzik, Smolyan, Haskovo, Kardzali, Iambol and Kiustendil, individual sales of agricultural land have been accomplished, which cannot be deemed representative and are not ample evidence of an existing land market.

The currently existing market for agricultural land in Bulgaria can be divided according to the following criteria: (1) territorial; (2) product mix, (3) the type, method and amount of the lease paid. When considering the land market in these terms, one must also include other factors, such as the type of culture practised and weather conditions as indirect influences on territorial division. The land market and land prices are therefore geographically differentiated.

3.3.3 *The rental market*

Due to the unfinished land reform, the rental market in Bulgaria has developed mainly on the basis of land provided for temporary use. Only a few contracts were concluded for land for which landowners had notarised deeds resulting in a large proportion of short-term (one-year) leases. As can be expected with rudimentary market institutions, there have been wide ranges of rents not established by expectations of realistic financial returns to farming in the near future.

In the short to mid-term there will be several factors that are expected to fuel the development of a rental market. These include the strong cultural predisposition to the retention of land ownership plus the time necessary for changes in psychological attitudes, and the adoption of more rational economic behaviour. Another factor is the macro-economic framework, which causes circumstances where it is preferable to rent land instead of selling it.

In terms of the type and method of payment of the rent for the land rented or leased, the land market can be divided into four parts: regions where rent is paid in cash, in kind; in cash and kind and where rent is not paid at all,

During 1999 the payment of rent in kind was still prevalent, on a national scale it is 80 to 85 percent³. The remaining 15 to 20 percent are rent in cash and mixed rent. Rent in kind is mainly paid in regions where cooperative farms operate. Some village residents still prefer to receive their rent in kind, e.g. they look after animals in their yards (one or two cows, a few hens, pigs, goats or sheep), and use the products given to them for feed. On the other hand, some landowners (especially the elderly) are happy to accept products that they consider necessary to provide for their daily needs. However the city dwelling landowners would rather get their rent in cash, in order to satisfy different needs and requirements. Absentee landowners are particularly happy to receive rent without problems, via bank transfers, Western Union, etc, no matter how far away they are from the land they own

Some basic features of rent in kind paid in Bulgaria:

- The rent depends on the average yield.
- It is determined beforehand.

- Peppercorn rents (for example on a cooperative farm in the city of Strazhitza, five bottles of sunflower oil and sometimes 50 kg of barley are given for each hectare of land rented), which cost more to collect than it is worth.
- The products most often given as rent in kind are wheat, seed corn, barley, sunflower oil, potatoes and flour.
- Where the rent is paid as a percentage of the average yield, the values vary hugely and chiefly depend on the types of crops grown.
- The most common combination is a certain amount of cereals and sunflower oil. The average size of this type of payment is 300 to 500kg/hectare cereals and 20 to 50 litres of oil per hectare.

Approaches for rent determination:

- As an exact quantity of a certain product per unit of land, disregarding the average yield;
- As a predetermined percentage of the average crop yield;
- As a predetermined quantity of produce up to a degree of the average yield plus a percentage when the yield is higher than average.

The evaluation of rent relations by paying rent in kind has opposing effects on the development of the land market. On one-hand it hampers it, because the valuation in kind is not a criterion on the basis of which the price of a unit of agricultural land can be determined, i.e. the possibility to determine the price of the land on the basis of its profitability is diminished. In this case the prices demanded greatly differ from the prices offered and the market is distorted. On the other hand, it assists the land market because it results in long-term low income, especially for those landowners requesting their rent in cash, which deters the landowners and receivers of rent in kind from operating their own property, leading them to enter the land market as sellers.

Rent in kind is to a certain degree unfair to its receivers, because of the variation in prices of the individual products used to pay rent. If the rent in kind is translated into a cash amount based on market prices, the income received by the renter fluctuates, differing to a great extent over the years, especially with long-term contracts and a fixed quantity of produce. This instability does not benefit the receiver of the rent in kind.

We can draw the conclusion that in the regions where rent in kind is prevalent the land market is dormant. Therefore overcoming the limitations of this system by converting it to rent in cash, can lead to the determining of the real value of agricultural land and can ‘wake up’ the land market. The same conclusion could also be drawn for the regions where mixed rent is used, although this is not so popular or widespread. In the regions where rent is paid in cash, there is a land market. The price of land is determined by the sum of several annual rent payments (most commonly for a 7 to 10 year period). The amount of rent-in-cash payments is much larger than the value of the rent paid in kind. These payments are made cash-in-hand in the producer’s front-yard. There is no definite payment period, which means that every lessee decides on when to pay. This is not the case with rent paid in kind, which is paid out at the end of the crop year after harvest. A small minority of farms have adopted the bank transfer system of payment.

In the regions where land is farmed but no rent is being paid, the land market is either non-existent, or the price of land is too low. Non-payment of the rent, and the unwillingness of owners to farm their land, leads to it appearing on the land market for sale at any price, this results in the loss of its real value as a resource.

Subject to the new Cooperative Law, each cooperative farm has to sign a lease/rent contract with the owner of each plot submitted for cultivation to the cooperative farm. This means that the owner cannot become a member of the cooperative farm by using his/her land as a membership fee. This will cause a considerable change in the landowners' way of thinking and might lead to greater flexibility in land-renting relations, forcing the management of the cooperative farms to assume more responsibility in their handling of the agricultural production processes.

Throughout Bulgaria there is a ready supply of land, with a lack of informed and active demand. The sellers' perceptions about the highs and lows of the price of land impede the growth of the market. A large number of landowners wishing to sell land have no real concept of market forces, so their market relations are confused. Prices offered are not attractive and there is little interest in the future of this kind of ownership, and the mentality that should go with it. The mindset of a quick monetary gain from the sale of agricultural land recovered by restitution will be hard to overcome.

In 1999 the supply and demand of land grew in the country, but not to a satisfactory degree. The main reasons for this are:

- The restituted ownership of land and the opportunity to realise any kind of deals with it;
- The demand for consolidated land, in certain regions, suitable for a particular kind of production by large-scale producers with developed markets and channels for the distribution of their products;
- The economic needs of some households.

The deals with agricultural land are geared towards:

- The purchase of agricultural land from physical persons for agricultural needs. The price varies between 500 and 2,000 BGN/hectare, in certain regions up to 4,000 to 5,000 BGN/hectares;
- The purchase of agricultural land from physical persons for inclusion in regulation plans of settlements nearby, or in the vicinity of, important infrastructure developments, e.g. highways, main roads, harbours, resorts, international bridges, etc. The price is determined per square metre, not hectares;
- The purchase of land from the municipalities subject to Article 4 of the LOUAL;
- The transfer of ownership by the owner to other people, most often relatives, at nominal prices;
- The purchase of agricultural land to be exchanged at a future date for state consolidated agricultural land;
- Sales from the State Land Fund.

3.4 *Characteristics of the agricultural land market in the region of Dobrich*

In the region of Dobrich, our study area, the land market was initiated after 1994. Currently, this is the region with the largest number of deals contracted, of ownerships transferred, and the best developed market relations in the agricultural sector. In just the one week, beginning 08.05.2000, deals concerning an area of 50 hectares were signed. This early activity in the land market is due to the fast completion of the land ownership restitution process.

The territorial land markets can be divided into Western and Eastern.

The Western part includes the counties of Tervel, Krushari, and the Northwest area of the municipalities of General Toshevo and Dobrich-rural. This is an area scarce in financial and labour resources, with a strong ethnic minority of Turks & Gypsies, and less fertile soils. The land market is less developed and land prices are 30 to 50 percent lower than in the Eastern part of the region. The Western part also includes the municipalities of Silistra, Dulovo and Alfatar. The settlements in the area are underdeveloped in terms of infrastructure and are far away from important transport junctions. The city of Silistra is an exception as it lies on the Danube River and has a harbour. There is no well-networked railway system in the region and the roads are badly maintained. Hence the weak demand for agricultural land in the region.

The price of land in the region is from 500 BGN/hectare up to 800/900 BGN/hectare.

The Eastern part includes the municipalities of General Toshevo (excluding the north-western part), Dobrich, Dobrich-selska, Kavarna, Baltchik and Shabla. This is an area with extremely fertile land. Labour resources are greater and of better quality in terms of education and age. Two harbours are also present: Baltchik (with a 200,000-tonne capacity) and Varna harbour close by. The airport in Varna ensures quick export access at low transportation prices to any destination in the world, mainly Turkey, the Ukraine, Russia and the Near East. This region is better off financially than the Western part. Also, the tourist industry is flourishing, which is a source of alternative employment ensuring high levels of income, especially in the summer months, therefore a considerable amount of the labour force is assimilated. The region is also a large consumer of agricultural goods.

In the Eastern part there are some of the largest lessees in Bulgaria. The reasons they are here, as opposed to elsewhere in the country, are:

- Their patrimony is situated here;
- The quality of the agricultural land;
- The weather conditions, are ideal for the growing of cereals such as wheat, corn & barley, all of which require large areas for the effective utilization of equipment;

The price of land varies from 600 to 700 BGN/hectare, up to 1,800 to 2,000 BGN/hectare, while the average price is 1,300 to 1,600 BGN/hectare.

The price of land in the area is determined by the following factors:

- The rates of rent paid over the last few years;
- The number and size of the parcels offered and the number of owners/co-owners;
- The limiting infrastructure developments, situated over, under or along the parcels;
- The crops grown on the land, i.e. the profitability per unit of land;
- The presence of competition between producers and lessees in the region;
- The supply/demand ratio;
- Loopholes in the legislation, by which the lessees do not assume responsibility for unpaid rent for the leased land.

The land market is very active and the supply of land still exceeds demand.

The main buyers of land are the large-scale lessees. It is typical for them to start buying land only 2 to 6 years after starting their businesses their first purchases being very small compared to those in the consecutive years.

3.5 *Institutional, organisational and administrative aspects of land administration*

Specific land administration/planning institutions pertinent to any land development are:

- **The Land Commissions.** LC's are local structures of the Ministry of Agriculture and Forestry, presently charged with keeping and maintaining cadastral land records, and the delivery of land information services for the agricultural land domain. In parallel, LC's are charged with the direct administration of the ongoing forestland restitution. LC's, as special administrative jurisdictions established under the land restitution legislation and exclusively for restitution purposes, are not charged with any spatial planning functions. The land information, stored in the LC's, will be systematically transferred to the newly established Cadastre Agency structures after 1 January 2000. With regard to this transition, the longer-term future of LC's is indefinite and unclear. In the case that specific land consolidation legislation is passed in the future, LC's may well be charged with the administration of such schemes.
- **Technical Services.** TS's are departments within the Municipal Administrations, presently charged with keeping and maintaining cadastral land records, and the provision of land information services for the urban land domain. In parallel, the TS's are charged with the keeping and maintenance of detailed urban planning prescriptions (the so-called 'regulation' plans), and the delivery of relevant urban planning and land use services. The cadastral land information, stored in the LC's, will be systematically transferred to the newly established Cadastre Agency structures after 1 January 2000. With regard to the future of the TS's, it is unclear what will happen with their urban planning function, whether it will remain within the municipal administration, or it will be also transferred to the Cadastre Agency structures⁷.
- **Registration Offices.** RO's are departments within the District Courts, which are the first instance courts of the independent judicial authorities. They are charged presently with the keeping and maintenance of legal land records, and the delivery of relevant information services for all land domains. The information stored in the RO's will be re-organized in accordance with the CPRL and in co-ordination with the Cadastre Agency. It is expected that the land records for the agricultural and the forest domains will be systematically transferred, with minimum verification, from the LC's to the RO's.
- **Regional Cadastre Offices.** These will be established under CPRL. They will take over functions from LC's and TS's, and will have to link and closely co-ordinate their functions with the RO's. They will be charged with the keeping and maintenance of all cadastral records and mapping, and the delivery of land information services after the transition.
- **Regional Government.** These central government offices are charged with the administration and co-ordination of regional/local development and sectoral policies at regional/local level. They organise the work of the regional councils for regional development - the consultative and harmonizing bodies for regional/local development - and administer the regional development plans. Their experience in this field is so far rather modest.
- **Municipal Governments and Administrations.** These should be the initiators of local development plans and among the main participants in regional development planning procedures. In theory, with hardly any recent practice to call on, they also should be initiating any land development schemes, in co-ordination and close liaison with the

⁷ The Cadastre and Property Register Law does not rule out such an option. Pending the publication of government / ministerial ordinances under CPRL (that are being drawn up now) this is yet unsettled.

relevant local branches of the central government, ministries, state and executive agencies, and state commissions⁸. The municipal teams working on municipal development differ according to the structure of their administrations. Generally, there is a lack of experience in this field.

In spite of the fact that the LC and RO in Dobrudja are among the best-equipped offices of their kind in the country, as a result of the cadastre/land registration pilot projects in the area, their mutual information exchange link is weak. The rest of the land administration/planning institutions also suffer an apparent lack of good inter-departmental communication and inter-sectoral co-ordination⁹. Thus, in common with the rest of the country, the authorities have no LIS/GIS database and/or technology available for the purposes of land use planning and/or regional/local/rural development. A natural institutional home for such LIS / GIS resources should be the municipal administration. However, the fragmented cadastral records between the major land domain types, and the lack of sound, straightforward regulations for land information management are the primary reasons for the ongoing lack of a relevant land and geo-referenced database. A priority in establishing favourable conditions for land consolidation and regional/local/rural development should be the setting up of regional/local LIS / GIS.

The regional development plan identified key projects for the Dobrich region that are not directly related to land consolidation (i.e. the replacement of water supply mains; sewerage collection and bio-processing of waste water; reclamation of inter-municipal landfills; reconstruction and modernisation of the main and the fourth class road network; and improved milk collection hygiene). The national, regional and sectoral strategies for the period 2000 to 2006 do not mention any land development initiatives. Thus, the land consolidation theme is not a national or regional priority. Apart from a general striving for a more effective and competitive agricultural sector, there are no specific measures directly relating to land consolidation. Furthermore, after its review at the end of 1999 the Government programme¹⁰ has dropped land consolidation as an immediate legislative objective. At the same time, some government and MAF officials state that consolidation is firmly on the agenda. This indicates an inadequate consistency of governmental land policy.

⁸ It is worthwhile to note that municipal governments and administrations – traditionally – tend to concentrate on development within urban / industrial territories, thus bypassing to an extent rural development / farm land use planning, and leaving them to the regional / local structures of the Ministry of Agriculture and Forestry. This is a consequence of the traditional fragmentation of land information for the urban domain, on the one hand, and the agricultural and forest domain – on the other.

⁹ cf. «National Plan for Regional Development 2000 – 2006», *GoB, 1999*

¹⁰ cf. «Future for Bulgaria», *GoB, 1997; 1999*

4 Dominant characteristics of Bulgarian Economy and Agriculture

4.1 *Macro-economic framework and the place of agriculture in the economy of the country*

Economic reform post-1990 in Bulgaria was based on price and trade liberalisation, the elimination of state monopoly and privatisation of the state enterprises, the restitution of land and the promotion of competitive structures in all sectors of the economy. Simultaneous reforms were carried out in the different sectors of the economy. Unfortunately, the rapid changes in politics and frequent changes of government led to inconsistent state policy and to the economic crisis at the end of 1996 and the beginning of 1997. The establishment of the Currency Board (during July 1997) led to the stabilisation of the micro-economic indicators. Over the last three years inflation has been reduced, interests rates are now low and stable and real income has stabilised.

Gross Domestic Product (GDP).

During 1998 inflation went down to 1 percent (1997: 578.6 percent), in 1999 the rate went up to 6.2 percent. The expected inflation rate of 2000 is 2.8 percent. The economic crisis of 1996/1997 caused a drastic drop in the GDP.¹¹ The introduction of The Currency Board in July 1997, led to a growth of 3.5 percent in GDP in 1998. There was only a small decrease during 1999 of 4 percent and an increase of 5 percent was expected in 2000. During the last seven years, the budget deficit ranged from minus 13.6 percent in 1993 to minus 3.1 percent in 1997, and minus 1.5 percent in 1999. A budget surplus was reported only in 1998, of 2 percent. The expectations were that the budget deficit would remain at minus 1.5 percent in 2000.

The GDP it generates, the number of people employed, and the size of direct foreign investments mark the place and role of agriculture in the economy of Bulgaria. The part of agriculture in the GDP until 1997 has remained relatively stable, varying from 11.2 percent to 13.8 percent. In 1997 agriculture held a major share of 23.5 percent of the GDP, with a 20.4 percent decrease in 1998, producing an 18.7 percent GDP share.

The development of the agricultural private sector, producing 99.4 percent of the share generated from agriculture, is reflected in the 1998 GDP. This increased percentage of the overall agriculture share in the GDP is due to the improving, though still relatively weak, stability in the sector and the stirrings of a revival in production, brought about by the privatisation of the large part of the connected fields of enterprises, and completion of the land reform. After an economic crisis at the beginning of 1997 the share of agriculture in the GDP marked permanent decrease, reaching 9.3 percent in the first quarter of 2000 (Table 4.1).

¹¹ During 1996 the size of the GDP was (-10.1%), while during 1997 it reached -7%.

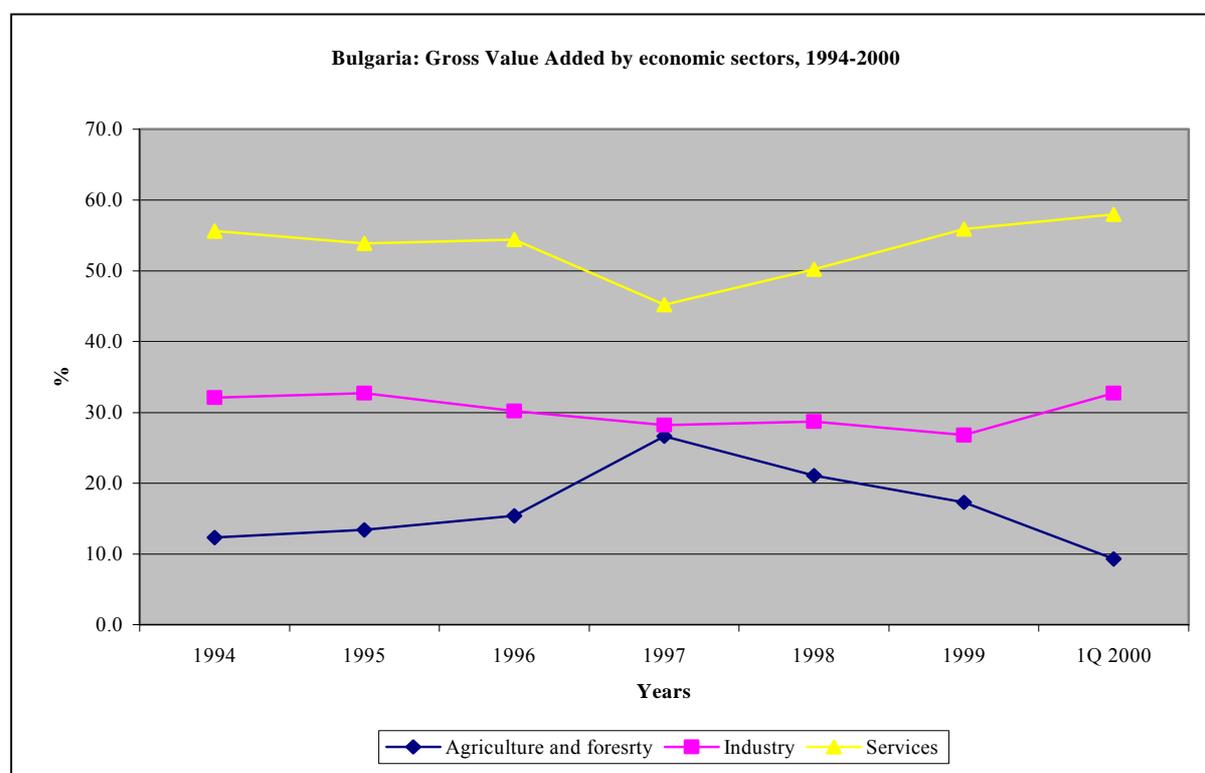
Bulgaria: Gross value added by economic sectors, 1994 - 1999

Year	relative share - %						
	1994	1995	1996	1997	1998	1999	1Q 2000
Agriculture and forestry	12.3	13.4	15.4	26.6	21.1	17.3	9.3
Industry	32.1	32.7	30.2	28.2	28.7	26.8	32.7
Services	55.6	53.9	54.4	45.2	50.2	55.9	58
Gross value added at basic prices – total	100.0	100.0	100.0	100.0	100.0	100.0	100

Source: National Statistical Institute

Economic Development

In a four year period, the relative share of agriculture and forestry in gross value added at basic prices increased, in 1994 it was 12.3 percent and in 1998, 21.1 percent.



Source: NSI

In 1999 the relative share of agriculture was already 17.3 percent, and in the first quarter of 2000 it was 9.3 percent. In spite of this the share of agriculture significantly decreased in the years 1997 to 1999. The share of individual consumption of GDP in 1994 was 82.9 percent, 73.8 percent of which was household final expenditure, the 1998 figures are 79.8 percent and 72.4 percent respectively.

Foreign Direct Investments (FDI)

In 1998 foreign direct investment in agriculture, forestry, and fishery was a mere 1,255 US dollars (0.2 percent of all foreign investments). This limited FDI is often attributed to the legal restrictions on purchase of land by foreigners, excessive bureaucracy and corruption. From 1992 to 1998 foreign investments in Bulgaria accounted to 2,022,759,422 BGN. The distribution of foreign investments by regions is unequal regarding the preferred sectors of the economy and the time scales.

Based on the amount of foreign investments, Bulgarian regions can be categorised as follows:

- Group I - regions with more than 100,000,000 BGN foreign investments. Their share is 72 percent of all the money invested in the country. This group includes the following regions: Sofia City, Sofia, Varna and Gabrovo. The favourite is Sofia City, its share being 44.5 percent.
- Group II - regions with foreign investments between 50,000,000 BGN and 100,000,000 BGN. The share of this group is only 8 percent from the total foreign investments.
- Group III - regions with foreign investments between 10,000,000 BGN and 20,000,000 BGN. This is the most numerous group (14 regions) and its share is 19% of total foreign investments. This group includes the Dobrich region with total foreign investments of 11,355,778 BGN, which is 0.56 percent of the total for Bulgaria.
- Group IV - regions with the smallest share of foreign investments. The share of the investments for each region varies from 0.52 percent to 0.003 percent of the total foreign investments. The share of this group is only 1 percent.

The attractiveness of the regions in the first and second group is determined by the following factors:

- Existing product diversification: In comparison with other regions like Pernik, Smolian, and Kardjali, these regions are not specialised in the production of one particular product. This gives bigger opportunities for the investors and pre-supposes more regional adaptation.
- Existing traditions and experience in certain productions in the field of industry, transport, tourism, trade.

The distribution of the foreign investments by sectors in the economy illustrates the investors' preferences. Mainly they are targeted at a spread of different producers. For some of the regions the investments made in recent years are only in industry. In total, for the whole period, the share of foreign investments in the industry is 50.11 percent, while the share of the foreign investments in agriculture is 0.01 percent. In second place is trade with 28.61 percent, followed by the finance sector with 11.65 percent. The rest of the sectors have a share from 1 percent to 3.75 percent (Table 3).

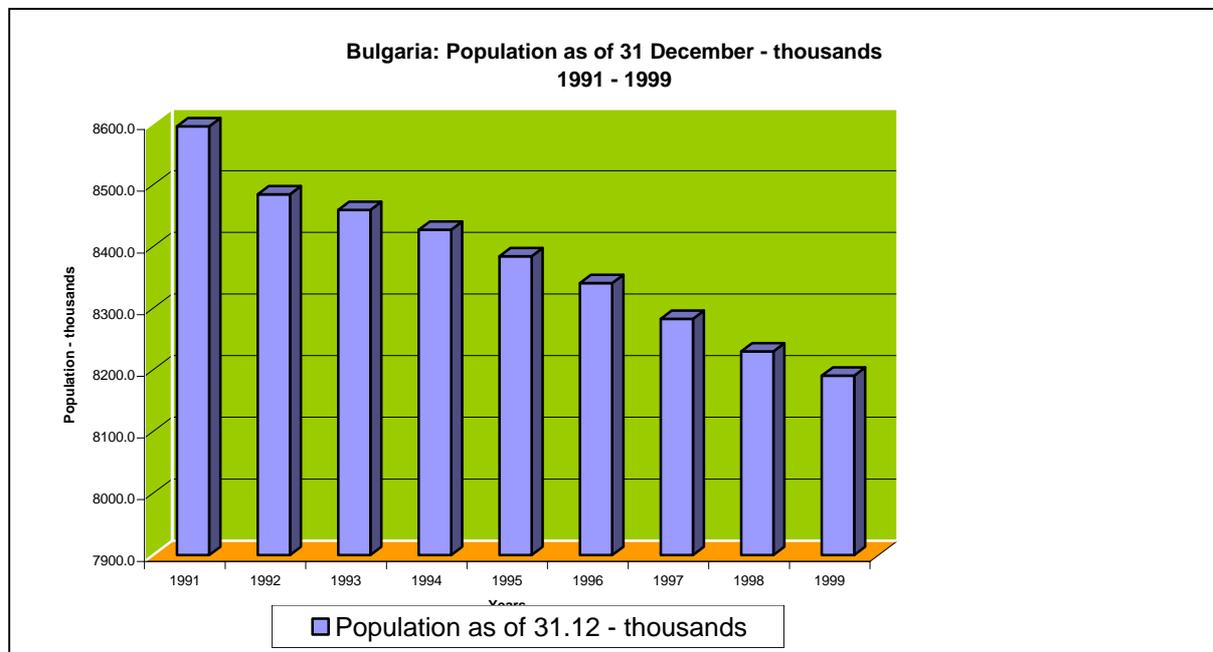
The Dobrich region is in seventeenth place among the 28 regions of Bulgaria, with a share of 0.56% from total foreign investments. All the investments until the end of 1998 were in trade (12,000 BGN) and tourism (1,709,554 BGN).

Three other regions, totally diverse in their development, surround the Dobrich region. The Varna region which is included in the first group with a share of 14.07 percent, the Shumen region with a share of 0.76 percent and the Silistra region with a share of 0.08 percent of the foreign investments in Bulgaria.

4.2 Socio-demographic indicators

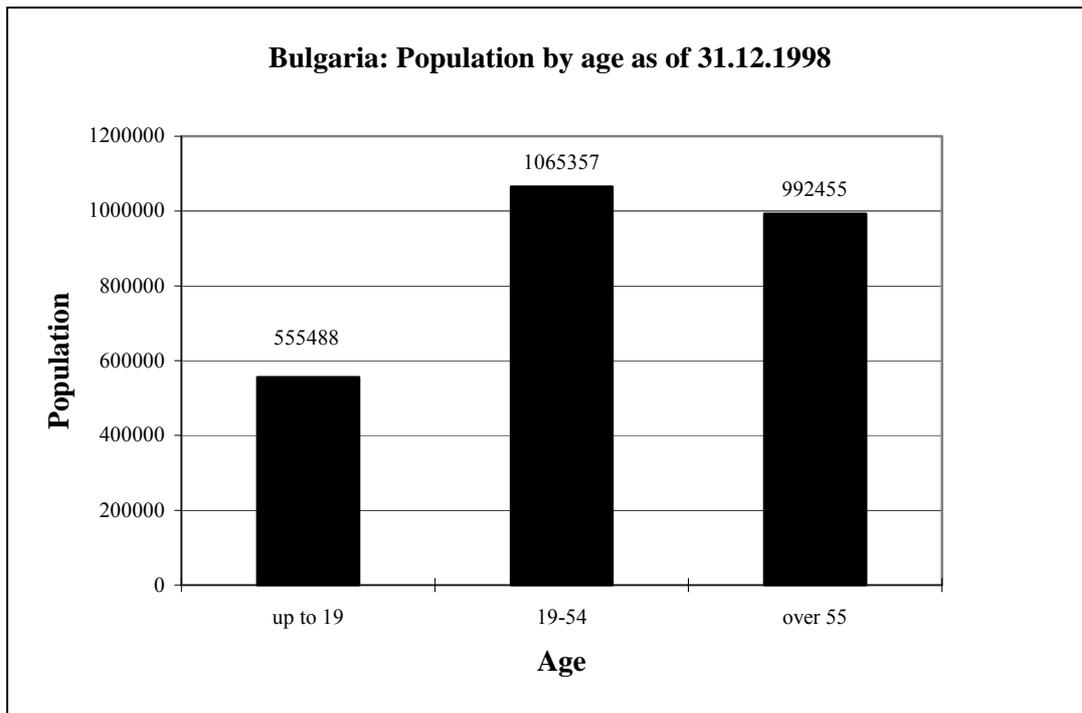
4.2.1 Population

The population of Bulgaria is decreasing. The total decrease from 1991 to 1999 is 405,500, or 4.71 percent. The tendency is ongoing and is stronger in the years after the 1996' crisis. In 1999 the population was 8190.9 thousand (Figure 4.17). The declining population is combined with a decrease in the density of population per square km – from 77.4 in 1991) to 74.2, 1998, and 73.8 in 1999, (Figure 4.18). The natural increase (per 1000 people) has been negative: minus 1.7 from 1991, through minus 5.0, 1995, up to minus 6.4 in 1998 and minus 4.8 in 1999. The natural increase is still high in the villages: minus 13.9 in 1997 to minus 11.1 in 1999. The migration from the villages still exists and in 1998 the rural/urban ratio was 47.1 while in 1991 it was 49.0. The only positive increase is the average age of the population: from 37.8 in 1991 to 39.4 in 1998 and 39.6 in 1999. The average age of the population in the villages is higher than the population in general, being 43.5 years in 1997 and 44.0 years in 1999.

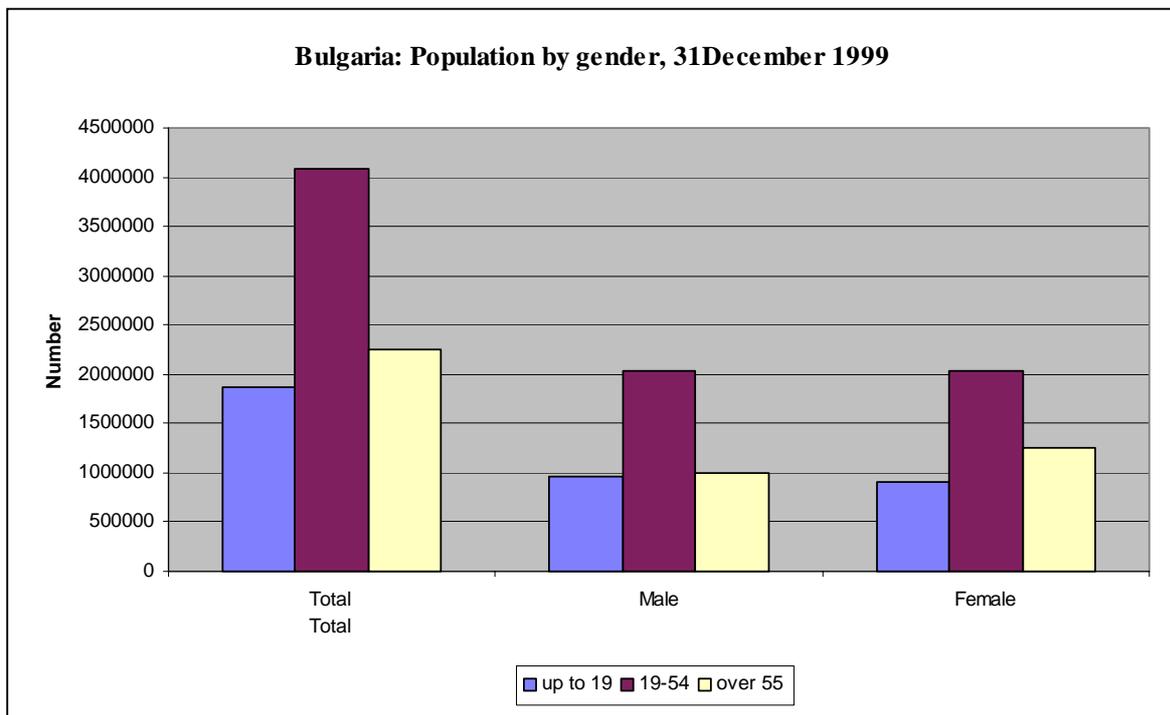


Source: National Statistical Institute

The number of children below 19 years is 568,530 (0.22 percent of the total population in the rural areas). The population over 55 years is 1,004,743 (0.38 percent). 643,947 (0.24 percent) of them are over 65 years. Of the rest, which is 1,060,345 (0.40 percent), 503,974 (0.19 percent) are women of working age. As a result, the men of working-age (19-54 years) in the rural residences are 0.21 percent from the total population, or 556,371.



Source: National Statistical Institute



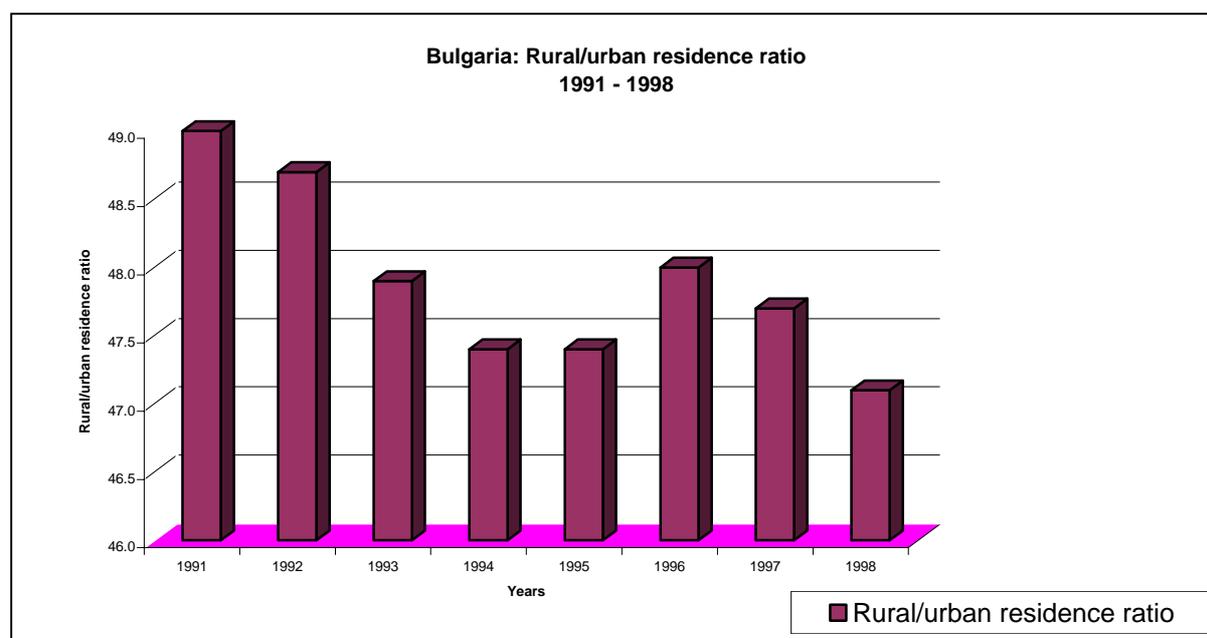
Population density in rural areas is half the country average (Figure 2.4 - Annex 1). In comparison with OECD standards, it is nearly four times lower. Population in rural areas accounted for 44 percent of the total population (Table 2.5).

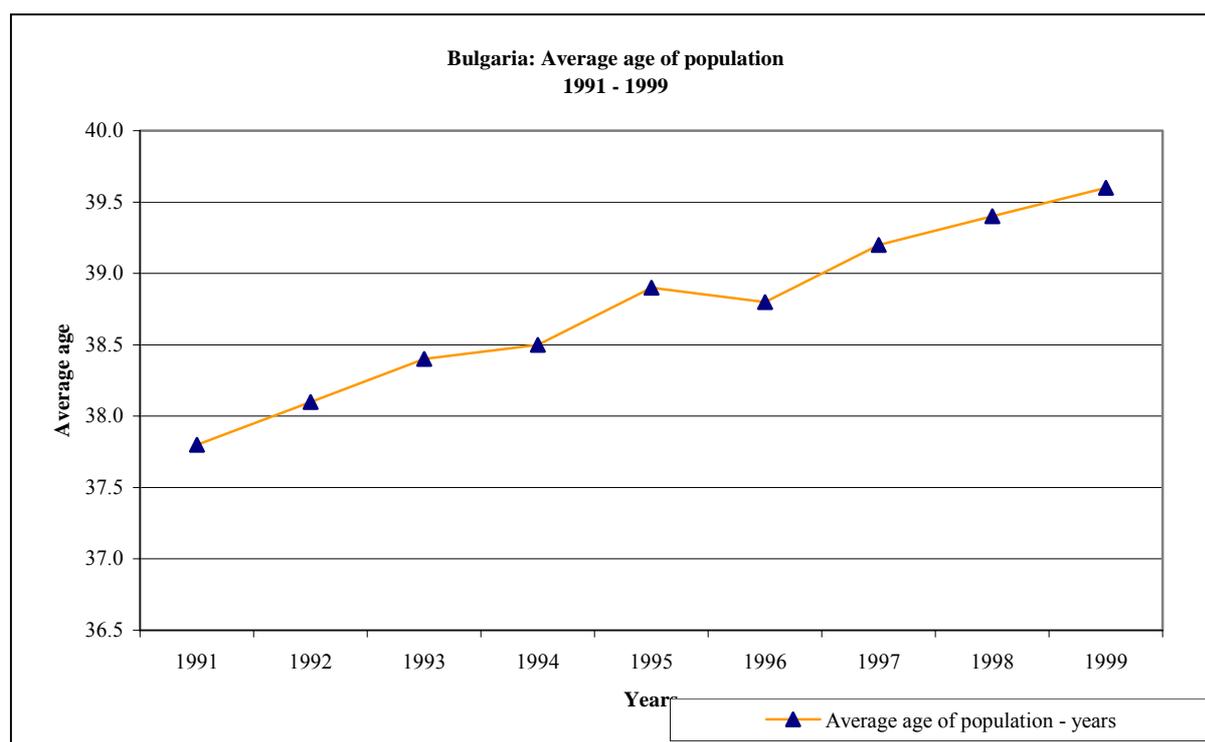
Population Density in Bulgaria in 1998

	Area		Population		Population Density
	Km ²	%	Thousands	%	Persons/km ²
Bulgaria	110 910,00	100	8 230,40	100	74,21
Urban Residence	20 539,00	18,52	4 617,60	56,10	224,82
Rural Residence	90 371,00	81,48	3 612,80	43,90	39,98
In less Developed Rural Areas	27 000,00	29,88	1 008,90	27,93	37,37

Source: The National Statistical Institute, The National Centre for Territorial Development and Housing Policy

The total number of settlements in Bulgaria in 1998 was 5,339, of which the rural residences (hamlets, stations etc.) are 5,099. The number of rural residents has declined by 3.44 percent from 2,706,334 in 1996 to 2,613,300 in 1999, while the decline in the number of urban residents for the same period is only 1.01 percent. In 1999, the rural residents made up 31.91 percent of the total population of Bulgaria, while in 1996 they were 32.45 percent.





4.2.2 The Labour force

In 1998, 25.6 percent (766,612) of the labour force of Bulgaria was involved in agriculture. The percentage of those working in the private sector was 97.8 percent (749,576). A negative point is the ageing of the labour force. The average age of those involved in agriculture was 60.8 years, while the average age of the youngest participating in the sector was 43.7 years.¹²

Bulgaria: Population by working-age status as of 31 December

	1994	1995	1996	1997	1998	1999	Tendency for the period 1994-1999
Population under working-age	1650585	1598254	1551972	1499683	1451378	1411375	Negative
Population at working-age	4741244	4745424	4749223	4749476	4750328	4752806	slightly increasing
Population over working age	2035589	2041037	2039741	2034041	2028665	2026695	Negative
Total	8427418	8384715	8340936	8283200	8230371	8190876	Negative

Source: National Statistical Institute

¹² The information is from a representative survey conducted by the ACE PHARE Project P96 - 6090 - R. in 1998

Bulgaria: Population by working-age status in rural residence as of 31 December

	1996	1997	1998	1999	Tendency for the period 1994-1999
Population under working-age	471.8	456.9	440.0	429.7	<i>Negative</i>
Population at working-age	1280.7	1273.0	1265.3	1268.6	<i>Negative</i>
Population over working age	953.8	943.0	927.3	914.6	<i>Negative</i>
Total	2706.3	2674.6	2633.6	2612.9	<i>Negative</i>

Source: National Statistical Institute

The trend of the working age population in rural areas was negative (see table above). This trend stayed stable over the last four years. The population under working-age in Bulgaria (up to 15 years old for both males and females) as of 31.12.1999 was 1,411,375 and is declining with the years.

The population of working-age (male: 16-59, female: 16-54) as of 31.12.1998 was 4,752,806 of which 47.6 percent were females. The ratio was almost constant and for a period of 5 years the increase was 0.24 percent. At the end of 1999, the population over working-age was 2,026,695 0, 44 percent smaller than the number of people over working-age in 1994.

The level of unemployment is increasing. The level of unemployment in 1999 was 16.0 percent, 0.28 percent higher than in 1996 (12.5 percent) (see table below). The share of unemployment for the country by November 1999 was 17.0 percent. The coefficient for economic activity in the country by November 1999 was 49.2 percent.

Bulgaria: Unemployed registered at employment offices according to profession as of 31 December

	1995	1996	1997	1998	1999
Unemployed –total	423773	478770	523507	465202	610551
Unemployed specialists – total	68435	79953	88890	69458	103456
Unemployed specialists in the field of agriculture	8164	9453	10589	8415	12372
Unemployed agricultural specialists/total unemployed (%)	1.927	1.974	2.023	1.809	2.026
Unemployed agricultural specialists/unemployed specialists (%)	11.930	11.823	11.912	12.115	11.959

Source: National Statistical Institute and authors calculations

The number of professionals in agriculture registered as unemployed in the employment offices in Bulgaria has increased. In 1999 their number was 12372 (2.206 percent of the total number of unemployed) while in 1998 it was 8415 (1.809 percent). The unemployed agricultural specialist/total unemployed specialists ratio varies in the range of 11.823 to 12.115 percent in the period 1995 to 1999.

Households' income

The structure of the gross households' income shows that the share of the wages and salaries in the total households' income is increasing from 34.69 percent (1994) up to 37.72 percent (1998). At the expense of this increase, the share of the income from the household plot is decreasing from 25.20 percent (1995) to 19.46 percent (1998). The decreasing share of property sale (from 0.74 percent in 1994 to 0.30 percent in 1998) in the households' income has a fluctuating share of the property income each year. The other sources share approximately 40 to 42 percent of the total households' income (see table below).

Bulgaria: Gross households' income by source (average per household), 1994-1998 (in percent)

Sources	1994	1995	1996	1997	1998
Total	100	100	100	100	100
Wages and salaries	34.69	34.74	35.20	35.39	37.72
Household plot	23.55	25.20	20.13	23.29	19.46
Property income	0.57	0.51	0.79	0.42	0.74
Property sale	0.74	0.83	0.57	0.47	0.30
Other	40.45	38.72	43.31	40.43	41.78

Source: Authors calculations and National Statistical Institute

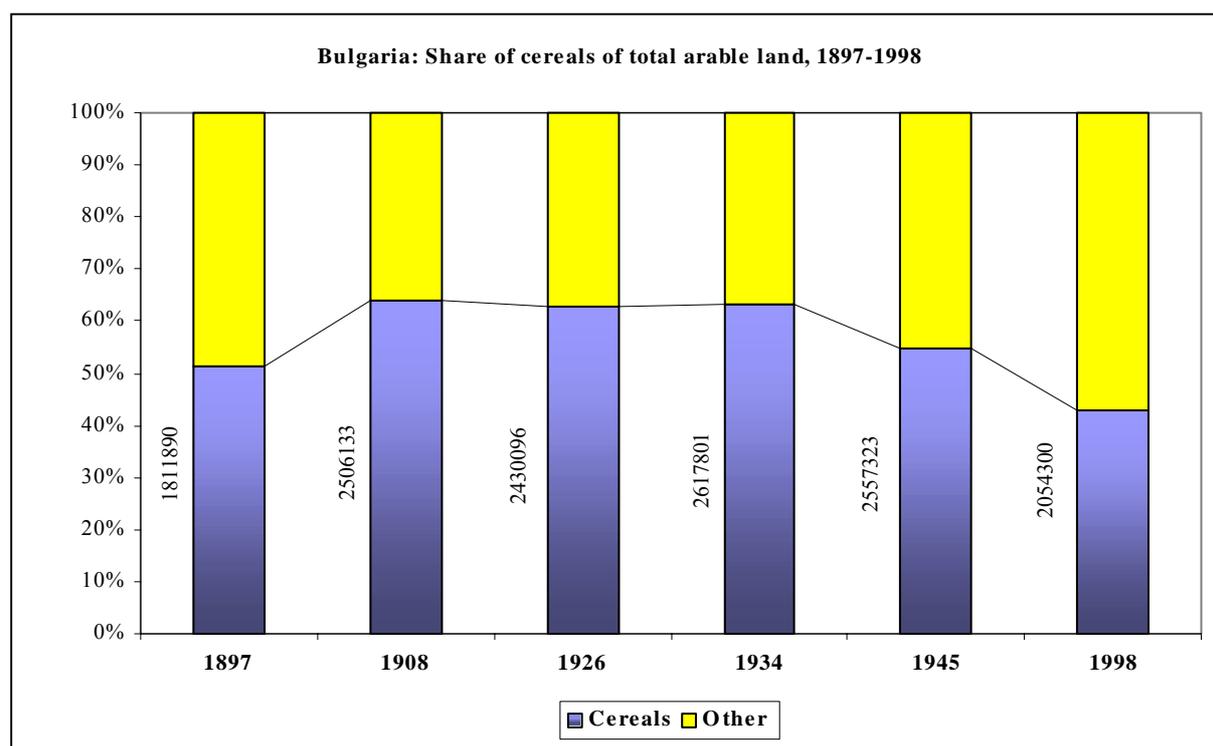
4.3 *The Role of Agriculture*

4.3.1 *The structure of land holdings*

Arable land remains relatively steady in size: from 6,146 hectares in 1995, up to 6,203 hectares in 1999. Arable land makes up 55.9 percent of the total territory of Bulgaria, and 77.5 percent of the agricultural land, natural meadows make up 4.7 percent of agricultural land, while the perennial fruit, strawberries and other plantations make up 3.5 percent; common land and pastures make up 22.5 percent (Figure 4.5a and 4.5b).

In 1999, from the total arable land farmed, 77 percent was farmed under crop cultivation and 23 percent was given to meadows and pastures. On private farms, 92 percent of land was cultivated with crops and 8 percent was used as meadows and pastures.

The figure below shows that over the past century the share of cereals cultivated on arable land has declined.



Source: NSI

This shows clearly that cereals had the biggest share in crop production during the period of 1897 to 1998. In 1998 cereal production took up 42.76 percent of the total arable land and in 1999, 37.78 percent. This decrease in the share of cereals produced may reflect the problem of land fragmentation when cultivating these kinds of crop, which usually require large parcels of land if they are to be cultivated efficiently. This was acknowledged in the past and was the main reason for land consolidation initiation in the years between the Wars.

The important role of cereal production in Bulgarian agriculture is demonstrated in the table below. The changes in the product mix in the years 1897 to 1999 present a tendency to decrease the share of cereals, but in 1999 cereals production is still significant (62.02 percent). Consequently, decisions concerning the growth of grain production in Bulgaria can be considered as the most important with the strongest effect on agriculture. Land consolidation, as an instrument of agricultural policy that affects the production of cereal and rural livelihoods both directly and indirectly, could play a major role in the preservation of the level of production and assist the sustainable development of agriculture and rural areas.

Bulgaria: Changes in the product mix (ha), 1897-1999

Production	1897	1908	1926	1934	1945	1998	1999
Cereals	1811890	2506133	2430096	2617801	2557323	2054300	1815400
Industrial Crops	8771	21540	109668	186905	268581	649400	681300
Vegetables	60536	97098	119230	142068	337090	209400	216600
Perennial crops	124680	97651	102342	131880	220203	218000	213800

Source: NSI

The new Institutional Structure of Bulgarian Agriculture

The transformation of Bulgarian agriculture from its centrally planned structure of large-scale agro-industrial complexes to competitive organisations in a market economy will crucially depend on the adjustment of land tenure system. For almost fifty years the allocation of agricultural land and its cultivation has been determined by administrative decrees rather than by free interplay of factors which determine the demand for its operation by independent farmers and the willingness of landowners to supply them at mutually agreed prices. Now that a market economy is being restored, it is expected that land will be redistributed and cultivated under radically different systems of tenure.

The transformation is characterised by land reform, resulting in reinstatement of property rights over land to landowners or their heirs and eliminating the existing state and collective farms as organisational structures. New structures emerged without clear status. Some of them are formal (registered under different laws), others are informal (established on a voluntary basis). The main consequence is that simultaneously all economy sectors are changed. In the beginning there were a lot of mixed, flexible and unique tenure relations and agreements between landowners and tenants. The future strength and permanence of the newly emerged structures depends on the stability of the macroeconomic framework, the completion of land reform and the developing of schemes for financing agriculture, or favouring and guaranteeing credits for farming.

From the beginning of land reform it was assumed that the pre-reform bi-modal agrarian structure, comprising a small number of large state farms or collectives, and many small household plots, would fundamentally change. It is being replaced by a pattern of multiple structures. A key part of transition in agriculture is that farms and agro-enterprises must switch from being state managed enterprises to privately managed businesses, in which all land and other assets are privately owned, a complex process which has political as well as economic elements. The agrarian transition in Bulgaria has been going on for the last ten years (1990 to 2000) and has not yet been concluded.

Individual private farms, co-operatives, farming companies and production associations are the most important business structures established in agriculture. The land occupied by farming business ranges from publicly owned land through un-restituted land to privately owned/leased land. It is assumed that all farming businesses in the future, except for farming companies, will be established around a nucleus of restituted land. Buying or renting land may enlarge this initial plot. In case of a farming family, the initial plot may be enlarged by renting land from relatives unwilling to farm themselves. Co-operatives are formed on the basis of the restituted land of the members.

Farming companies are the only farm businesses that are not formed around restituted land, they rely exclusively on rented land. Family subsistence farms cultivate exclusively on owned land. Independent farmers and production co-operatives may use a mixture of self-owned and leased land. All types of farm except for small individual farms have the potential to reach economies of scale through large-scale production.

Assessing the data of July 1997, it is obvious that the former bi-modal structure has been fundamentally changed, and become more complex. State farms still account for an estimated 7 percent of the total land (0.32 million hectares), but the largest single category, with nearly 2.4 million hectares, i.e. 51 percent of the total arable land, was operated by private farms, emerging primarily from the land restitution program. This amounts to 1.8 million hectares (39 percent of

the total). The most significant finding is that to a certain extent land indeed moved away from public to private ownership, or at least has private management.

The previous five broad groups of farming units drop to four¹³. The land farmed by these organisations was distributed between the other groups - individual private farms, cooperatives and farming companies. A slight change in the share of cultivated land in each group is shown by the preliminary data of 1997.

Agricultural production is structured in different types and forms of ownership¹⁴. The agrarian reform and the process of reinstatement of property rights (land restitution and privatisation) classified three types of ownership: state, municipal and private. While at the beginning of the reform privately owned structures were limited, these /days private operating structures are prevailing (see below).

Bulgaria: Structure of Ownership Forms in Agriculture

<i>Forms of Ownership</i>	1997		1998		1999	
	<i>Number of production units</i>	<i>% of total</i>	<i>Number of production units</i>	<i>% of total</i>	<i>Number of production units</i>	<i>% of total</i>
State Ownership	475	4.6	308	2.7	258	2.2
Municipal Ownership	18	0.2	21	0.2	23	0.2
Private Ownership of local legal entities	263	2.5	321	2.8	319	2.7
Private Ownership of local physical persons	6021	58.2	7241	62.5	7689	66.1
Private ownership of Farm Cooperatives	3475	33.6	3589	31.0	3237	27.8
Private Ownership of foreign legal entities ¹	60	0.6	12	0.1	12	0.1
Private Ownership of foreign physical persons	0	0.0	68	0.6	68	0.6
Private ownership of foreign individuals in a farm cooperative	0	0.0	2	0.0	2	0.0
Private ownership of companies and associations	12	0.1	13	0.1	13	0.1
Private ownership of religious organizations	17	0.2	16	0.1	16	0.1
Private ownership of other NGOs	0	0.0	2	0.0	2	0.0
Total	10341	100	11593	100	11639	100

Source: NSI

Note: ¹ In 1997 NSI provided data on enterprises privately owned by foreign legal entities and individuals in co-operatives under the item "Private Ownership with Foreign Interest"

¹³ Since mid 1995 Organizations under liquidation did not exist

¹⁴ More detailed this issue has been discussed by Kopeva, Davidova, Buckwell (1997). Bulgaria: economics and politics of post reform farm structures, in "Agricultural Privatisation, Land Reform and Farm Restructuring in Central and Eastern Europe, edited by, Johan Swinnen, Allan Buckwell and Erik Mathijs. Ashgate Publishing Ltd., UK, 1997.

4.3.2 *Individual private farming***Bulgaria: Individual Farms in Bulgaria, 1992-1995**

	Groups of farms by land area (ha)					Total
	<i>0-1</i>	<i>1-2</i>	<i>2-5</i>	<i>5-10</i>	<i>over 10</i>	
	Arable land (hectares)					
1992	na	na	na	na	na	1438000
1993	400003	328934	264097	98007	143581	1234622
1994	652147	371567	407180	160361	467290	2058545
1995	631139	312184	342145	168421	1008362	2462251
	Number of farms					
1992	1783808	128874	42520	8608	580	1964390
1993	1537462	248772	91980	15195	4045	1897454
1994	1555090	342340	93568	15762	4201	2010961
1995	1535111	156092	68429	13483	4007	1777122
	Average size of the farm (hectares)					
1992	na	na	na	na	na	0.73
1993	0.26	1.32	2.87	6.45	35.50	0.65
1994	0.42	1.09	4.35	10.17	111.23	1.02
1995	0.41	2.00	5.00	12.49	251.65	1.39

Source: National Statistical Institute

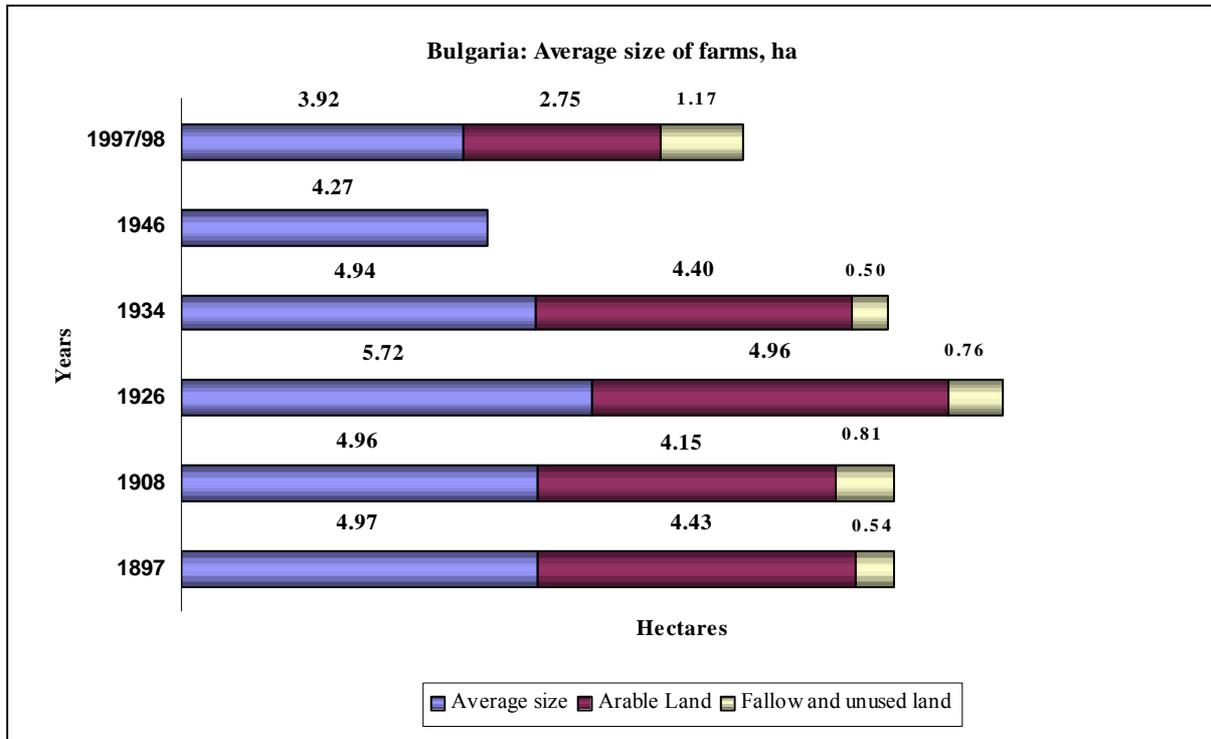
The total number of individual farms has fluctuated between 1.7 and 2 million over the last seven years¹⁵. The smallest group (less than 1 hectare) fell after 1992 and then stabilised at about 1.5 million. The next three groups (1-2 hectares, 2-5 hectares, 5-10 hectares) all increased from 1992 to 1994 but appeared to fall in number in 1995. The only group in which numbers have consistently risen is that over 10 hectares, which has increased seven-fold (from 580 to 4,060).

Farms with less than 1 hectare are included in *Group 1* comprising 86 per cent of the individual farms and 26 percent of the total land area. The farmers in this group produce mainly for their own consumption, but they are employed only part-time. The expectations are that the number of farms in this group will fall gradually, because old people mostly run them. These farms will not play an important role in the market. *Group 2* consists of the 13 percent of individual farms from 1 to 5 hectares, which also farm about 26 percent of land in this category. In general these farms are *marginal* farms; according to the product mix and capital intensity they can easily be either subsistence or market oriented. *Group 3* comprises less than 1 percent of the newly established farms between 5 to 10 hectares, which occupy 7 percent of individual farm area. *Group 4* comprises the 0.2 percent of individual farms over 10 hectare. They occupy over 41 percent of land under individual farms and predominantly function on leased land cultivating a small relative share of their own land.

¹⁵ Last census of individual private farms has been conducted by NSI in 1995. In July 1996 the NSI repeated the results from 1995.

4.3.3 Changes in land holding structure over time

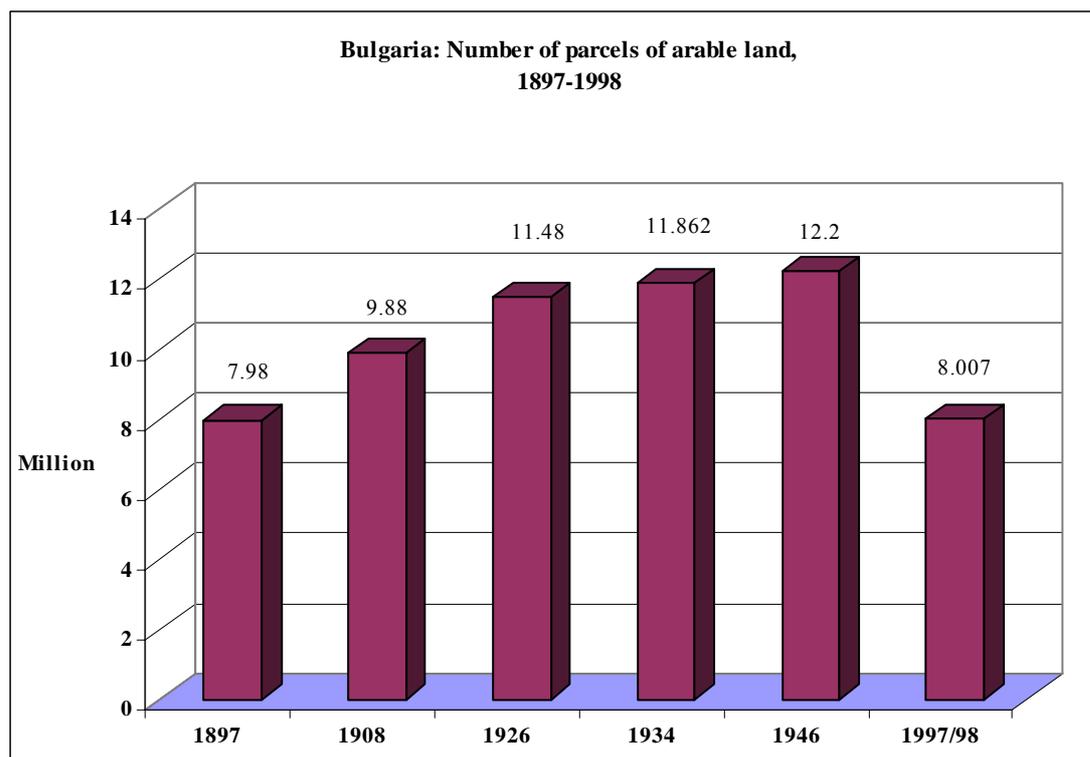
The average size of farms in 1998 is 3.92 hectares. This is the smallest average size in a period of 100 years and the 29.85 percent share of the fallow and unused land is very high, one of the reasons being land fragmentation. Comparing the data from the figure below it can be seen that these factors shows the negative results of land reform.



Note: In 1946 there is no data for the share of the arable land and the fallow and unused land.

Source: NSI, PHARE ACE project P96-6090-R

The number of parcels in Bulgaria, according to our estimate in 1997/98 is 8.007 million which equates closely to the 7.98 million in 1897. After 1999, the process of land subdivision between heirs accompanied land restitution and now the number of parcels is higher. If the agricultural policy continues to ignore this problem, the number of parcels will increase dramatically and will exceed the maximum of 12.2 million reached in 1946.



Source: NSI and own calculations

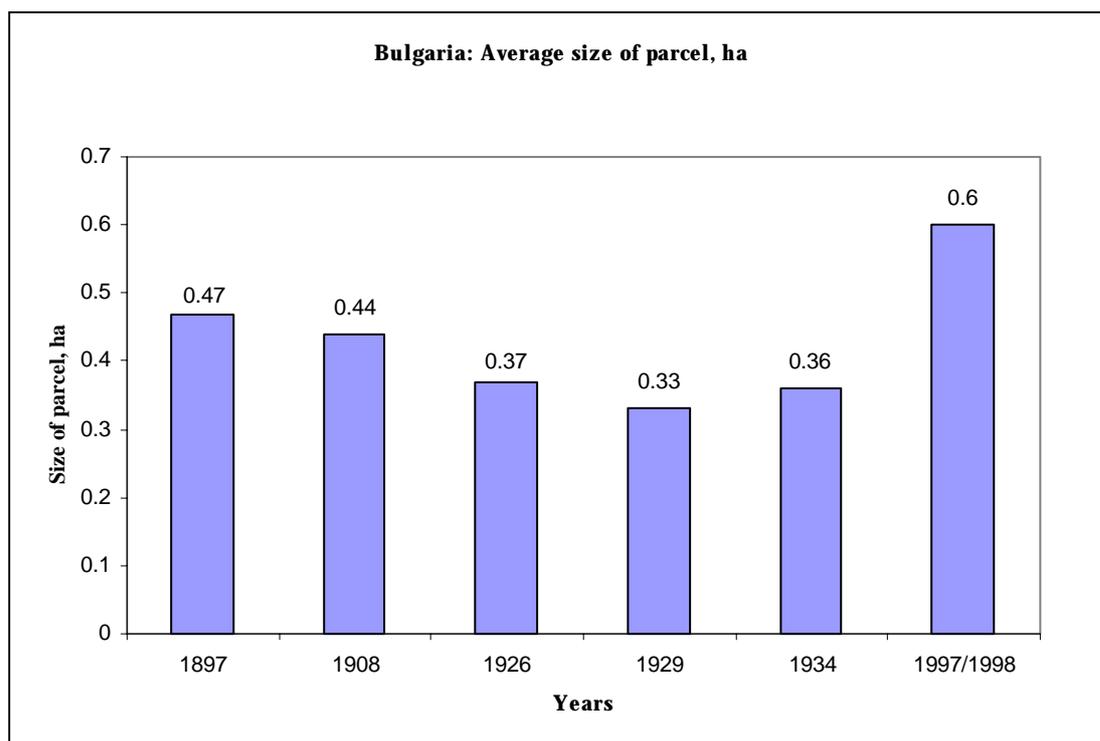
The average number of parcels in a farm in 1997/98 according to the data presented in the PHARE ACE project P96-6090-R is: 2 for small farms, 3.08 for medium-sized farms and 2.62 for large farms. The data present the situation in the country before the process of subdivision of restituted land between the heirs, which is still in action. It is expected that the average number of parcels possessed by farm will increase.

Average number of parcels possessed by farm

Year	Small farms (up to 1 ha)	Medium farms (1-5 ha)	Large farms (over 5 ha)	Average for the country
1897	1.92	8.84	19.59	9.98
1908	1.88	8.51	21.63	10.58
1926	2.77	11.61	22.60	15.29
1934	3.00	11.03	20.43	13.41
1997/1998	2.00	3.08	3.68	2.62

Source; NSI and PHARE ACE project P96-6090-R

The average size of parcels has increased and in 1998 is 0.6 hectares (Figure below). The expectation is that the ongoing process of land subdivision will lead to a decrease in size. These decreases can only be stopped if a land consolidation programme starts.



Source: NSI and PHARE ACE Project P97-6090-R

4.4 Rural Development. Social policy in rural areas in Bulgaria and the Dobrich region

In 1991, at the beginning of the agrarian reform a few statements were made. They were defined as basics for the social situation in the villages and for the future of rural development. It was proclaimed that the future development of rural areas should be a duplication of the model that existed in the period between the Wars. This period was considered the most prosperous for Bulgarian villages. The private individual producer was acknowledged as the most appropriate entity to promote dynamism within Bulgarian agriculture. Another belief was that the unemployed, people with low income and the poor would return to the villages after the restitution of their land had been completed, providing the solution for the depopulation of Bulgarian villages.

Unfortunately, the changes expected in the Bulgarian agriculture, namely the emergence of efficient, market oriented, private farms, failed to materialise. On the contrary, two thirds of the private farms are subsistence farms, and do not produce for the market. Barely 2 to 3 percent of the farmers have a good income. Agriculture is characterised by a lack of output markets, a weak internal consumer demand, not helped by the purchase of produce directly from farmers at prices two to three times lower than the market price. These problems have not yet been solved. It turns out that the new landowners are not prepared for the new market situation, production quality is still low and as a result, Bulgarian agriculture is in turmoil. Rural areas, especially villages, are becoming more and more isolated, the smaller the village, the more severe its isolation. The village is becoming an economic unit of degradation and poverty. It is estimated that 47 percent of farm households are subsistence farmers; 21

percent are considered impoverished, 26 percent are labelled 'stable' and only the remaining 6 percent are successful¹⁶.

A significant proportion of the arable land is idle, some specialists claim 30 percent, others more. MAF claims that fallow land makes up approximately 10 percent of the total arable land. It is known that if land is left fallow for a period of 2 to 3 years, the recovery of the soil can take up to 4 years. Hence, the main goal for the Bulgarian agriculture in the coming years will be the recovery of the land and not the development of agriculture.

There is a decline in the number of rural institutions that can implement the ideas of a new society. Their activities are reduced to a minimum, or they have disappeared from the village scene altogether. These institutions are schools, other educational organisations, health organisations, cooperatives and cultural centres.

Migration from the rural areas still continues. Young and educated people prefer to stay in the cities even if unemployed, rather than going back to the villages. Exceptions to the rule are villages situated on the peripheries of cities, which are treated as suburbs, hence, there is a process of draining capital and material goods out of the villages.

Contemporary Bulgarian agriculture is therefore characterised by the following:

- A lack of efficient rural institutions.
- Limited job opportunities and high unemployment, approximately 30 percent in agriculture, with new jobs unlikely.
- New landowners who are unable or unwilling to adapt to a market situation
- A stagnant land market.
- Undeveloped input and output market.
- Ineffective state protection and financing of local agriculture.
- Macro-economic instability during the transition.
- Ageing population and a lack of newcomers in agriculture.
- Poor infrastructure and services.
- Lack of qualified persons to work in the municipal administration.
- People not interested in renting land from MLF.
- Lack of entrepreneurs in the rural areas.
- The wide spread perception that agriculture is non-profitable and non-prestigious.

There is also plentiful evidence that rural people are looking outside agriculture. The specific relations and perceptions of the population in rural areas to employment, were determined on the basis of a representative countrywide survey of the rural and urban population (Gallie D. et al., 1996)¹⁷ The collected data shows that 67,2 percent of the unemployed in the villages want to start working. The strong motivation for work is supported by the fact that 89.7 percent in the villages are really looking for a job. One third of the inhabitants are landless, but this is not the only reason for searching for a job. People think that efficient production is not feasible on the small parcels of land they own. Nevertheless, when asked what they would mostly rely on in case of long unemployment and

¹⁶ Family-Run Farms: The Potential to Help the Survival of the Rural Household Under the Conditions of Transition, 1997-1999

¹⁷ Employment Conditions, Labour Market Insecurity and Work Motivation: A Comparison of the Czech Republic, Slovakia, Bulgaria and Great Britain. Oxford. Nuffield College

after using up savings, 67,2 percent answered that they would rely on farming their land. This highlights the fact that the villagers prefer to be employed in a non-agricultural industry, while land cultivation is only a source of additional income.

The high motivation to work is strongly manifested in 93.1 percent of the answers expressing unemployment as the worst thing in their life, 86.2 percent reported that life is senseless without working. It is obvious that for the rural areas in Bulgaria working is of great importance. Nevertheless, 84.5 percent do not consider being self-employed despite the problematic circumstances in agriculture. It is imperative to mention that a major part, 77.6 percent of the unemployed in villages are ready to accept a job requiring lower professional qualification than theirs. Also 72.4 percent are willing to carry out a job with different requirements than the qualifications they have, 69 percent are willing to work under bad labour conditions, and 67.2 percent are ready to get lower wages, while 5.2 percent of the unemployed consider that they have a large job selection. All these facts prove that the unemployed are ready to compromise in order to get a job. The data shows quite clearly the lack of alternatives for rural development and employment.

Despite the dismal picture for agriculture painted above, impressively, in our study site of Dobrich, farmers have stepped into the traditional role of the state in providing social provisioning for its population. They have taken over the role of the state after its 'withdrawal', caused by incorrect, or lack of, policies in rural areas, as well as poor economic conditions and other limitations. Farmers are the only ones that the local population relies on. The farmers create jobs; train their workers; give some of their own land to peasants; repair the infrastructure e.g. the roads, channels, community centres etc.; they also collect and transport garbage from the villages to the nearest garbage tip, (the collection and the transporting of the garbage from only one place would otherwise cost them 1000 DEM) and clean the roads, etc.

The farmers bake bread in their own bakeries, sell it at prices cheaper than its production costs and also distribute it in the village. The taxes paid by the farmers are the main financial revenue of the municipal budgets. The municipalities that have insufficient budget resources are practically financed by the agricultural producers. They support kindergartens and schools and contribute to the cultural centres; many of the farmers are of the opinion that if there is no school there is no village.

In reality, almost every village in the Dobrich region relies on one person. This raises a number of questions:

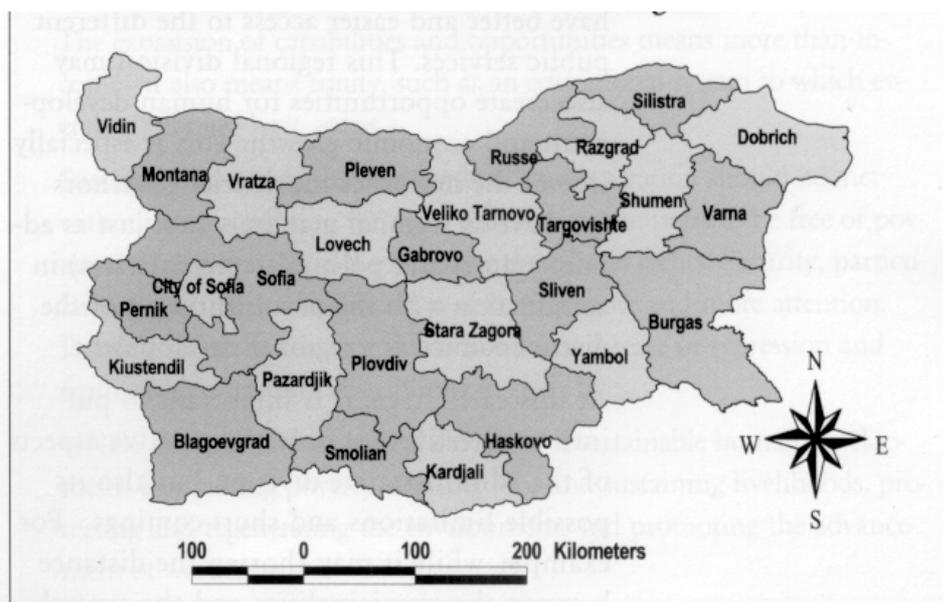
- Should this situation be allowed to continue?
- How can the burden on the farmers be reduced?
- How can the state institutions responsible for the social policy in rural areas, participate and re-gain control of the ongoing processes?
- How can these state institutions be forced to carry out their duties?

In general it appears that there is a lack of state policy for rural development, this leads to the next particular factor in the farmers' development, their influence on the local authorities and participation in the executive bodies.

4.5 Rural Regional Development

The new administrative division of the country was enacted on the basis of the Law for Administrative and Territorial Structure of the Republic of Bulgaria (August 1999). The country was divided into 28 regions (before January 1999 Bulgaria was divided to 9 administrative regions)(see figure).

The Map of the Administrative Division of the Country



Source: National Centre for Territorial Development

Each region includes an average of 29 municipalities. The total number of municipalities in Bulgaria is 262. With the new territorial division, each region's territory varies from 1,326 to 7,753 square km with an average of 3,964 square km., and the population of 144,000 to 1,191,000, averages 296,000. There are economic disparities between the regions. The difference in high and low income level between the regions is almost 50 percent. While in 1997 the region of Burgas had the highest income level, in 1998 it was the City of Sofia. During two years of observation, the region of Pazardjik was the region with the lowest income level.

In order to overcome the existing regional disparities, in January 1999 The Parliament adopted the Law for Regional Development (LRD). The law is based on the requirements of the European Union. This law, and its accompanying legislation, represents the first serious step towards regional development and has two main functions: (i) to create regulations for allocating and utilising state funds for regional development: (ii) to create the necessary conditions to meet the European Union's funding requirements concerning regional policy.

The objectives of the LRD are:

1. Defining the prerequisites for sustainable and balanced regional development;
2. Reducing inter-regional disparities in terms of salaries.
3. Establishing and facilitating regional co-operation and European integration processes.

The LRD identifies the following areas as targets within rural development:

- Areas for growth.
- Planning regions.
- Areas for cross-border cooperation and development
- Areas with specific problems and priorities (sub-divided into underdeveloped rural areas and declining industrial areas)

The table below details the area and population that falls under each target area.

Areas for purposeful impact

<i>Types of areas</i>	Territory (% of the country's territory)	Population (%of the country's population)
Areas for growth	9.3	35.9
Areas for development	6.1	9.7
Declining industrial areas	6.5	5.3
Underdeveloped rural areas	24.3	12.2
Areas for cross-border cooperation and development	28.9	19.5

Source: National Centre for Territorial Development, 1999.

The areas of growth and development make up a little over 15 percent of the territory of Bulgaria and almost 46 percent of the population, while areas requiring assistance to resolve serious development problems such as declining industries and rural underdevelopment account for 31 percent of the territory but only 17.5 percent of the population.

One of the requirements of the Law for Regional Development was preparing and developing the National Plan for the Regional Development (NPRD) of Bulgaria for the period of 2000 to 2006, detailing the main objectives, priorities and measures. Thus, the National Agriculture and Rural Development Plan (NARDP) of the Republic of Bulgaria was set up under the Special Accession Programme for Agriculture and Rural Development (SAPARD) with the EU¹⁸. The main objectives of the NARDP are as follows¹⁹:

The improvement and promotion of agricultural production efficiency and a competitive food processing market, plus the introduction of technological infrastructure and strategic investment policies ultimately aimed at reaching EU standards.

The introduction of alternative employment and diversified economic schemes to develop the rural areas by establishing the necessary infrastructure; This in turn will improve the standard of living in rural communities, generate fair income and create new employment opportunities.

¹⁸ The NARDP has been prepared to meet the requirements of EU Council Regulation EC 1268/1999 of June 21st, 1999. The plan is prepared in accordance of the implementation of agricultural and rural development measures in CEE applicant countries in the pre-accession period (SAPARD Program).

¹⁹ Source: National Agriculture and Rural Development Plan over the 2000-2006 period under the EU Special Accession Programme for Agriculture and Rural Development (SAPARD)

The two main objectives of the NARDP would be achieved by investment in the following sectors:

- Production, processing and marketing of agricultural and forestry and fishery products in accordance with the EU *acquis communautaire*;
- Environmental awareness.
- Integrated rural development plans aimed at protecting and strengthening the rural economies and communities.
- Human resources – vocational training for all involved in fishery, forestry and agricultural production and processing
- Technical assistance.

Over the past two years the issue of the rural areas in Bulgaria in the context of contemporary European thinking have been discussed extensively. It is obvious that there is an interest in better defining and utilizing development opportunities to improve functions in these regions. One of the major disadvantages of their development is the practice dealing only with current problems instead of concentrating on more complex solutions that will bring about long lasting results. This approach hampers essential development of rural areas, as yet specifically defined in Bulgaria. Traditionally, the division according to the style of residence; rural or urban has been based on the formal categorisation of settlements as either villages or towns. While a large number of small towns are rural, based on their general characteristics, they are nevertheless, classified as part of the urban areas. The municipal centres are usually towns, while other settlements in the same municipality are classified as villages. Therefore, the statistics of the village-town division of the state provides little insight regarding the development of rural areas and the degree of urbanisation. In general, rural areas are defined as: *‘A compact part of the national territory including villages and small towns where the main economic activity is agriculture and supplementary activities are forestry and fish farming, crafts and rural tourism.’*

In conjunction with various ordinances and legislative documents, there are around 34 areas, comprising 77 municipalities, that have been defined as: ***less developed rural areas (LDRAs²⁰)***. The municipality is the basic territorial module of underdeveloped rural regions. Each territory usually includes 1 to 8 municipalities.

Characteristics of Less-Developed Rural Areas

The Less Developed Rural Areas (LDRA) includes municipalities or groups of municipalities that have a predominantly rural way of life and specialise in farming and forestry. They are characterised by a rather low level of economic development, technical infrastructure and labour skills and suffer acute social problems such as rampant unemployment, low income and depopulation. The Government Ordinance No. 105/02.06.1999 provides the official criteria for the identification of LDRA, which are as follows:

- The absence of a large or medium-sized town in the area. The population of the biggest town in the area should have less than 30,000 residents.
- The income per capita in two of the last three years should not exceed 30 percent of the national average of the preceding year.
- The average unemployment rate in two of the last three years should exceed the national average of the previous year by 50 percent.

²⁰ The Ordinance on Defining Priority Regions to be Concerned and Their Territorial Limits, adopted to supplement Art. 4, §1 & 2, r.1 of the Law on Regional Development

- The population density should be less than 75 percent of the national average.
- The proportion of farm or forest land should exceed the national average by 20 percent;
- The relative proportion of those employed in farming and forestry should be greater than the national average of the previous year by 20 percent.

LDRA have to comply with the first three requirements, and at least one other in order to meet the criteria. The population of LDRA is estimated at about one million people, or 12 percent of the total population, while the total area amounts to 27, 000 square km or 24.3 percent of Bulgaria's territory. The amount of farmland is estimated at 16, 000 square km, or 25 percent of the total farmland in the country. The LDRA faces a variety of problems:

- Underdeveloped infrastructure.
- Declining population and migration of young people.
- Lower company density than the average company performance.
- Unemployment rate high and constantly increasing.

5 Economic and Social Survey of land consolidation

5.1 Description of survey area

The Survey was conducted in the Dobrich region in the Northeast of Bulgaria. The Black Sea to the east, the River Danube to the north, and the Stara Planina Mountain in the south border the region. The region includes 8 municipalities: Baltchik, General Toshevo, Dobrich city, Dobrich selska, Kavarna, Krushari, Tervel, and Shabla. Agriculture is the main source of income. The region is of great importance for the wheat balance of the country and for food security.

The area encompasses the territories of the following municipalities Dobrich, Dobrich selska, Baltchik, General Toshevo, Kavarna, Krushari and Shabla. The area is a flat, low altitude plateau, with a more mixed relief in the narrow Black sea coastal area. The plains of the plateau are smoothly undulating, with no natural barriers, while river valleys, gullies and even cliffs shape the lowlands coastal area. The whole area is semi-arid, with scarce surface waters. There is almost no natural vegetation in the plains, while some natural forest and shrubs grow in the lowlands. In the plains, there is a system of 12 to 20 metre forest belts to give wind-protection, planted during the years of Romanian administration and after 1950 during the collective farm tenure. The forest belt system divides the landscape into land tracts of more or less regular shape. The soil is in the III to V category, while in the lowlands the fertility is lower, i.e. IV to IX category. The farmlands are subdivided into large fields for cultivation, called *massifs* in land use planning terminology. Natural barriers, land domain boundaries, forest belts, and a permanent dirt road network delimit farmland massifs. *Massif* sizes in the plains are approximately 100 to 110 hectares, ranging from 80 to 150 hectares up to 200 hectares, while in the lowlands they are approximately 30 hectares, ranging between 25 and 60 hectares.

5.1.1 Listing and description of the survey criteria

The sociological survey was conducted in the Dobrich region in April 2000. The choice of region was based on the following criteria:

1. Historical experience in Land Consolidation before the collectivisation;
2. The restitution process was completed in 1994;
3. Plains area;
4. Cereals producing region;
5. Existence of a functioning land market;
6. Existence of fragmented land ownership;
7. Different pilot projects, including a cadastre project had been carried out, alongside registered attempts for combining the land cadastre with the urban cadastre and forest cadastre;
8. The region is of special importance for Bulgaria and its government;
9. Concentration of the biggest agricultural producers in Bulgaria and existence of all other types of agricultural producing structures;
10. Well-developed information data basis;
11. Presence of State and Municipality Land;
12. Presence of fragmented and dispersed parcels of land, property of the State Land Fund (SLF) and the Municipality Land Fund (MLF);

13. Existence of indigent and landless population, especially in the rural areas;
14. Existence of ethnic population.

Survey Target:

The survey was carried out in the municipalities of Dobrich city, Dobrich selska, Krushari, Kavarna, Baltchik, General Toshevo. An in-depth interview was implemented. The interviewees were divided beforehand into 5 groups:

1. Lessees;
2. Other agricultural producers;
3. Municipality Land Commissions;
4. Local authorities;
5. Real estate agencies.

This grouping was prompted by our wish to include all participants in the process of land restitution, by interviewing different types of agricultural producers, all those influenced by land fragmentation, and those involved with ongoing processes in agriculture. Also by interviewing these 5 groups separately, we succeed in obtaining more specific information than using an integrated questionnaire for all.

A different questionnaire was developed for each group. The duration of the interviews was between one and three hours. This demonstrates the interest of the people, who were willing to contribute their time in spite of the fact that the survey coincided with the spring sowing season.

The main goal of the survey was to estimate the extent of land fragmentation, whether it is a problem and if so, how do farmers deal with it. Further more, the survey studied the attitudes of the parties involved towards land consolidation and their ideas for future progress. Consequently, the working group obtained information that enables correct analysis of the current situation, the main goals, and all additional considerations for or against land fragmentation. These include: characteristics of the survey's TBS's; applied land consolidation methods; land market; optimum parameters for production; product mix; different problems and obstacles faced by the farmers; attitudes of the involved parties in agriculture, etc.

Role of Agriculture in the Survey Area:

The geographic situation and physical resources determine the role of agriculture in the survey area. The Dobrich region has 7 percent of the total arable land, the highest proportion of arable land in any Bulgarian district. The region also has a higher total of agricultural land than the other 28 regions. Climate conditions are favourable for cereals production and livestock breeding, mainly cattle and pigs. The soil categories for more than 80 percent of total area are third and fourth. The region is the main cereal producer in Bulgaria and plays an important role in security of food supply. Twenty five per cent of maize and 16 percent of wheat is produced in this region. In total 15 percent of all cereals is produced in the survey area. The region has a wide variety of farm types – farmers who produce for self-consumption, small individual farmers, medium and large farms, as well as co-operatives and farming companies. This presents an opportunity to exercise, discuss and treat land fragmentation, land consolidation and rural development from different points of view.

5.2 *The sociological survey*

The objective of the study was to interview all stakeholders. We interviewed 100 households (farms); 20 enterprises (coops); local representatives of administrative authorities responsible for agriculture and rural development, local operated real estate agencies (16), mayors and local governors, representatives of the Municipal Land Commissions (MLCs). In the survey we used different questionnaires. To choose households (farmers) we used list of registered farmers. In Bulgaria economic units who operate in agriculture can be registered under different laws – the Cooperative Law or the Commercial Law. Registration is not obligatory for farmers in Bulgaria. Those of them who operate as a physical persons may register in a register of agricultural producers in the municipality. In the sampling procedure we use two different registers – BULSTAT for cooperatives and farming companies, and the register of agricultural producers.

The sociological aspect of this research aims to highlight attitudes and practices related to land consolidation. Nevertheless, the data and comments often cross the boundaries of economical, cultural, psychological and administrative aspects of the agricultural business. On the basis of the analysis of land tenure, the sociological aspect of the survey will assess the potentials and constraints of land consolidation from the perspective of the concerned households. The survey evaluates the perception and willingness of households regarding consolidation, how to overcome the main constraints, and the possibilities and potential strategies available to carry it out.

5.2.1 *Characteristics of the survey's municipalities*

Municipality of General Toshevo

There are 42 TBS's in the municipality of General Toshevo - one town of the same name, and 41 villages. The whole territory is a plain area. The arable land in every TBS is divided into several *massifs* by wind-protection forest belts. The arable land in the municipality is 84600 hectares, including 3000 hectares state land from the SLF (0.04 percent). The number of claimants according to the static register is 12260. After the restitution the size of the parcels of agricultural land ranged between 0.3 hectares and 37 hectares, the majority being 6-7 hectares. Twenty percent of the land after the restitution has been situated in two main places. However, after the subdivision, the size a parcel reduced sharply, and now the average size is 1 to 1.5 hectares, a 10 hectares parcel is rare. This is clear evidence of the presence of land fragmentation. At present, in the municipality, approximately 10-15 percent of the subsistence farmer-owners cultivate their own land, which is in small and dispersed parcels.

Municipality of Kavarna

In the municipality of Kavarna there are 21 TBS's - Kavarna town, and 20 villages. Almost the whole territory is plains land, cut by gullies in a few places with the *massifs* separated by wind-protection forest belts. The predominant land quality is third category, while the municipality pastures and meadows are tenth category. The arable land in the municipality is 37,634 hectares. The SLF is 2,700 hectares and is situated in 10 TBS's. The MLF is entirely pastures and meadows and there are irrigated areas in Belgun, Rakovski and Irechek. The restitution process was completed in 1994 to 1995, under article 18 paragraph g.2, the smallest size of a parcel was 0.2 hectares. The existence of land fragmentation is dictated by the fact that no one buys land in co-ownership, maintaining advanced land subdivision, and producing the downside of land fragmentation.

Municipality of Krushari

Krushari municipality is situated in the Northwest part of the Dobrich region. The total arable land in the municipality is 28,300 hectares. Fifty percent is third category land, 40 percent fourth, and approximately 10 percent fifth category. According to the static register, the total number of claimants was 5000 and the average property per owner was 5.3 hectares. The declared land for restitution was 14.84 percent more than the 28300 hectares, at 32500 hectares. The number of restituted parcels was about 7000. Property of not more than 5 hectares was restituted in one location, while property up to 10 hectares in two locations.

Only 2 to 3 percent of the land ownership was restituted under article 18, paragraph g.1 from the LOUFL. The rest of the land was restituted under article 18, paragraph g.2 from the LOUFL. The restitution process was completed relatively fast because of the small number of objections. However, subdivision is growing fast, and nowadays approximately 75 percent of the co-owners have divided their property. Consequently, the number of owners is over 30,000, the number of parcels is 27 to 28000 and the average size of each parcel has fallen to 1 hectare, a decrease of more than 500 percent. Currently an owner has 4 to 5 parcels on average, which is 400 percent more than in 1994.

Municipality of Baltchik

There are 21 TBS in the municipality of Baltchik - one town and 20 villages. The relief is totally different to the other municipalities. Here, the plain area is combined with the coastal area where the relief is steep. The plain area is called 'the plain' and the coastal area 'the valley'. In the plain area, the lands are third and the fourth category, while those in the valley are from the fourth to the ninth category. The size of the *massifs* in the plain range from 80 to 100 hectares up to 150 hectares, the prevalent size being 100-110 hectares. In the valley, the size of the biggest *massifs* is 50 to 60 hectares, with most being 25-30 hectares. In the villages of Obrotchishte, Kranevo, and Tzurkva and in some parts of the town of Baltchik in the valley, the land is naturally divided by gullies and hills. There is natural vegetation in the valley.

When restitution began, there were 6,000 claims for 15,027 estates totalling an area of 47,045 hectares. Seventy percent of them were accepted. The minimal size of a restituted parcel was 1 hectare, the maximum size 30 hectares and the majority 6 to 13 hectares. 389.8 hectares were restituted under article 27 of the LOUFL. Under article 18, paragraph g.1 287.2 hectares were restituted, the rest under article 18, paragraph g.2. Land reallocation in the plain ended in 1994, while in the valley the process ended in 1999. In the plain, wind-protected forest belts divide the *massifs*. The total area of the fields in the municipality is 32, made up from 7,772 hectares disposed into 13,871 estates. The meadows and pastures are 12,568 hectares. The Municipality Land Fund is 2,432,963 hectares, situated in the worst land in the municipality. The SLF is 2,970,925 hectares located in 92 estates. In the valley, the land was restituted in real physical boundaries. The irrigation area is about 800 hectares, half of which is decommissioned. In Gurkovo, Obrotchishte, Tzurkva and Kranevo there is gravitational irrigation.

There is a special situation in the four municipalities. The new reallocation plan has not been carried out. The land is cultivated the way it was before the restitution. This situation plus the increasing land fragmentation invariably leads to the conclusion that there is wide-scale agriculture and it has only lately been realised that methods of overcoming land fragmentation are applied,

5.2.2 *Types of agricultural producers in the Dobrich region*

The lessees in the region can be divided into the following three groups:

Small lessees, who cultivate up to 300 hectares, medium ,600-1000 hectares, and large cultivating more than 2000 hectares.

The co-operatives cultivate approximately 50 to 55 percent of the total arable area in the region, but only 3 or 4 of them are efficient and profitable. The main reasons for the inefficiency of the cooperatives are: bad management, and the lack of storage solutions or the production.

The cooperatives in the municipality of Baltchik cultivate an average 1000 to 1500 hectares, those in the municipality of Kavarna between 1000 and 1400 hectares. The average size of a cooperative in the region is 1000 to 1200 hectares. In the municipalities of Shabla and Tervel the co-operatives cultivate approximately 80 percent of the total arable land. The co-operatives in the Dobrich region can be divided into three groups according to their size: Small cooperatives that cultivate 400 to 500 hectares, medium 1000 to 1200 hectares, and large, cultivating 3000 to 4000 hectares.

The private individual producers cultivate 2 to 3 hectares, on average. They are not competitive since they are subsistence farmers and do not produce for the market. Often, their efforts exceed the value of the end product or the rent they can get for their land. They own depreciated machines or rent from the lessees and the cooperatives. They do not have credit access.

Fragmentation of the land ownership in the region

76.92 percent of the agricultural producers perceive their lands to be fragmented; while 15.38 percent do not have these problems. According to 36.36 percent of the medium and large farmers or 30.77 percent of all interviewed, the typical size of a parcel is 1.5 to 2 hectares. Those farmers with parcel sizes of 3 to 5 hectares, 5 to 7 hectares or 50 to 60 hectares account respectively for 7.7 percent each, 23,07 percent haven't answered the question and for 15.38 percent the prevalent parcel size is 25 to 30 hectares. The larger areas come about from because some of the farmers lease land from big families or consolidated land from the SLF.

The clearest expression of fragmentation are the number of contracts signed by the large lessees; 33.33 percent have made contracts with more than 1000 owners, but all of them with more than 100 owners. The number of parcels owned or leased ranges from 100 to 150 up to 3000 or more for the large farmers and from 10 up to 50 for the medium and small farmers.

It still thought that the risk of losing the production as a result of bad weather conditions can be overcome if the property is fragmented and scattered. This thinking also existed in the past, but after land consolidation it became clear that this is unsubstantiated. At the present time, the situation has changed for the better and there are competent insurance companies, which provide a wide range of services to offset this problem. Since the weather conditions are not stable and ever changing crop-insurance becomes a necessity. Though producers are reluctant to insure their production to save costs.

Product mix:

One hundred percent of those interviewed grow maize, 92.31 percent grow wheat, though barley is not so widespread. 30.78 percent mainly grow sunflower. Over the last years the share of beans and lentils cultivated is decreasing. The reason is attributed to the import of cheap poor quality beans. Around eight percent of farmers grow alfalfa.

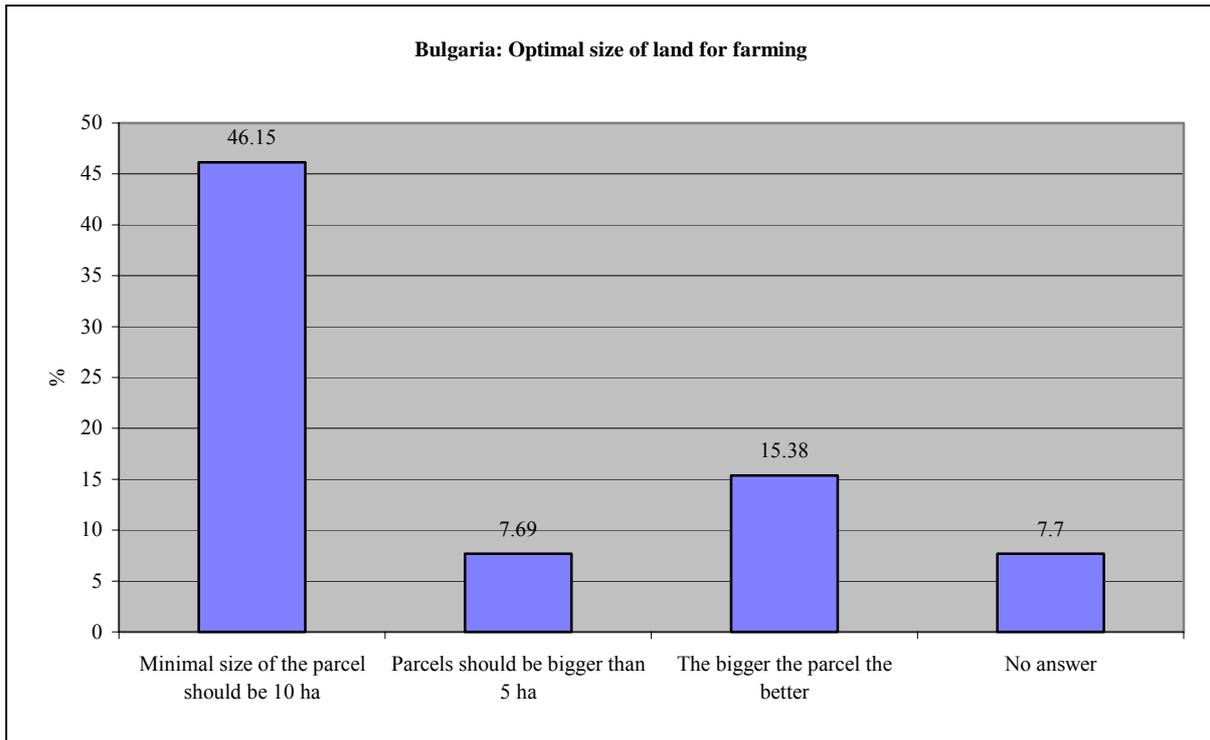
The wheat yield ranges between 3500 to 5000 kg/ hectares, while the average yield of the region is 4500 kg/hectares. The yield of maize (the land is not irrigated) varies from 4000 to 6000 kg/hectares with an average yield of 5000 kg/hectares. The average yield of sunflower is between 1500 kg/hectares and 2500 kg/hectares.

Optimum possible production:

Twenty-three percent of the interviewed farmers consider a distance of up to 15 km as optimal for a farm location, 23.07 percent leased farms in a radius of 20 km, 15.38 percent in a radius of 8 km, and 15.38 percent consider the radius of 10 km as optimal. 7.7 percent lease farms in a radius of 20 to 25 km, 7.7 percent, 5 to 30 km and 7.7 percent more than 30 km. The data shows that 53.83 percent of the farmers consider the distance of 15 km from the yard as optimal and strictly observe it. And 76.9 percent of respondents lease in a radius of 20 km.

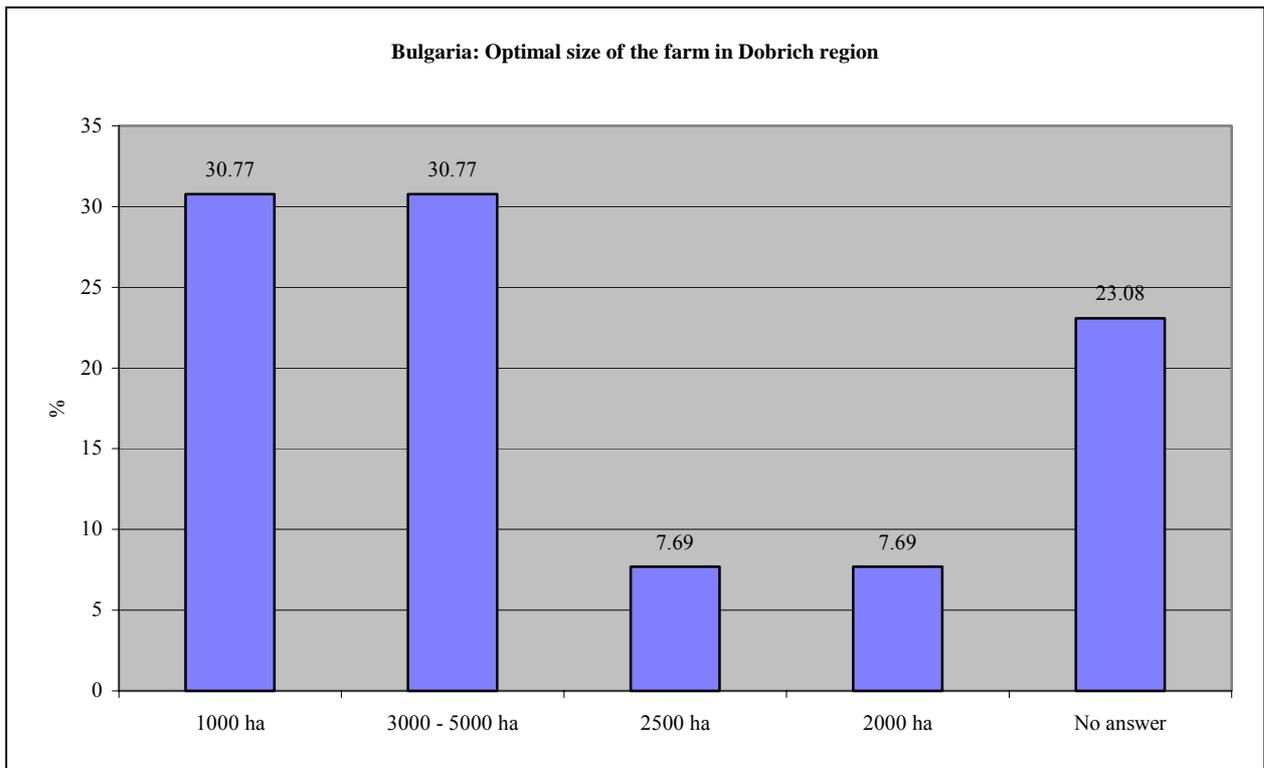
A basic factor for successful management of a farm and land investment protection is the ratio of owned to leased land. In searching for the optimal ratio 18.18 percent think that a proportion of 1:1 (own/leased land) is the best, 9.09 percent supports a ratio of 1:2 and 9.09 percent think that 1:3 or 1:4 is the optimal ratio. More than half of the farmers (63.64 percent) are not able to determine the optimal ratio or do not support this issue. This is valid mostly for the small and medium farmers

At present, the ratio between owned and leased land ranges from 2:3 through 1:6, 1:10, 1:15 and even 1:30. Of course, there are farms set up on the basis of leased land or own land. This shows that in the near future the land market will stay active. It is generally held that effective agriculture cannot be carried out on parcels less than 2 hectares. The farmers' answers to that question gave either minimal or optimal necessary size of parcel, rather than both (see figure below).



Source: Survey in Dobrich region, conducted in April 1999.

The optimal size of a farm which is the property of one person, in The Dobrich region should be 1000 hectares according to 30.77 percent; for another 30.77 percent, between 3000 and 5000 hectares; 7.69 percent chose 2000 hectares as an optimal size, and a further 7.69 percent indicated a size of 2500 hectares, 23,08 percent gave no answer.



Source: Survey conducted in The Dobrich region, April 1999.

It is established that one person can effectively use a maximum territory of 1 hectare.

A household needs at least 10 to 15 hectares in order to provide an annual living, including production for animal feed and own consumption. In pursuing the optimal criteria and effectiveness of production, it should be noted that one worker can be used effectively in the cultivation of a 100 hectare parcel.

5.2.3 *Other characteristics of the survey sample*

Credit Access

All farmers use credit not only from the State Agriculture Fund but also from commercial banks regardless of the high collateral requirements. The problems farmers face are technical; they need a lot of time to find the documents required, complete them, estimate the value of the mortgage and wait for a decision from the bank's credit commission.

Usually farmers apply for one-year short-term credit, rarely for a longer-term. This is a serious problem especially for small farmers.

Diversification of production

The farmers have already reached this stage of development. There are no strict rules for diversification with the exception that all big farmers are distributors for the manufacturers of agricultural machines. Unfortunately, the maintenance service is unprofessional and insufficient. Some of the farmers work in the petrol business; others are involved in tourism and some breed horses for sport. The import of fertilisers and preparations is another diversification activity. The farmers have mills, bakeries and dairies, which are non-profitable. Some of them supply agricultural aviation services.

It is a characteristic that a crisis in one sector does not always coincide with other sectors. Diversification protects the farmers, by offsetting a crisis in agriculture or a bad harvest year, and companies from other sectors get involved in agriculture for the same reason. These companies bring 'new life' to the environment, the land and revive the rental market.

5.2.4 *Scenarios for Farm Development*

Based on the collected data, three optimal scenarios for farm development were prepared:

Scenario I

The optimal size of a farm: 1000 hectares.

The minimum size of a parcel: 10 hectares.

The optimal size of a parcel: 70 to 80 hectares.

The ratio of owned to leased land: 1:1.

The number of workers: 10.

The optimal radius for a farm location: 10 km.

Scenario II:

Optimal farm size: 3000 to 5000 hectares.

Minimum parcel size: 10 hectares.

Optimal parcel size: 70 to 80 hectares.

Ratio of owned/leased land: 1:2 up to 1:4 depending on the size of the farm.

Number of workers: 30 to 50;

Optimal radius for a farm location: 20 km.

Scenario III:

Size of family farm: 10 to 15 hectares.

Minimum parcel size: 2 hectares.

Optimal parcel size: farm to be situated on one place.

Number of workers: the members of the family;

Ratio own/leased land: 1:0.

Land lease. Rent payments.

All lessees sign a four-year land lease contract in accordance with the new requirements of the Land Lease Law. They avoid signing contracts for a longer term. The rent payment is in cash. Different systems and methods of payment are applied. Only 7.69 percent transfer the rent payments through commercial banks. 92.31 percent pay the rent directly to the owner.

These are the ways of rent payment:

- A lump sum paid at the end of the crop year after harvesting.
- Two-stage: 50 percent in December and 50 percent in January.
- Two-stage: 50 percent in advance and 50 percent after harvesting.

When the average yield is under a certain value, for instance 4000 kg per hectare, the landowners receive 30 percent in cash if they have no shares in the farm, and 35 percent if they own shares. If the average yield is over the contracted value, they receive the amount stated in the contract plus the value of the surplus. The rent payment is approximately 50 percent of the villages included in the survey ranges from 150 to 155 DEM/hectares and in 40 percent of the villages from 190 to 220 DEM/hectares.

The time it takes to finalise the land lease contracts depends on the size of the farm and the property owned by every contractor. In large farms the process lasts two months and involves at least two persons. Often the new land lease contracts are signed in the farmyard and at the same time the previous year's rent is paid. The contracts with absentee landowners are usually verbal; sometimes authorised representatives of the absentee landowners sign them.

The absentee landowners can be divided into three groups:

- Absentee landowners who are concerned about their property and cultivate it.
- Absentee landowners who are concerned about their property but do not cultivate it.
- Absentee landowners who do not care about their property.

The notary authentication of the contracts is between 20 to 30 DEM per contract or 10DEM/hectares. This is inexpensive, especially if the transaction cost is spread over the years of the contract's duration. Since the farmer has a limited time, it is not feasible that the farmer will supervise the production process and travel to the notary office every day. In practice organization of lessors is impossible. On the other hand, the absentee landowners cannot spare the time to go to the notary office and the trips required to finalise the contracts are expensive and highly exceed the eventual rent income. Hence, only fourteen land lease contracts were registered in the municipality land commission in General Toshevo in 2000.

5.2.5 *Methods that have been tried for land consolidation in the Dobrich region*

Land lease

This is the most widespread practice of land consolidation in the region. Some of the farmers consider the rent payment as an investment in land consolidation. However, this is not the case in a region where the leased parcels are small and dispersed. Often parcels situated in the middle of a *massif* can not be leased or are leased by another farmer.

Farmers overcome this by:

Division of the land of a massif among the farmers working it:

All those interviewed lease land and 92.31 percent of them are involved in the division of the Massifs. The divisions are illegal and are done without the landowner's knowledge. However, this is the only way that farmers can get consolidated lands. Moreover, this is the only way they can generate enough crops revenue to pay the rent and make some profit as well. Usually the net profit is roughly 50 to 100 DEM/hectares. There are no registered complaints from the lessors concerning the division of the massifs. Division creates uncertainty about future development of farms and hampers investments in agriculture.

Exchanges of scattered private land with consolidated land from the SLF:

These exchanges are possible in TBS's where the SLF is active and has fertile land. In most of the municipalities, the process has not been taken up for the following reasons:

- State land is leased for a period of 10 years.
- The depletion of state land appropriate for cultivation.

Consequently, in the municipality of Krushari the State Land Fund is 3,200 hectares, scattered over many parcels and located near the Romanian border, however, right after the restitution the State Land Fund owned only a small part of the land in this region. The land owned by the State Land Fund is increasingly growing as a result of the exchanges and is occurring in regions where:

- There are no agricultural producers.
- Rent for the leased land is not paid
- The land price is lower than the rest of the region.

Purchase of agricultural land:

Small farmers cultivate their own inherited and/or leased land, they usually do not buy land. Farmers who own medium and large farms have bought land.

People sell their land in the following cases:

- When there is an urgent need for financial resources.
- When going into another business.
- When exchanging properties.

The income from the sale is referred to as an **alternative source of finance**. Since the number of private farmers in the region is small, there is a large supply of land and limited demand. Subsequently, farmers buy the land in order to help the sellers, or because the property is sited in the massif they cultivate.

Real Estate Agencies

The agencies play an important role in the Bulgarian land market. In the Dobrich region alone there are 22 to 24 all to be found in the city of Dobrich. Only twenty percent of them are professional market players. They employ unqualified agents and do not abide by the laws, thus creating problems, which hamper the land market. In general, there is no control over new entrepreneurs wishing to enter the real estate business; this compromises the reputation of those companies working fairly and honestly. These new agencies charge high fees in advance and that is how they hook the landowners who cannot switch agencies, otherwise they lose their advanced payment and will not make a profit from selling their land. These firms keep their customers by taking the original notary deed documents of the property and not returning them to the landowners even if asked, this way the landowner is forced to use their services regardless of bad service.

For the authors analysis for contemporary attitudes towards land tax, and a preliminary proposal see Annex

5.3 Conclusive summary

Land consolidation is a complex process. It requires the willing and active participation of all parties: landowners, tenants, local administrators, and surveyors' offices. Existing land fragmentation causes economic losses for farmers. Land prices dropped significantly because of parcels being too small; unlike small and medium size farmers the larger ones consider land fragmentation a serious problem, incurring higher transport and management costs.

Losses because of border effects could be enormous. On the other hand some farmers find fragmented land an opportunity to decrease the risk of big losses. The main current form of land consolidation is a negotiable exchange of leased or owned land among local agricultural stakeholders. Most often this is not included in land leasing contracts.

The land market does not provide serious opportunities for land consolidation: Firstly because offered parcels are fragmented and secondly because of the low price incentives for the sellers. Nevertheless, when they take place, large sales raise the price of the land and animate the market. Attitudes to administrative land consolidation depend on farm size; large-scale farmers are in favour. The administrative resources for implementing such legislation are considered inadequate.

Implementation of land tax was identified as an instrument for stimulating land consolidation. Land tax could be paid only if it is very low and therefore would not inhibit the responsibility of land ownership. Introduction of new taxes would be an administrative burden for both citizens and local administrators.

6 The Potential for Land consolidation

6.1 A history of Land Consolidation Initiatives

In a general sense, land consolidation is described as the pooling together of fragmented rural land resources within a certain territory and their reallocation, in an aggregated pattern, for improved land utilization. Land consolidation is seen as a remedy to land fragmentation, which is often considered as imposing production constraint on the farmer, not allowing them to do the following:

- Organize the farmland efficiently
- Adjust the farm/product mix to the market according to its requirements.
- Utilize the necessary and most appropriate crop rotation.
- Effectively use the factors of production, such as large machinery and equipment.
- Use labour effectively, as time is wasted managing diverse plots.

Land consolidation is not a new issue for Bulgarian agriculture. In 1878, after the redistribution of land to Bulgarian rural citizens following the collapse of the Ottoman domination, land consolidation was a much-discussed strategy. It also became an important reform policy after the First World War (1914-1918) due to the belief that land consolidation would lower the cost of production and raise the profit per unit of land. It was also seen as a strategy to counterbalance the potentially fragmenting effects of:

- The large influx of refugees from the seceded Bulgarian territories;
- The newcomers who came to Bulgaria after the signing of various conventions and agreements with the neighbouring countries;
- The natural population growth;

During the interwar period the majority of landholdings were small, less than 8 hectares (see National Statistical Yearbook of Bulgaria, 1934). Farms owning land of up to 1 hectare were 13.5 percent of the total and cultivated 1.3 percent of the arable land. Those from 1 to 5 hectares were 63.1 percent of the total and worked 30 percent of all arable land, and those farms of over 40 hectares were 0.2 percent of the total operating 2.1 percent of arable land. The average size of a farm before the year 1934 was 4.9 hectares of which 4.4 hectares were cultivated land, and 0.5 hectares was idle. In this period too, the land was very fragmented, comprising in total 11,861,312 plots. Of these, farms smaller than 6 hectares owned 53.9 percent of plots, while the agricultural farms of over 20 hectares owned 3.2 percent of the plots and those over 40 hectares owned 0.4 percent. A huge number of the land plots could not be reached by roads and for the best part of the year were inaccessible.

Interestingly, between 1897 and 1934 the average size of a plot of agricultural land decreased, while fragmentation of land holdings increased. In 1897 the average plot size was 0.47 hectares, while in 1934 it was 0.36 hectares.

The very process of fragmentation of land ownership leads to the need for land consolidation in Bulgaria. The first ideas for pursuing land consolidation as a national strategy surfaced in 1908 when a member of the National Assembly, Petar Berov, presented a draft law concerning land consolidation, however it was not passed. After this first attempt initiatives for land consolidation in Bulgaria can be divided into 7 stages:

1st stage: 1911-1921

Land consolidation as a process started in 1911 in the village of Madan, initiated by five Simeonovi brothers, residents of the village and owners of land. Through numerous exchanges of certain land plots with others, with the purpose of enlarging by collecting the scattered parcels into one place, it was realised that land consolidation held out efficiency gains over fragmented holdings. It took place on a voluntary basis and there was had no legal standing.

2nd stage: 1921-1924

The first step the Government made regarding land consolidation was by the passing the Law for Labour Ownership of Land (LLOL, May, 1921). It gave the legal right to landowners to group their scattered lands into one area on the lands of the Land Fund. At that time three types of agricultural land ownership existed; private, municipality, and state land from the Land Fund. Twenty-one farms in nine villages, eight in the north and one in the south of Bulgaria, consolidated their land on the basis of the LLOL. Land consolidation of a whole village on the basis of LLOL was not carried out.

In 1922 the Improvement of Agricultural Production and Preservation of the Priest's Possessions Law was enacted. According to this Law, physical persons, municipalities and cooperatives undertaking land consolidation are given certain privileges, financial aid and free measurement of their lands.

3rd stage: 1924-1934

In August 1924 the LLOL was amended to form the Law for Labour, Agricultural Farms (LLAF), where not only the Land Fund land becomes subject to land consolidation, but private and public land as well. The ways and times that land consolidation can take place are clarified, as well as who will cover the expenses, etc. This Law provided for two types of land consolidation:

- Land consolidation of all the lands of all agricultural landowners in a given TBS;
- Partial land consolidation, i.e. the exchange of private lands for lands of the Land Fund.

Twenty landowners from six villages, all in the northern part of Bulgaria, consolidated their lands on the basis of the LLAF.

During the period between 1924 and 1934, land consolidation was carried out under the auspices of three governmental bodies, independent of each other and all working at the same time:

- The main department of the Labour Agricultural Farms (closed in 1930);
- The Department of Agricultural Accommodation of Refugees (created in 1927 and closed several years later);
- The Office for Land Consolidation at the Ministry of Agriculture and State Properties (MASP), created in 1928. This department was subject to a number of re-organisations until 1934.

During this stage, for the period of 1926 to 1934, the lands in 10 villages in the northern part of Bulgaria were completely consolidated with a total area of 41,447.2 hectares.

4th stage. 1934-1941

In 1934 the LLAF became the Law for Labour Agricultural Farms and Land Consolidation, finally confirming the responsible departments for land consolidation in Bulgaria. As a result the actual process stabilised and expanded. In the period from 1935 to

1940 under the supervision of the land consolidation office the land in 47 villages from 19 municipalities was completely consolidated with a total area of 148,101.8 hectares, 3.45 percent of the total arable land in the country, and 1.44 percent of its entire territory. If we add the consolidated lands under the direction of the Department of Agricultural Accommodation of Refugees, i.e. 13,788.6 hectares, we arrive at the figure for the total consolidated area in the country for that period, that is 161,890.4 hectares, or 3.78 percent of the arable land in the country and 1.61 percent of the country's territory (the territory of the South Dobrudja is excluded, because of the fact that Romania had already consolidated the land in all villages there).

5th stage: 1941-1946

On June 14th 1941 the Cadastre and Land Consolidation Law was passed (CLCL). It created a Central Office for Cadastre and allowed the carrying out of the cadastre in Bulgaria to begin, while the consolidation of lands became compulsory for the whole country. The government budget and the budget of the fund for the improvement and augmentation of the land utilized provided the funds for land consolidation. A special feature of the law is that the breaking up of consolidated plots is not allowed when they are divided or expropriated, voluntarily or compulsorily, into plots with sizes of less than one hectare for fields; 0.2 hectares for pastures and orchards and 0.1 hectares for vineyards and vegetable gardens, except when these separate parts are merged to the neighbouring plots. If, though, because of the acquired right of ownership, plots of less than 1 hectare have to be separated, which cannot be joined directly to the plot of the owner who is to receive them, then the same receives a cash amount of the same value as the acquired land. This is the first attempt to stop land fragmentation in Bulgaria. This Law completely covers the issue of the development of the consolidated lands.

In 1941 work started on consolidating the land in 24 villages from 10 municipalities with a total area of 78,757.0 hectares. For the period 1941 to 1943 the land of ten villages was completely consolidated and the total area was 36,738.9 hectares. Thus, in the period between 1930 and 1943, the land in 57 villages was completely consolidated, an area of 184,840.7 hectares.

During this stage many requests for land consolidation were lodged, but the lack of financial resources and well-prepared specialists restricted the activities of the State.

6th stage: 1946-1991

After 1945 Bulgaria began a new stage in its social development, which completely changed the ongoing process of land consolidation. The total change in the legal basis of the country annulled the force of CLCL and brought to the forefront two processes, which could be deemed the foundation of the further development of agricultural farming, i.e. the nationalisation and collectivisation of agricultural land. These two processes governed the enforced land consolidation, which took place in Bulgaria. Gradually rights to ownership of agricultural land were erased, and a very small part was left to the farmers for private use. By the beginning of 1991 the country was left with large-scale production mechanisms suited to collective farming, and unclear rights of ownership of agricultural land, which led to the ensuing land reform of 1991.

6.2 *Current problems of land fragmentation*

As a result of the ongoing reform in the agricultural sector, the fragmentation of agricultural land in Bulgaria typical of the period between 1878 and 1947, found its counterpart in the years after 1991. The huge blocks of arable land created during communist times were broken into small plots after the passing of LOUAL in 1991, and the Regulation of the Implementation of the LOUAL. The process of restitution of land ownership was completed at the beginning of 2000 with the final submission of the ownership documents and the accompanying drafts, leaving agriculture with a big problem not only technically and technologically, but also economically.

This fragmentation of land holdings caused by land restitution is ongoing, and getting worse, due to the additional fragmenting of land ownership (subject to the requirements of LOUAL and the Inheritance Law), caused by the divisions between the heirs of the deceased owners of agricultural land under whose name the land was reinstated after 1991. Liberal inheritance laws, and the tradition of providing equal shares for all heirs to an estate, contribute to the major driving force behind current processes of land fragmentation. Bearing in mind the considerable soil diversity (on average, 3-4 very different soil categories) within territories belonging to one settlement (TBS), subdivision of the estate tends to produce a physical split of each individual plot into a number of plots corresponding to the number of heirs, rather than distribution of intact plots. This way each heir gets an equal share both in size and soil quality. An additional factor of similar influence for the greater fragmentation is the established land use pattern within the TBS, e.g. irrigated land, orchards, vineyards and fields. Usually heirs would seek an equal share of all available land uses within the farm land estate.

Thus, since the early 1990s, one of the main problems facing agricultural farmers has been the fragmentation of land and the impossible, or at least enormously difficult task of forming large plots of arable land necessary for efficient cultivation and the achievement of economic profit. This forced all producers to start looking for ways to consolidate agricultural land, despite the lack of normative regulation regarding this issue. The search for methods of economic and juridical land consolidation is meeting strong resistance from the opposing processes, i.e. the division of farm lands between the heirs of dead owners from the static register; the purchase or sale of plots or part-plots, and the impending auctions of land from the State Land Fund (SLF) with compensatory bonds.

First we are going to look at the processes altering or encumbering land consolidation, then we shall pay attention to the methods applied to land consolidation.

6.3 *Processes working against land consolidation*

6.3.1 *Division of agricultural lands*

The division of agricultural property takes place in the cases when the person who is the owner of the property has died or gives up his inheritance in favour of third parties, most often his relatives or children. This can be voluntary or obligatory. A contract specifies the division of land for inheritance purposes between the parties having rights to an allotment. According to article 10 of the Regulations for the Implementation of LOUAL, the property owned is not to be less than 0.3 hectares for fields; 0.1 hectares for an orchard or a vineyard; 0.1 hectares for pastures. The division contract includes the people who have become new owners of the inherited land. Under their names the real estate properties, which are already theirs, are detailed, the type of property is specified (for example a field, an abandoned field,

vineyard, pasture, etc.), its size (in words and numbers), the land category, the area where it is situated, the number of plots, and a compulsory record of the names of the neighbours of the property, i.e. the number and type of the neighbouring real estate property and its owner. For each property the covenants are mentioned and the reasons for them (e.g. an electric cable, 20kV). The property from which the new land derives is also recorded. The new owners, also called co-dividers, receive one original signed contract each. One original contract is submitted to the Land Commission of the area where the property is situated, one remains with the notary who has performed the deal and one original contract is made for the Entry Office.

The necessary documentation for performing the voluntary division are: the decisions of the Land Commission under article 18j1, or article 27 of Regulations for the Implementation of LOUAL; a record of initiation; notary deeds; a certificate of inheritance; a declaration of the giving up of an inheritance, in the case of one of the rightful heirs choosing to do so, and plans and sketches for the division of the properties.

The average transaction costs in a voluntary division are about 30 BGN/hectare (excluding the transport costs incurred on the several trips to the Land Commission local to the property, and the transport costs of the absentee land owners to the place of the signing of the contract).

Land division is the main requirement imposed by the buyers when purchasing a property. In the Dobrich region, land is not purchased in co-ownership, unless it is impossible to divide. There are documented cases of the selling of parcels with sizes ranging from 0.3 hectares up to 2 hectares with more than 20 co-owners. These cases are extremely hard to resolve and carry out, due to the difficulties in gathering all the co-owners in one place and obtaining their consent for the sale of their land and agreement on its price.

The average costs per subdivision contract in the Dobrich region are 25-35 BGN.

6.3.2 *The purchase of agricultural land from the State Land Fund using nominal compensatory bonds (NCB)*

The purchasing of agricultural land using compensatory bonds from the State Land Fund (SLF) is a process that can be examined in two ways; as an impediment or an aid to land consolidation. This is a process, which started several months ago with the issuing of certificates for the possession of nominal compensatory bonds (CPNCB) by the Land Commissions. These certificates are given to people whose requests for restitution of farmland have not been met²¹.

Upon receiving the bonds, the person can:

- Take part in agricultural land auctions organized by the SLF;
- Obtain the right of ownership to land subject to article 27, paragraph 6 of the LOUAL;
- Take part in the transfer of the NCB;
- Participate in the privatisation process in the country.

These NCBs are typically sold by auction where an opportunity is created not only for parties uncompensated for ownership rights by the restitution process, but also for certain

²¹ For an outline of the documents needed to obtain certificates for possession of NCB, and the details and procedures surrounding this method of land purchase see annex X

individuals who already have some land plots in the areas where state-owned lands will be auctioned. The auctions can have positive effects for the land consolidation process if the state land is gained by a person who already farms in the TBS where it is located and has their own and/or leased land, especially if certain plots of it are neighbouring the auctioned ones.

Unfortunately the effect of seceding agricultural land from the State Land Fund to new owners through the auctions can also lead to some very negative results:

- The already consolidated lands will be fragmented. Land ownership will be considerably fragmented, and the number of new owners is hard to predict. This itself will reflect negatively on the agricultural land market. The already huge number of landowners will increase, which will increase the availability of agricultural land for sale and will push market prices down. Also, the appearance on the market of plots over 2 hectares will inevitably affect the prices of the smaller plots and will make them less attractive.
- The reduction of lands in the SLF (the reduction is expected to be between 30 and 50%) will impede the future process of legal consolidation. The possibility of creating a Land Bank, as an institution assisting and carrying out the land consolidation of land will be greatly limited. The resources it can operate with are reduced, which will hinder its rapid assimilation and implementation at both national and regional levels.
- This reduction will stop or strongly limit the ongoing process of juridical land consolidation, i.e. the exchange of dispersed private parcels of land for consolidated state ones.
- There will also be a negative effect on the development of the rural areas. The relinquishing of ownership by the state can be perceived as a withdrawal from the rural areas and the narrowing of its social policy there. The impression that the state prefers to offload land because it no longer wishes to be responsible for it, and because it has no strategy for the development of the rural areas, may become prevalent. This is a reasonable point of view, considering that a great number of the first compensatory bond owners and expected owners have already sold them and will not actually be taking part in the auctions. The reduction of the land in the SLF will lead to the reduction of the extent of the lands which could be offered to peasants with little or no land, as well as to the ethnic and Roma minorities, removing means for earning a living and reasons to stay and live in the villages.

6.3.3 The purchase/sale of agricultural lands or parts of them

This is the third process obstructing land consolidation. It can additionally fragment the land property by leading to the inclusion of new owners in the land territory; it might also result in the fragmentation of lands already consolidated and to other negative consequences.

Unfortunately, the land market is still in its infancy in Bulgaria and furthermore, land consolidation objectives can only be achieved if the land for sale is directly adjacent to one or more of the buyer's existing plots. This requirement restricts the ability to consolidate effectively through a land market.

6.4 *Methods of land consolidation applied in Bulgaria*

6.4.1 *Types of land consolidation*

According to the number of differentiated parcels in which every different owner groups his land property, there are three types of land consolidation:

Full (radical) land consolidation:

In this type of land consolidation the land of the separate owner is grouped in one place, i.e. he becomes owner of one parcel of land.

Moderate land consolidation:

The participants are given two or more parcels of land. This type of land consolidation should be used in the regions where the soil variation and the variety of crops are greater.

Conservative land consolidation:

Here we have partial consolidation of the owned properties in specific parts of the territory belonging to the settlement, and where special roads are made to these new parcels of land.

Voluntary land consolidation:

The participation of the owners is totally voluntary. Whether or not land consolidation is carried out in the territory belonging to the settlement is decided at a meeting of the owners of the land. If over a specified percentage at the meeting agree, the process can start. Usually in these meetings, not only the owners, but also the users of the land can have a vote. It can be legally regulated or not.

Involuntary land consolidation:

This is done on the basis of a specific normative act.

Land consolidation can be conducted at the national level and is often ‘forced’ or ‘involuntary’, or at the regional level, in different territories belonging to the settlement, i.e. where the owners have an interest in its completion

In this study we identify various methods of land consolidation in Bulgaria; some motivated by legal parameters, others by economic concerns. These methods are as follows:

1. Leasing of land from the SLF for a period of 10 years.
2. Purchase of agricultural land from the SLF using compensatory bonds.
3. The exchange of scattered plots of private agricultural land for consolidated state land from the SLF.
4. The division of the land in the TBS among the producers working it.
5. An interchange of private land plots between the individual producers and owners of the land.
6. Agricultural land leasing:
 - The leasing of agricultural land, property of ‘large’ families.
 - Renting from different owners in certain land territories, disregarding the size of the plots owned by them.
7. The purchase or sale of agricultural land.

Below we review each of these methods for land consolidation in turn and supplement the descriptions by drawing upon information from the study region of Dobrich.

6.4.2 *Leasing agricultural land from SLF for a period of 10 years*

This is one of the first methods utilized in this area, though not to such a great extent. This is rather an indirect method and could be determined as an economic land consolidation process. More often than not it is combined with land renting.

The procedure for obtaining a 10-year land lease from the SLF:

1. The Ministry of Forestry and Agriculture (MAF) announces an auction for a 10 year agricultural land lease, specifying:
 - The size and category of land to be leased;
 - The lease period;
 - The territory where the land is situated;
 - The deadline for submitting the participation forms and the requirements to the participants;
 - The date of the auction.
2. Within the deadline announced by the MAF, those who wish to participate, submit their documents
3. After the deadline for the collection of offers the auction follows.
4. The signing of a contract between the MAF and the winner of the auction.

The land leased this way has the following features:

It will not be part of the auctions for state agricultural land using compensatory bonds. After the term of the lease expires, the lessee has the right to buy it.

The instability of this method is evident in the lease contracts signed between the MAF and the lessee. There are no serious penalty clauses if the land was used irresponsibly and was badly cultivated and these can easily be annulled by the MAF. It should be noted that there is no clear and exact formulation of this situation, i.e. the personal opinion of the governing party suffices and this could result in corruption.

The minimum size of the plots leased for 10 years in the Dobrich region is 20 hectares, the maximum being 50 hectares. Until now, approximately 5,500 to 7,000 hectares have been leased, which is 24.44 percent to 31.82 percent of the SLF land in the region (which was 22,000 hectares prior to initiation of this leasing process). The producers in the area expect this method to be discontinued or its use to be limited after the state land auctions using nominal compensatory bonds takes place, due to the exhaustion of state land fund availability. It is also a popularly held view that this type of long-term leasing of land from the SLF creates conditions for corruption.

6.4.3 *Exchange of the scattered plots of private land for consolidated land from the SLF*

This is a widely practiced juridical land consolidation method in the area and this is also the reason for the increased activity in the agricultural land market since 1994, particularly in the last two years. It mainly consists of exchanging scattered plots of private land, varying in categories of size and quality, owned by one person, with consolidated land from the SLF in order to consolidate. The blocks of land from the SLF are large enough to ensure efficient agricultural production.

The exchange itself is performed on the basis of evaluations in accordance with the Regulations for the Determination of Base Prices for Agricultural Land.

Procedure for the exchange:

- Inspecting a plan/diagram from the Land Commission and checking the private land;
- Preparing an evaluation of the land. The base price of the private land and of the state land is determined. This way the land in the different regions is compared.
- Authentication of the land evaluation at the Land Commission;
- Summarizing the information in the 'Land Ownership' Regional Office;
- Submitting the documentation to the MAF;
- Checking the documentation at the MAF;
- Issue of permission from the Minister of Agriculture and Forestry for the exchange to be performed;
- The signing of a contract between the Minister of Forestry and Agriculture and the concerned physical person. The contract is in notary deed form. It is recorded in the Office of Records at the Municipal Court.
- The physical person registers with the Land Commission, where the, by now former, state land is;
- The Land Commission issues a sketch, which completes the package of documentation.

This process is very cumbersome, lasting months. It is complicated by the three document checks carried out: first at the Land Commission, then in the 'Land Ownership' Regional Office and, finally, at the MAF. The base evaluation of the lands and the sketches provided by the Land Commission at the beginning of the process are valid for 6 months. After that period, if the exchange is still to be performed (which has often been the case), it is necessary to repeat the evaluation of the land and the authentication of the drafts, which further lengthens the process and makes it more expensive.

This type of exchange to a great extent benefits the eventual role of a land bank, because after the exchange, the state becomes the owner of numerous plots of different sizes (minimum 0.3 hectares for fields) in different TBS's, now broken up and no longer strictly limited geographically. Therefore, the state is able to operate in more regions, can sell or rent land to a larger number of interested owners, especially if they are neighbours of the new state lands, and help the small and medium sized landowners with land consolidation.

Of a total of 22,000 to 22,500 hectares of land in the SLF for the Dobrich area, 6,500 hectares are included in such types of exchange. This form of exchange is used by both the lessees in Dobrich region and the people who have relocated from the city of Silistra to the villages of Trigortzi and Gurkovo. They have exchanged their land in the area of Silistra with state land near their new homes. These exchanges are expected to cease within 1 year, after the auctioning of state lands to the owners of nominal compensatory bonds (NCB).

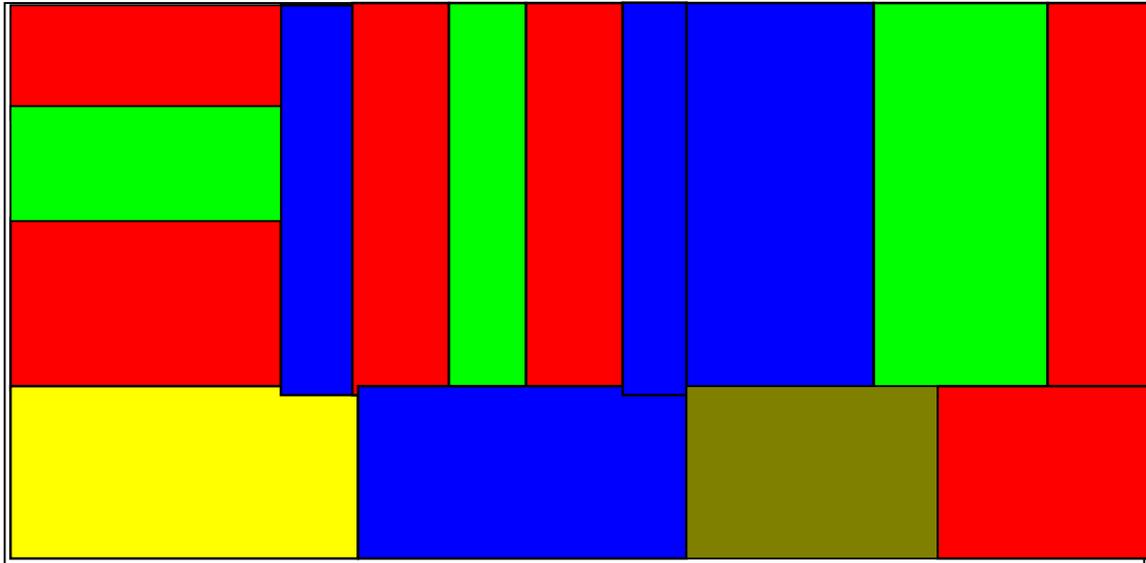
6.4.4 Division of the land territory in the TBS among the producers working it

This method for land consolidation is a very common procedure in Bulgaria, and especially in the study area. In Dobrich, all producers, no matter what their organisational form, being small, medium or large lessees, co-operative farms or individual producers, take part in this. The agricultural farmers are completely unanimous about the need for land consolidation and cultivating large blocks of agricultural land with the purpose of utilizing equipment efficiently and correctly performing technological procedures.

Typically, the procedure takes place at the beginning of the crop year and lasts one year. All interested parties hold a meeting at which it is determined who will cultivate which part of the land territory, observing the principle that the quantity of consolidated land received

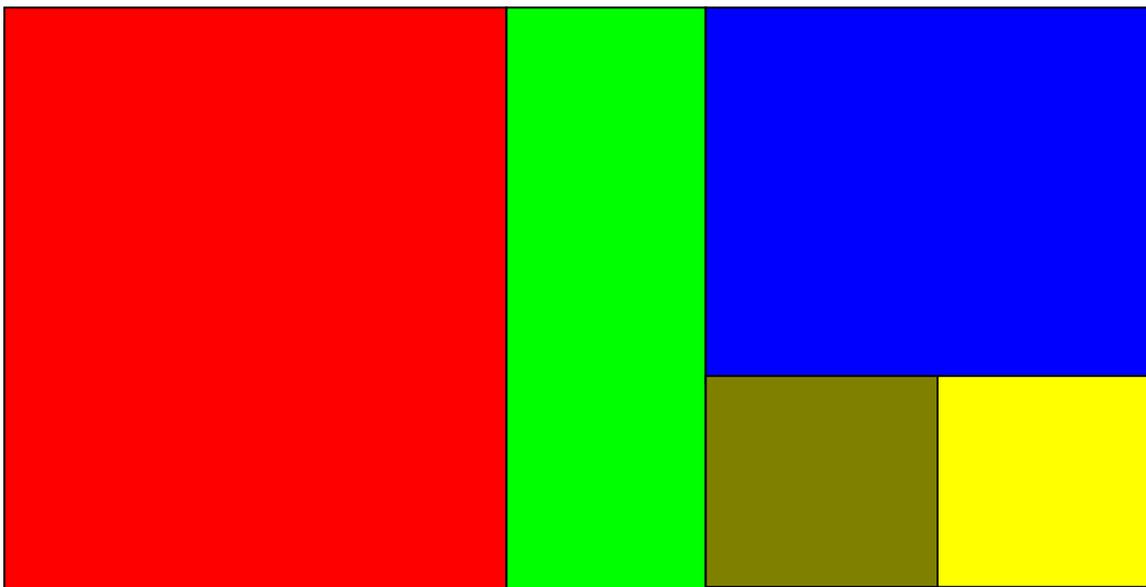
from a producer after the division, has to be equal to the land owned or rented by him before the division.

The state of TBS before the division



-  Parcel of land, property owned and/or leased from producer 1
-  Parcel of land, property owned and/or leased from producer 2
-  Parcel of land, property owned and/or leased from producer 3
-  Parcel of land, property owned and/or leased from producer 4
-  Parcel of land, property owned and/or leased from producer 5

The state of TBS after the division



-  Agricultural land that will be cultivated by producer 1 during the crop-year;
-  Agricultural land that will be cultivated by producer 2 during the crop-year;
-  Agricultural land that will be cultivated by producer 3 during the crop-year;
-  Agricultural land that will be cultivated by producer 4 during the crop-year;
-  Agricultural land that will be cultivated by producer 5 during the crop-year;

Such division stems from the renting and cultivation of numerous plots by each producer scattered around the land territory. This fragmentation does not allow crop rotation, or the crops to be properly treated with fertilizers and preparations, nor highly efficient technology to be used effectively. The signing of a contract between the parties certifies the division itself of the land territory. The notary does not certify this contract.

In the case of leasehold land, the division can be performed with or without the knowledge, or consent of the individual landowners. In reality it turns out that a producer cultivates land upon which they have no rights, that is, the land was leased to another producer, for example. There is no legal or normative document regulating this process, which makes it very risky. A risk also arises from the fact that a given owner might ask for the return of their land and destroy the signed lease or rental contract, to obtain the harvest from the land he owns if the producer with whom he has signed a contract is not cultivating his land.

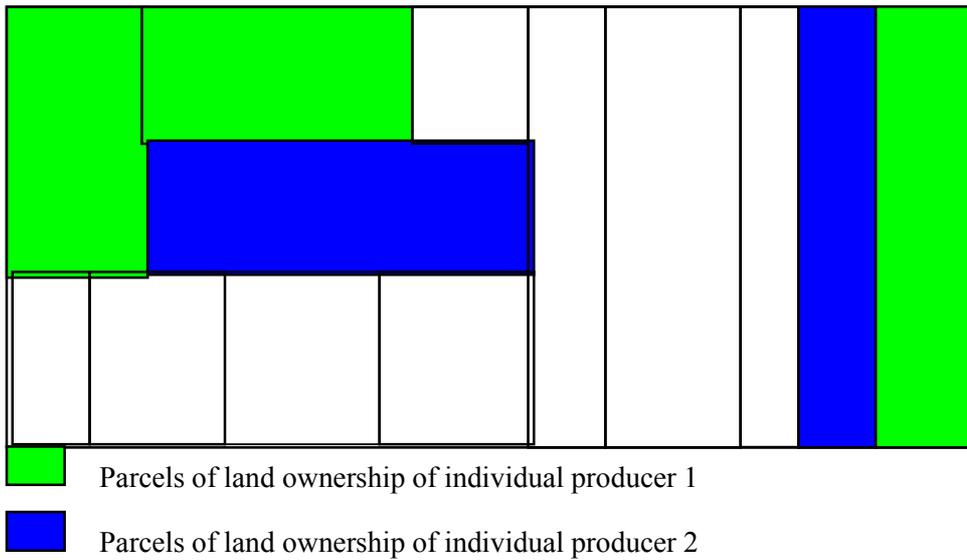
To ensure that this does not happen, the lessees pay the rent promptly, this being too high compared to the other regions in the country. Every lessor receives his rent payment from the lessee he had contracted with. This is still a somewhat illegitimate practice for which a normative act could be discussed and approved in order to take care of the issue and give it a legal form. In order to obtain the right to make such a division, producers must include clauses in their rental/lease contract allowing them to perform such activities. This practice will be retained in the future, and it is quite possible that other regions of the country might adopt it as well, with new producers entering the market.

6.4.5 The exchange of parcels of agricultural land between separate individual producers/owners

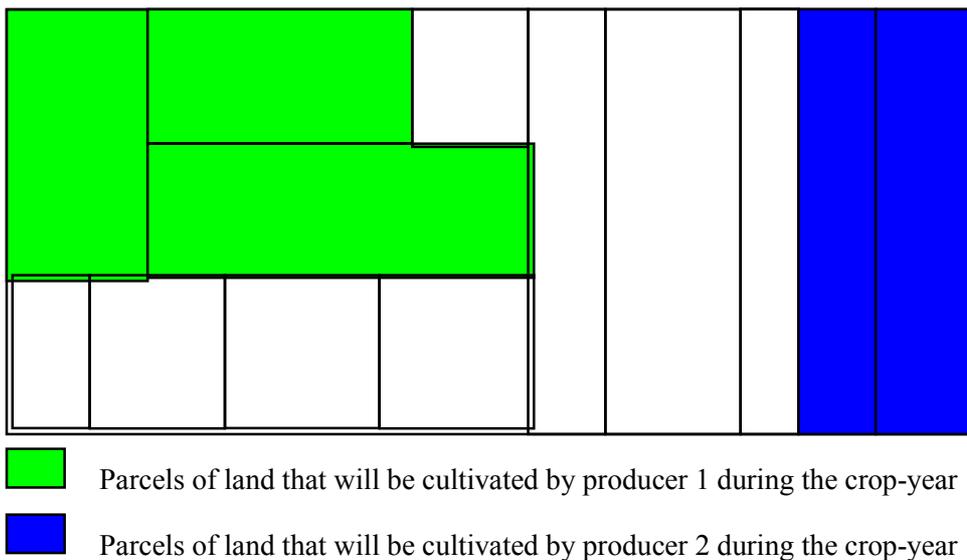
Individual farmers of small and medium type who are the owners of the exchanged parcels usually use this system. This is done by the mutual exchange of a certain parcel of land for farming by one producer to another instead of another parcel of land. The exchange is usually for a period of one crop-year. A verbal agreement is made or a contract is signed. Usually a payment for the usage of the exchanged plots is not required or necessary. Essentially, the contract approximates an informal lease contract between property owners.

From the charts below the results of such an exchange can be seen.

The state of territory belonging to the settlement before the exchange



The state of territory belonging to settlement after the exchange



Only land that is owned is exchanged. This way, the fragmentation of land ownership is overcome, from an economic point of view, and the prerequisites for more effective production are created. But this process in no way stimulates investment in the land, because it is not known who will farm the exchanged land the following year. After the exchange, the ownership, both judicially, and according to the documentation, still stays fragmented, only the way it is used has changed. In this way the arable land of a given producer after the exchange can be larger, of equal size or smaller than before the exchange. There is no normative order for this kind of exchange but there are no judicial problems or hindrances because the land being exchanged is the property of the participants who, according to the existing laws, are allowed to do with it whatever they think is in their best interests.

In the Dobrich region this form of exchange is hardly ever used, because in most cases the previously mentioned form is preferred.

6.4.6 *Leasing of agricultural land*

The leasing of agricultural land is a classic method of land consolidation, according to the way it is used. It is also the most common method of land consolidation in Bulgaria and, in particular, Dobrudja. Until the year 2000 the tenant farmers (lessees) signed contracts for leasing or renting for a period of one year, but, from this year, the contracts signed will be for a minimum of 4 years and must be legalized by a notary.

What can be seen in the Dobrich region is that tenant farmers tend to lease land in specific territories belonging to the settlement, which the tenant finds most convenient within the vicinity of the farmyard. This distance is usually:

- 8 to 10 km;
- Up to 20 - 25 km.

The number of people hiring land more than 20 km from the farmyard is very small.

The biggest problem confronting tenant farmers is the requirement for the legalisation of the contracts for rent by a notary, and this process has a number of failings:

- It can result in a waste of time;
- It is often impossible or there are enormous difficulties in the signing of contracts with absentee land owners;
- It is often impossible, or extremely difficult and time-consuming, to transport elderly owners to the place where they must sign the contracts.

A small number of the leasing contracts are on a verbal basis, especially when there are absentee landowners who do not have representation in the region where their property is situated.

6.4.7 *The purchase/sale of agricultural land*

This is a double-edged process, i.e. it can lead to an increase in the size of a parcel, but it can also lead to fragmentation of land (a case already examined). Currently, the buying and selling of agricultural land partially leads to land consolidation. In the cases when a neighbouring parcel is bought there is a juridical land consolidation.

The purchase of a parcel(s) by a person already owning land in the territory belonging to the settlement but not bordering the property to be bought, reflects indirectly on land consolidation, in as much as it creates the right atmosphere and a desire, and increases the opportunity for land consolidation.

The main participants in this process are the large and medium-sized tenants.

The purchase and sale procedure for agricultural land is as follows:

1. The subdivision of the property in the cases where there is more than one owner, or the owners cannot reach an agreement amongst each other, or the buyer does not agree to the purchase with more than one owner.

2. The legalization of the plan of the property(s), subject to the deal in the LC where the property is located.
3. A tax evaluation of the property(s).
4. Collecting the plans and the documents from the LC where the property is located, together with its tax evaluation.
5. Legalising the deal in the notary office.
6. Registering with the court in the Entry Office.
7. Issuing the new documents for the property.
8. Registering with the LC where the property is located as new owners.
9. Issuing a plan/diagram by the LC where the property is located.

In the process of purchase and sale, a large role is played by the real-estate agencies.

Buyers tend to avoid buying land with more than one owner to avoid excessive transaction costs.

This is another classic method of land consolidation used in the Dobrich region.

6.5 *Conclusive summary*

The following is an attempt to summarize the various aspects of possible land consolidation schemes in the proposed area. In order to gauge comprehensively the specific Bulgarian conditions, several key factors have been addressed.

Legal Legitimacy. It is indisputable that the strategic objective of establishing an effective and competitive rural economy in Bulgaria requires the consolidation of land use/ownership rights in rural territories into viable farm units. Clearly, within the present legislative framework this is not comprehensively addressed. Politically and conceptually, there is no consensus nor clear government strategy as to whether achieving such consolidation should be left to purely market mechanisms, or to government intervention and special legislative limitation of individual land use/ownership rights.

With this background, land consolidation schemes, defined as the systematic spatial grouping and rearrangement of land use/ownership rights within certain territories, are a sensitive issue, bearing in mind that a major, costly land reallocation program (with certain opportunities for consolidation) has been completed. Survey results indicate that any proposed government intervention in individual farmland interests may face opposition from a considerable proportion of the population. Apart from this, without a sound regulatory framework, any land consolidation scheme may simply fail to raise the necessary funds for its implementation. The conclusion is that extensive policy making and legislative work is a prerequisite for any land consolidation initiative.

The organisational model. A possible land consolidation scheme can be accommodated within the regional/rural development framework; however, it must involve the central, regional and local authorities. The responsibilities of such a joint effort have only been outlined in the relevant legislation, but there is a shortage of detailed rules and procedures, as well as positive work experience in this planning field. Only the consultative and approval functions of the authorities are clearly defined. The executive body that should take the lead in organising the scheme is yet to be determined - presumably at local level, in co-ordination with the regional level. The co-ordination mechanism, via the regional development council,

has hardly been tested. Existing land administration institutions are charged with different challenging tasks, and so have little capacity to take over land consolidation. They are still unstable due to the radical transition they underwent in relation to cadastre/land registration.

Furthermore, owners/tenants seem to distrust any existing administrative institutions, so a new type of public-private partnership body should be established. In order to initiate project preparations, the core of a land consolidation body should be identified, at least. The present lack of an earmarked budget for such organisational work is a real obstacle to any progress in setting up the requisite organisation. Bearing in mind the present financial state of the Bulgarian municipalities, the provision of municipal funding for a new executive body is highly unlikely. Landowners and tenants, as stakeholders, cannot afford such funding. It seems that, at present, only the MAF may be able to afford to support such an organisation, but it has no explicit policy to do so. The conclusion is that extensive preliminary budgeting and organisational work should be carried out in the case of any land consolidation initiative.

Technical Aspects. Technical issues seem to be the least problematic. Provided that the organizational model exists, the requisite LIS/GIS can easily gather geo-referenced database from the relevant central/regional/local sources. The digitising of existing mapping sources and the revision of the soil maps, especially, will presumably require more preliminary work, but the professional land surveyors in Bulgaria already have such experience, and have easy access to modern IT and commercial LIS/GIS software systems.

The present stage of land restitution and cadastre/land registration reform - particularly in Dobrudja - favours the availability of up to date large-scale mapping and land records. With minimum effort spent on the verification and updating of land records (this is to be funded under the cadastre/land registration program), any possible land consolidation initiative may rely on relatively good quality data. The actual land use pattern may need some field checks and surveys, but these will not be extensive. The human resources are quite experienced in land re-allocation design, and will require less orientation and training. More training should be focused on land valuation.

6.6 *Future Outlook for Land Consolidation*

Land consolidation is inseparable from the structure of farming enterprises. The achievement of balanced farm sizes, which is a central issue for Bulgarian rural development, requires stability in the number and area structures of farming enterprises, which is not generally available. As previously mentioned, the co-operatives underwent a transformation and registration process, which is likely to cause the collapse of a significant number of them. New farm operators are anticipated to replace them.

Small subsistence farms are also very unstable. The time available for planning the development and economic survival of these categories of farms is very short. An indirect indicator is the relatively short term (usually not longer than 4 years) of farmland leases that are concluded on the leasing market with private lessors. At present the only stable structures are the lessee-farmers, but they are a minority.

With this background, it is clear that classic land consolidation schemes, with a democratic decision-making procedure, are not a viable option, and in the short term are virtually impossible to implement. Also, the public attitude to the idea of the rearrangement

of ownership rights seems to be very negative. Under these circumstances, it will be practical to apply both short term and long term approaches to achieving viable farm units through land consolidation.

6.6.1 *Short Term Consolidation Practices*

The observed consolidation of land use rights through a voluntary exchange of leases is a practical short-term solution instigated at grass roots level. This, to a great extent, is the land tenure foundation underlying the presently stable, and apparently successful, commercial farms in Dobrudja, as well as in other parts of the country. The exchange is fixed by agreement between the farm operators in one TBS. The format is either written or verbal, and usually on an annual basis. The exchange accounts for the area and category of land. In principle, the landowners who are lessors take no part in the process, and cannot influence the exchange. This is an issue, because such exchanges (noted also as sub-leases, or sub-lettings) are not allowed under civil law without an explicit clause in the original lease agreement.

The paradox is that such an undeniably useful land transaction in economic terms is neither protected by law, nor registered in any way, and as such is a source of insecurity for tenants. From the viewpoint of transaction costs, large lessee-farmers spend roughly 10 BGN/hectares or 30 BGN per contract and a couple of man-months for the conclusion of original leases with several thousand landowners. Some 30 percent of leases are not written down, but negotiated over the phone because the absentee landowners live too far from the area.

Frequently patches of land amidst massifs cannot be leased from their absentee owners. Another couple of weeks is then spent in completing ‘consolidation’ exchange agreements with the remaining owners. Furthermore, lessee-farmers have to maintain a database for their system of leases and exchange agreements. As far as land-use planning is concerned, the data on who farms what and where is not easy to track down. This is also a hindrance to monitoring the performance of agreements.

There are several possible ways in which land consolidation initiatives may in the short run facilitate this practice without cumbersome legislative amendments. These suggestions should be seen as rapidly achievable opportunities for speeding up the market-driven consolidation process:

- Within such initiatives, a standard lease agreement may be drafted. This may contribute to the legitimacy of the leasehold consolidation process. It should contain clauses establishing, and granting to the lessee-farmer, the right to exchange the leasehold with another farm operator, for the purpose of consolidation. Some lessee-farmers pointed out their efforts in this regard during the last years, while others explicitly identified the need for a standard lease agreement. The agreement may also attempt to improve the situation regarding the security of tenancy, offering optional clauses for one, or even two, years of notice before termination of the contract by any of the parties. Such a standard lease agreement and its advantages for both parties may be promoted among the local community in the proposed area by a campaign in the mass media and at local community meetings.
- In parallel, such initiatives may set up a cheap and simple (e.g. paper-based) registration process for lease exchanges in each village that will certainly improve the security of tenure. The village mayor/secretary may become involved in running the system, thus

granting it some legitimacy. It may utilize a copy of the cadastral map for georeferencing and simple land use inventory purposes, and keep transcripts of the ‘consolidation’ exchange agreements, thus publicising them among the village community. The process will not need updating more than once a year, which will originate a series of annual land use data.

- As a third potential component of such initiatives, an impartial agent (e.g. a contractor) may facilitate the process of signing leases and consolidation of fields. The agent may investigate who the prospective lessors in the TBS are, e.g. by survey and/or organising a mailbox for interested landowners. Various people may be the principals of such an agency: local public/private partnerships, local economic development agencies, foreign aid agencies, non-profit institutions, etc. The agent may then assemble consolidated fields from the available plots, by provisional negotiations with the owners, and offer the assembled fields to potential lessees, together with packages of draft lease agreements and convenient contacts for the owners.

6.6.2 Long Term Land Consolidation Outlook

In a longer-term perspective, any systematic land consolidation, particularly of land ownership rights, would be unthinkable without pertinent legislation. Specific issues to be addressed by the politicians/legislators are:

- Special Land Consolidation Legislation.

The significance of the interests affected in any systematic consolidation requires that a law should be passed. It should regulate the limitations imposed on individual property rights and the procedures of land consolidation. Bearing in mind that the general perception of the public is, at present, against any interference in individual ownership, it seems that classical consolidation schemes have no basis in Bulgaria. This legislation may only regulate procedures for facilitating voluntary land exchanges, for the reduction of the effects of subdivision upon inheritance or compulsory land consolidation in areas with environmental problems.

- Land Fund Policy and Arrangements.

Presently, the state and the municipalities hold farmlands, but their land management practices are not subordinate to any explicit land consolidation or rural development policy. These lands have already served land consolidation purposes, but the government has not established a sustainable mechanism or institution to manage the process, e.g. a land bank. Therefore, legal arrangements should be introduced for the establishment of executive agencies or governmental companies managing the public land fund in line with straightforward land policies. Such a body may buy out fragmented lands or foreclosed farm holdings from default mortgagors, and, upon consolidation, sell or exchange them with prospective farmers. By consolidating the land, and then selling it, this body will realise the increased values as a result of consolidation. Such a land fund may well be used in case of compensation through exchanges for compulsory alienated lands under infrastructure schemes. In general, such an institution may be a flexible government tool in land use planning and regional development.

All of the above mentioned forms of land consolidation, in practice in the Dobrich region, confirm our view that, although there is fragmentation of the land property from an economic point of view, and from the point of view of the usage of the land, in certain areas, this fragmentation has been overcome. The forms described only confirm the statement that measures must be approved and official documents accepted, thus helping the process of land consolidation and legalising the voluntary forms used in the region.

If we look carefully at the current picture, we will see that the situation from the period between the two World Wars is being copied:

There are a large number of landowners, while the average size of the plot remains roughly the same as those in the past. The process of land fragmentation is increasing; 'economic' and legal land consolidation is achieved in a way identical to that in the past, i.e. exchanges amongst private owners, exchanges between private owners and the state; purchase and sale. The land market is free, and legal barriers limiting further land fragmentation exist, although they are flimsier than those in the past. The administrative division of the country is similar to that in the past. A prevalent part of the country's product mix is in grain production.

At the present moment there are other factors, which further complicate the situation, such as

a lack of strategies for land consolidation; and rural development; the depopulated rural areas and the alienation of the people from the land; the poor macro-economic and micro-economic situation in the country; the insolvent and aging population, and the lack of incentives for new blood in agriculture.

The legal and economic methods of land consolidation of agricultural land in Bulgaria, as well as the positive attitudes and expectations among agricultural producers and the different institutions connected with agriculture (land commissions, municipal administrations, and real-estate agencies), clearly show the need for the initiation of the land consolidation process in the country.

6.7 Recommendations

The actual process of land consolidation, in the cases where the process will be carried out under the guidance of the state, in the absence of a land bank, should proceed in the following way:

1. A vote takes place in the territory belonging to the settlement for the start of the process of land consolidation.
2. There is the drawing up of a new cadastre plan.
3. The designing and marking out of the new road map.
4. The showing of the cadastre plans to the participants.
5. Constituting and constructing the land consolidation plan.
6. The distribution of the new parcels of land amongst the owners and the participants in the project and the marking out of their property.

The effects that can be achieved by the land consolidation of land ownership are as follows:

- The grouping of the scattered parcels of land, the property of one person in one or two parcels of land, in correct and suitable forms for agricultural work, with specific borders and free access to nearby roads.
- The provision of opportunities for the use of highly productive technology and equipment.
- A guarantee of entrepreneurial freedom to the owner when introducing new crops.
- Freedom for decision-making and taking relevant measures against diseases and pests.
- Complete protection of the land and the crops from theft.
- Easy processes of fertilising, in respect to the existing permanent roads.
- The short distance from the farm to the allotments and a reduction in the expenses for non-productive labour, when travelling between the separate allotments, as a result of their grouping in one whole plot.
- The increase in arable land from land consolidation of former boundary strips, inter-land spaces, the boundaries of the numerous separate allotments and plots.
- Land development, i.e. re-directing rivers, bridge construction, drainage, wells, springs, pump stations, and reservoirs, strengthening riverbank facilities, the improvement of land consolidation of the roads, land reclamation, etc.
- An increase in the yield of crops per unit of land and a corresponding increase in revenues of the agricultural farm.
- The increased opportunities for the use of agricultural land as procurements and collateral, as well as opportunities for mortgaging (upon the provision of changes in the existing legislation).
- Obtaining lands for common use, parks and gardens, playgrounds, holiday centres, markets, etc.
- The increased opportunities for credit for different landowners and agricultural producers as a result of increased crop yields and revenues and documented land ownership.
- Conditions and opportunities for irrigation.
- The increased market value of the new land consolidated property.
- Indirect profits from the destruction of low-level vegetation (bushes, weeds, low trees and others) along the boundaries of the properties.
- Indirect profits from the destruction of the sources of diseases and pests.
- The decreased cost of labour in agricultural production.
- The value of lower production costs.
- The increased quality of the produce.
- The development of the land market and the land lease market.
- Incentives for keeping people in the villages.
- Job-creation.

Possible obstacles to land consolidation of land ownership can be grouped as follows:

1. The lack of resources for the initiation and implementation of the process;
2. The lack of calculations of the value of land consolidation per unit of land;
3. A possible lack of enthusiasm and the presence of scepticism on the part of the land owners;

4. The impossibility of land consolidation as a result of the rough mountainous relief and soil variety;
5. The lack of political will, especially in pre-election periods;
6. The presence of anticipated discrepancies between the different ministries, services and sub-contractors regarding the administration of the processes and conditions for the selection of sub-contractors;
7. The question: “Why do we have to start a land consolidation process after spending so much money for restituting land ownership in real boundaries?”

To summarise, the restitution of land is just the beginning of agrarian reform. The restructuring of the agricultural sector and improvement of land relations should accompany it. The state can successfully implement agrarian reform using the following mechanisms: consistent legal regulations in compliance with the requirements of *acquis communautaire*, applied through suitable institutional structures with adequate financial, personnel and technical resources.

Land consolidation is just an element of a wider land policy. Steps to assess the possibility to implement land consolidation policy are being taken. The development of a free market for land would be a major incentive for consolidation. The adoption of the Cadastre and Registration Act is just a legal basis, which will undoubtedly facilitate consolidation, however, it is necessary to prepare and adopt its by-laws. The cadastre can support land policies by providing a legal framework for administering land rights. A land rights framework supports structural change, environmental protection and sustainable management, and the control of natural resources and the environment. It supports land markets, the provision of information for planning and monitoring of land use and also provides tools for the implementation of land policies, e.g. land consolidation, resolving land disputes or the compulsory acquisition of land.

The accession of Bulgaria to the EU calls for the harmonisation of Bulgarian legislation with that of the EU. The agricultural legislation is now undergoing this process. It can be said that the main agricultural laws have already been adopted and we are now facing the longer-term process of their implementation.

From a legal perspective, two approaches to land consolidation exist:

- The adoption of a law that will completely settle the issue;
- Through amendments to existing legislation related to agricultural lands, aimed at paving the way to greater private initiative with respect to land consolidation.

The adoption of a comprehensive Land Consolidation Act would introduce an administrative method of consolidation, with the state playing a leading role. Bearing in mind the socio-cultural and historical past of Bulgaria, it is advisable that market mechanisms and consolidation methods be used. An administrative land consolidation would be a serious infringement on the rights of owners. However, all other consolidation methods may be applied, especially those based on the initiative of owners. In such cases the role of the state would be to establish clear and equitable procedures for the settlement of specific land relations, including just and reliable land valuation methods. Successful land consolidation would be impossible without people specially trained to implement this task.

The present transition state of agriculture and forestry in Bulgaria is not yet favourable for systematic land consolidation, despite the vast problems posed by fragmentation. Public

attitude, land policies, the legislative framework, land administration reform, the lack of planning experience and the unstable structure of farming enterprises are not conducive to classical consolidation schemes involving the rearrangement of ownership rights. On the other hand, some practical solutions for the fragmentation issues have emerged that may well function within the present framework, relying more on the leasing market and driven by purely economic motives. These need special attention and timely support, in order to achieve better results and to sustain the structural reform of farming enterprises.

7 Annexes

7.1 Annex 1: A list of acronyms

ACRONYMS & ABBREVIATIONS

ACE	- Action for Cooperation in the field of Economics
BGN/Lv	- Bulgarian Leva
COM	- Council of Ministers
Dca	- Decare (0.1 Hectare)
DCG	- Directorate of Cadastre and Geodesy
DLLU	- Department of Land and Land Use
DLR	- Department of Land Reform
FIG	- Federation International des Geometres (International Federation of Surveyors)
GIS	- Geographic Information System
GOB	- Government of Bulgaria
IACS	- Integrated Agricultural Control System
IMF	- International Monetary Fund
IT	- Information Technology
LAA	- Land Administration Agency
LAN	- Local Area Network
LC	- Land Commission
LIS	- Land Information System
LLL	- Land Lease Law
LLTF	- Law on Local Taxes and Fees
LOC	- Law on Obligations and Contracts
LOD	- Land Ownership Department (formerly DLR)
LOUAL	- Law on Ownership and Use of Agricultural Land
LROFLFD	- Law on Restitution of Ownership on Forests and Lands in the Forest Domain
LRP	- Land Reallocation Plan
MAF	- Ministry of Agriculture and Forestry
MJLEI	- Ministry of Justice & Legal European Integration
MLC	- Municipal Land Commission
MLF	- Municipal Land Fund
MOU	- Memorandum of Understanding
MRDPW	- Ministry of Regional Development and Public Works
MTS	- Municipal Technical Services
Mun.	- Municipality
NSI	- National Statistical Institute
OBMPFL	- Ordinance for Basic Market Prices of Farm Lands
PMU	- Project Management Unit (PHARE)
QA	- Quality Assurance
SLF	- State Land Fund
TA	- Technical Assistance
TBS	- Territory belonging to a Settlement (farmland around a village settlement)
TORs	- Terms of Reference
TQM	- Total Quality Management
UACEG	- University of Architecture, Civil Engineering and Geodesy, Sofia
UN/ECE	- United Nations, Economic Commission for Europe

UPI	- Unique Property Identifier
USAID	- United States Agency for International Development
WB	- World Bank

7.2 Annex 1: An overview of the procedures required to purchase agricultural land from the State Land Fund using nominal compensatory bonds (NCBs).

The requisites of the certificates for the possession of NCB are:

1. A serial number and a seven digit number;
2. The land/forest compensation due (in decares);
3. The equivalent of the compensation due in thousands of BGL and the number of compensatory bonds (in digits and words);
4. The reason for issue, number and date;
5. Basic information concerning the owner of the certificate:
 - The name, second name and family name;
 - The National Identity Number;
 - Passport information, i.e. its series, number, date issued, the place issued and the address of the owner.
6. Basic information about the appropriator beneficiary:
 - The name, second name and family name;
 - The National Identity Number;
 - Passport information, i.e. its series, number, date issued, place issued and the address of the beneficiary;
7. The signature of the Land Commission official, who has issued the certificate and a Land Commission stamp;
8. The date of issue of the certificate;
9. The signature of the owner of the CPNCB;
10. The signature of the appropriator beneficiary.

The certificate consists of two identical copies: the first is given to the owner, the second remains as a copy at the Land Commission.

On the back of the certificate, in a special table, information is written about the transactions carried out by the owner of the NCB, namely:

- The purchase of lands from SLF by auction. This transaction has code 1;
- The obtaining of the right of ownership of the lands, subject to article 27, paragraph 6 of LOUAL. This transaction has code 2;
- The transfer of the NCB. This transaction has code 3.

The table itself shows the number of nominal compensatory bonds owned and contains the following columns:

1. Column 1: the code of the transaction. They are described above the column headings.
2. Column 2: the reasons for the transaction: the reason for the transaction performed is written down with the appropriate code (the abbreviation used appears in square brackets), as follows:
 - Code 1 – Notification for a won auction [NWA], its number and date.
 - Code 2 - Application sample 2NCB [2NCB] to the ‘Land reform’ Regional Office, its number and date.

- Code 3 - Application sample 3NCB [3NCB], its number and date and relationship ties and certificate ties [RTS], issued by the 'Civil status' office, its number and date.

Spent NCB's: the number of the spent NCB is recorded.

Bonds available (in numbers and letters): the current amount of available bonds after the respective transaction is recorded.

Authentication

All transactions are completed after the presenting of the document for identification and the certificate of possession of the NCB.

When purchasing agricultural land from the SLF by auction, the person submits an application sample, 1NCB, to the LC, where the land lies for which they are participating in the auction and a copy of the application (its front and back), within the terms provided by the auction announcement. Foreign citizens and owners of NCB's cannot take part in auctions.

With the notification informing that the auction has been won, the person appears before the Land Commission where the property is, for information on the spent NCB to be recorded. Using the NWA as a basis, the Land Commission records the spent NCB. When acquiring the right of ownership of the land subject to article 27, paragraph 6 of LOUAL, the person submits an application sample 2NCB to the 'Land Reform' Regional Office where the building or equipment they have bought are subject to section 12 of RILOUAL and a copy of the CPNCB (front and back) and all the documentation required. The 'Land reform' Regional Office records the spent NCB. Only an individual owner of an NCB can perform the transaction.

When a transfer of an NCB takes place, the person submits to the Land Commission, which has issued the certificate, application sample, 3NCB, and a valid relationship ties certificate, issued by the 'Civil Status' office. The owner has the right of a one-time transfer of the NCB to their spouse or relatives of directly ascending or descending lineage.

The transfer of an NCB is performed in the Land Commission where the certificate has been issued, based on a submitted application sample 3NCB. The Land Commission records in the CPNCB the spent NCB, as follows:

- When the owner of the NCB transfers his whole bond amount to one person, the name and information about the appropriator are recorded in both the original and the copy of the owner's certificate. The certificate is kept at the Land Commission with the transfer documentation attached and, along with the copy, is annulled with the signature of the official, seal and, after being perforated, are deposited in the archive. The annulment of the certificate stems from the requirement that the official body last performing transactions with the certificate, where the bond amount is exhausted, must keep the certificate after authentication and, within a period of 7 days, submit it to the Land Commission, which issued it in the first place.
- When the owner of the NCB transfers his whole bond amount to more than one party, the spent NCB and the reasons for its being spent are recorded on the back of the NCB owner's certificate. The certificate, along with the documentation of transfer, is kept at the Land Commission and, together with the copy, is annulled with a signature from the official and sealed and deposited in the archive after being perforated.

- When the owner of the NCB transfers only a part of his bond amount, on the back of the certificate for possession of the NCB, the transferred NCB's are recorded and the reasons for them being transferred.

Only an individual owner of an NCB can perform this transaction.

Regarding the transactions related to the transfer of NCB's and the acquisition of ownership of land subject to article 27, paragraph 6 of LOUAL, when the CPNCB has been issued to the heirs of a deceased owner, division between the heirs is compulsory. The Land Commission, which has issued the certificate, after submitting a notary certified contract for voluntary division or a court decision and a valid Certificate for Inheritance, issues individual CPNCB.

The first heir to appear, submits the CPNCB of the heirs of the deceased owner, the certificate of Inheritance and the original document for division to the LC, and then gets his/her CPNCB. The Land Commission keeps and annuls the certificate of the deceased owner and keeps the original documentation. The remaining heirs receive their certificates when they appear at the Land Commission.

The issue of the NCB ownership certificates is free of charge. There is a charge for the issue of a new certificate, based on the one already issued, at transfer, division, or when running out of space to record transactions, before it has been exhausted. When the lines where the NCB transactions are recorded are all filled in, and there are still unused bonds remaining, upon a request from the NCB owner, the Land Commission will issue a new certificate.

When dealing with an NCB under section 4a of the Law for Transformation and Privatisation of State and Municipal Enterprises (LTPSME) the owner of the certificate must:

- Be legally registered following the procedures of LTPSME in the post office branch of his address and to have a registration card,
- Include on the registered investment bonds the whole amount at one time, or the rest of the NCB, by filling out order form sample No. 51 at the same post office branch.

The official at the post office branch requests the registration card, order form sample No. 51 and the CPNCB. No authentication is made on the certificate, but the privatisation bodies, for which the Land Commission is officially informed, keep the latter. Using the NCB's as investment bonds for privatisation deals leads to annulment of the certificate.

The agricultural land auctions organized by the State Land Fund will be performed on three levels:

1. Municipality level;
2. Regional level;
3. National level.

The auctions will be organized consecutively. First will be the auctions at municipality level. If any land remains unsold, the regional level auction takes place. If after the auction at regional level there is land still remaining unsold, the national level auction follows, at which the rest of the land not sold is distributed. The auctions are expected to take place in the period between October and December 2000. Approximately 30 to 50 percent of the agricultural land in the State Land Fund will be offered, for the Dobrich region the number is approximately 30 percent.

Currently there is a process of buying off the NCB's by interested parties, the prices offered by buyers started at 0.25 BGN per 1 BGL of compensatory bond. In May 2000, the price fell to 0.12 BGN per 1 BGN compensatory bond.

7.3 Annex 3: Adjustments and attitudes toward land tax

The survey demonstrates contradictory findings regarding the eventual levy of land tax. Opinions vary from extremely negative to extremely positive, predetermined by the professional orientation of the person interviewed.

Real estate agencies are against land taxation at this stage. They are afraid of the inability to pay taxes, which will reflect in high land supply and decrease in land prices. This fear comes from the eventual decrease in their income because of the low prices. In practice, a low scale of the land tax will neutralize these fears. On the other hand, municipal administrations are of the opposite opinion. They are ready to support the establishment of land tax only if it is a municipal tax. In view of the difficult financial situation of the municipalities in the region namely: limited local revenues; decreased subsidies from the state; non-working industrial companies; lack of firms paying the local taxes; no financial resources for maintaining the infrastructure in the villages etc. Even such a tax at low rate will help the municipalities to a great extent in their development efforts.

The land commissions have a neutral attitude toward land taxation. This is an interesting issue since the land commissions are a part of the state institutions and logically they should be for a land tax. On the other hand they are in close contact with the landowners and are aware of their problems.

The most interesting attitude comes from data collected from the farmers. It can be presented as follows:

- a) 63 % of the large farmers are for a low land taxation , 25% are neutral while 12% are against a land tax.
- b) 67 % of the small and medium farmers are neutral or have not given an answer while 33% think that the land tax will have a negative impact.
- c) The chairmen of the cooperatives are neutral.

Although, 63% of the big lessees express support for a land tax, they expressed different opinions as to who should pay the land tax.

- The land tax to be paid only by the big landowners (those who own more than 50-60 ha.)
- Land tax to be paid for fallow land while cultivated land should be exempted from taxes.
- All landowners should pay land tax with no exemptions.

All those interviewed agreed that the land tax should be paid by the landowner. They all think that the land tax should be low and would not exceed 10 to 15 DEM/ha for the best land. To sum up all the interviewed groups expect a land tax in the next 2 to 3 years.

There is still a need for some answers regarding this issue.

- 1) What should be the rate of the land tax?
- 2) Will some of the landowners be favoured?
- 3) Will the land tax be a municipal tax?

- 4) When will it be effective? Which elements to participate in the assessment of land taxation - fertility of the soil, location, quality of the land, income from the land etc.?

The results from the survey support our thesis that a land tax as a property tax should be imposed. The effects will be:

- A source of revenue for the budget
- An increase in the responsibility of the landowners. Until now landowners have not proved that they are better owners than the owners of other properties. Large territories of agricultural land are left idle and their owners don't have a clear vision for its future.

The survey corroborated also another thesis of ours: the land tax imposition will move the land market. Can they express their own opinion? After all this is a case study. We will have to make decision re. This topic(next 4 pages as well). A question of the future is whether the supply will exceeds the demand or not. Only the market determines the land price and that is why we can not classify a certain land price as high or low. If in a certain moment the supply exceeds the demand lately we will have the opposite process.

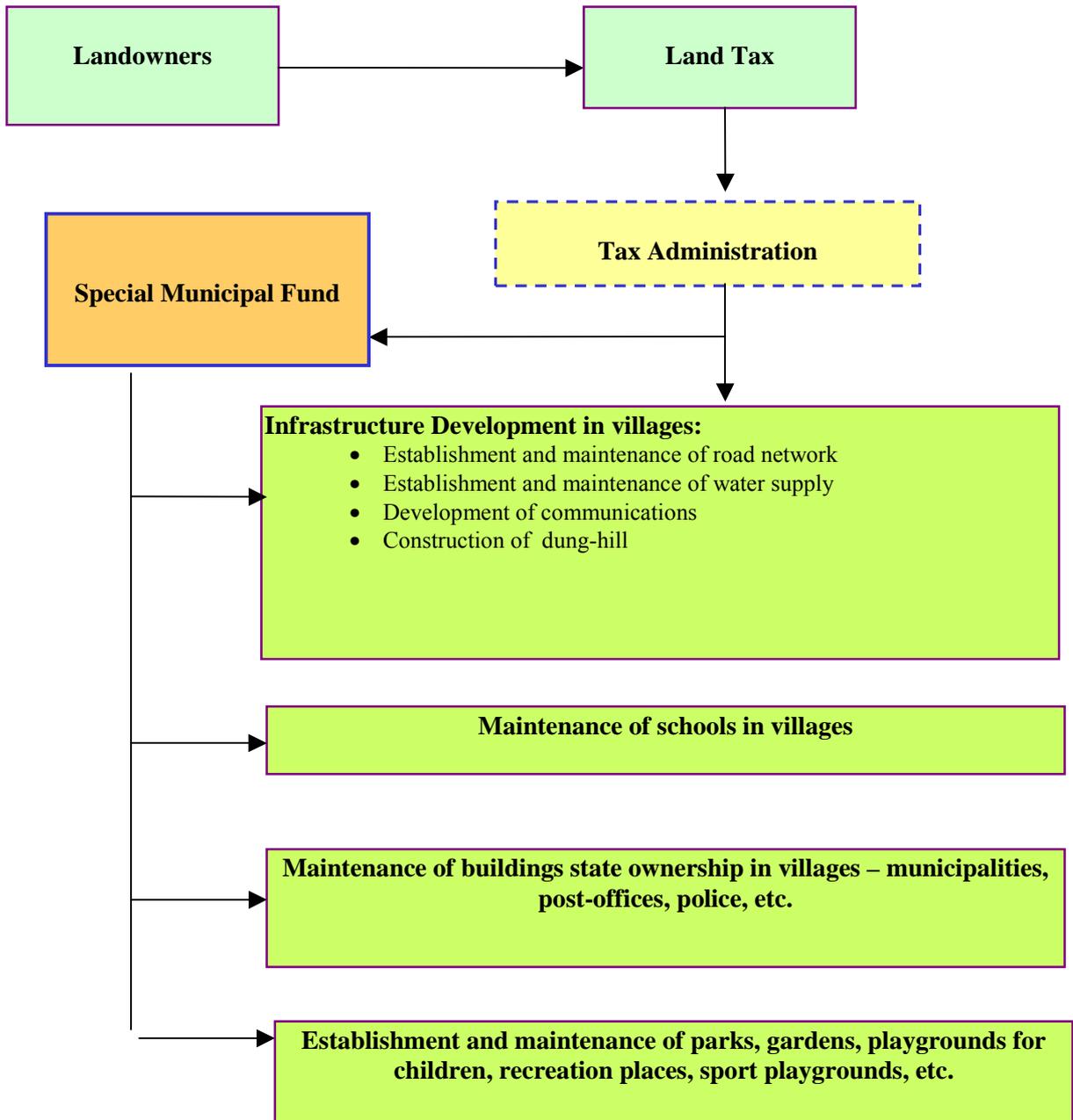
A land tax proposal

We propose the imposition of the land tax to be done as soon as possible. Its rate shouldn't be high as far as:

- the living standard is still low;
- the profits of the small and medium agricultural producers are low;
- agriculture is not subsidized from the state;
- there is no free access to credit resources;
- the low rate of the land tax will not repel the landowners from their duty;

The land tax should be a local tax (municipal tax). The collected amounts of money have to be spend for rural development, i.e. they have to be returned back to the villages. The tax should be collected in a special municipal fund and should be clear how and for what activities money would be spend. (see scheme 1)

Scheme 1. Illustration for distribution of funds accumulated from land tax



Having the paid money back, life in the villages will become much easier and stimuli for living in the rural areas will be created. People will be stimulated to pay the tax regularly.

Every year an independent financial control over the spent money should be carried out. it should be clear where and for what the money have been spent. The rate of the land tax should depend on the land category and its location. It should be paid on the basis of the own hectares of land. This will simplify the process; will be easy to understand by the people; the municipality authorities will have the opportunity correctly to estimate the revenue and to plan its spend. Every additional differentiation of the land tax will be cumbersome.

7.4 Annex 4: A map of Dobrich – survey site

