

Land Market Development through Land Consolidation



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1

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Rural land markets:

- A rural land market is a precondition for agricultural and rural development in a market economy.
- There is no such thing as a completely open land market since all countries have restrictions, especially in the agricultural sector (Dale & Baldwin 2000).
- Land is a commodity which is immovable and limited but it is also so much more (e.g. cultural heritage).
- Countries wanting an effective land market need to bring land into a market distribution system (Williamson et. al. 2010).
- Markets will release the value inherent in land into the general economy and raise overall living standards (Williamson et al. 2010).

2

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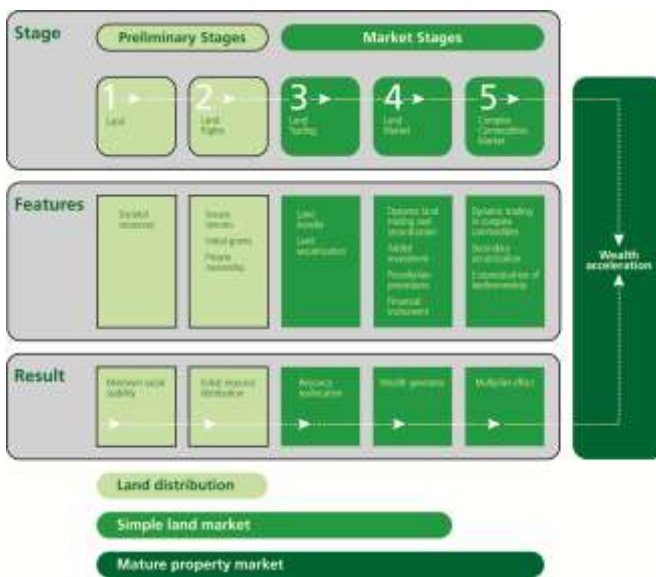
In order for a land market to work, there must be:
(Dale & Baldwin 2000)

- A clear definition and sound administration of property rights;
- A minimum set of restrictions on property usage;
- The transfer of property rights must be simple and inexpensive;
- There should be transparency in all matters;
- There must be availability of capital and credit.

Land markets cannot be built in isolation from markets for labor, money and agricultural products (Williamson et. al. 2010).

3

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Model for land market development:

The evolutionary stages in development of formal land markets.

Source:
Williamson, Enemark, Wallace and Rajabifard (2010):
Land Administration for Sustainable Development, p.151.

4

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TABLE 3.1 – SIMPLIFIED CHARACTERISTICS OF EVOLUTIONARY STAGES OF LAND MARKETS

STAGES	CHARACTERISTICS
1. Land	A group or country establishes a defined location with territorial security. The securing of spatial relationships or land arrangements among competing groups is fundamental to all later developments.
2. Land rights	Within the group, regularities of access create expectations, which mature into rights. In formalized systems, the rights are reflected in the legal order. In some of these, the legal order is further embedded in a formal infrastructure of LRS. The crucial element of cognitive capacity of the participants starts with "my land" and "not my land" and matures into everyone equating "your land." The power derived from landownership is also managed and restricted by taxation and other systems.
3. Land trading	Virtually at any time in stage 2, a process of trading land between members of the group will develop. The rights in land traded evolve into property, the basic legal and economic institution in formal land markets. As economies become more complex, the trading will include strangers and depend on objective systems of evidence, eventually becoming a well-run program of recording of property rights. Processes of inheritance trading will also develop. The commoditization processes will involve public capacity to view land as offering a wide range of rights, powers, and opportunities. The better these are organized and understood, the better the market will operate.
4. Land market	Now, the trading gets serious and increases in scale and complexity until it develops into a property market in which rights are converted with ease into tradable commodities. Significant government infrastructure supporting the market activities in land includes commoditization and trading. Land is used extensively as security, multiplying the opportunities to derive capital. Capacity to invest and market new commodities emerges and gains strength.
5. Complex commodities market	The stability of the market allows spontaneous invention of complex and derivative commodities and "unbundling" of land into separate commodities of timber, water, carbon, grazing permissions, and so on. This involves imagination and globalization. Typical machinery includes corporatization, securitization, and separation. The system relies heavily on the cognitive capability of society to understand and use tradable commodities, the rule of law, government capacity, and national ability to compete for capital in international marketplaces.

Land market development in five stages:

Source:
Williamson, Enemark, Wallace and Rajabifard (2010): Land Administration for Sustainable Development, p.152.

5

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Land Market development in Eastern Europe:

- Most of the transition countries in Eastern Europe are still in the process of developing formal land markets.
- Most countries are probably in stage 3 and / or 4 of the model.
- A land administration system is in place (including registration of land ownership and legislation allowing transfer of land).
- However, several factors hinder the development of rural land markets.

6

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Factors that hinder the development of rural land markets in Eastern Europe:

- Few interested sellers and / or buyers
=> limited land mobility.
- Often unclear ownership situation.
- Complicated transaction procedures.
- High transaction costs.
- Land fragmentation.
- Lack of access to credit.
- A lot of variation between the countries but also many similarities.

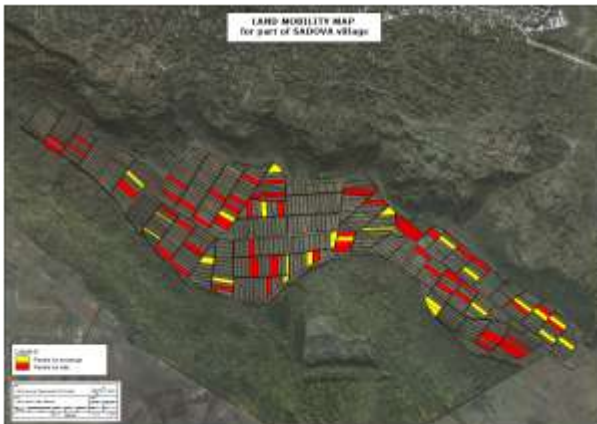
7

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Land Mobility:

- If there are no or very few interested sellers and no or very few interested buyers, there is no land market.



Land Mobility Map prepared during Moldova Land Re-parceling Pilot Project (2007-09).

8

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Unclear ownership situation:

- Before land can be transferred from one owner (seller) to another (buyer), it needs to be registered properly.
- All countries have land parcels with unclear registration of ownership.
- The problem is significant in most Eastern European countries.
- There are many different specific reasons why the ownership registration is unclear.

9

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Many reasons for unclear ownership situation:

- The land parcel is not included in the land register.
- Mistakes occurred during land reform / land privatization (e.g. wrong name of owner, misspellings, non-compliance between different official title documents etc.).
- Inheritance cases (Heir(s) not registered).
- Land registers are not updated and maintained.
- Informal transactions took place (but were not registered).
- Conflicts between land registers (e.g. Land Book and Cadastre).
- Absent owners (immigration or escaped during war).
- Many co-owners.
- Other reasons.

10

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Many reasons for unclear ownership situation:

- In **Moldova** there are several villages where large areas were not registered during the land privatization process (often due to conflicts between Cadastre Agency and private contractor). The result is that there is no land market (not possible to formally sell / buy the parcels).
- In **Kosovo** there are several examples of large land consolidation projects implemented in the 1980s where the new owners were never registered (due to war lack of funding or otherwise).
- In **Croatia** (Novi Vinodolski land consolidation pilot) there were for each hectare in av. 25 parcels and 1.000 registered owners (including co-owners) and conflict between Land Book and Cadastre. Speaks for it self.

20. februar 2012 11

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Complicated transaction procedures and high transactions costs hinder land market development:

- Reduces land mobility.
- Encourage to informal transactions (not formally registered).
- In **Albania** (Terbuf land consolidation pilot municipality) there are several examples of informal transactions due to complicated transaction procedures and high transaction costs).

20. februar 2012 12

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Land fragmentation hinder land market development:

- Two types of land fragmentation:
 - 1) many small and scattered land parcels and
 - 2) co-ownership ("internal" fragmentation).
- "Frozen" land markets because of land fragmentation.
- In **Moldova** many areas (especially orchards and vineyards) are so fragmented that the rural land market cannot function.

20. februar 2012 13

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Land consolidation can warm up a frozen land market:

- Moldova example (1/2):

- In Bolduresti land consolidation pilot village a part of the village, the land use was old and unproductive orchard.
- Before the land consolidation project ,a local farmer had wished to acquire 30 ha in order to establish a new orchard.
- The area had 124 individual owners after land privatization.
- The farmer managed before the LC project to acquire 10 ha (parcels of an average size of 0.7 ha).
- The remaining area comprised parcels as small as 0.14 ha in average.
- High transaction costs and time constraints caused the farmer to give up after the 10 ha were acquired.

20. februar 2012 14

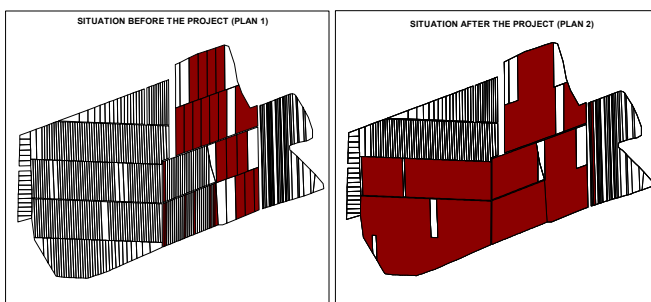
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Land consolidation can warm up a frozen land market:

- Moldova example (2/2):

- Through the land consolidation pilot, the farmer was able to acquire and consolidate another 15 hectares from about 80 landowners.
- In the future the land market can begin to function.



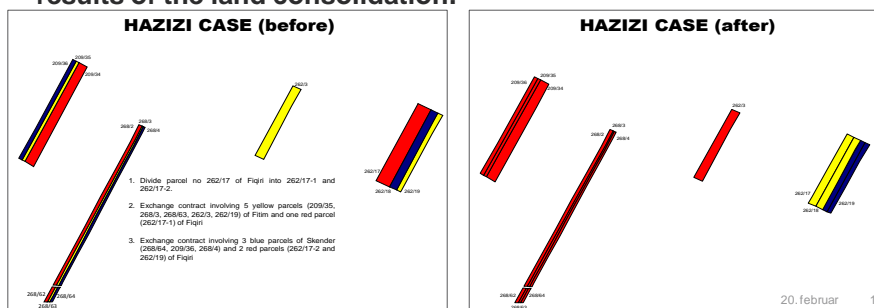
15

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Albania example – Terbuf land consolidation pilot:

- Very limited land mobility: Very few want to sell and buy but many want to reduce fragmentation through exchange.
- The rural land market is almost not functioning.
- Need for a land bank to purchase land before land consolidation projects in order to increase the land mobility and facilitate better results of the land consolidation.



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Conclusions:

- Land consolidation should not be seen as a substitute for land markets.
- Land consolidation can play an important role in removing obstacles which will allow the rural land market to function better.
- Land banking can strengthen the potentials of land consolidation by increasing the land mobility and thus support development of rural land markets as well.

17

Ph.D. project – short presentation



Project title:

*Land Reform and Rural Development in Eastern Europe:
- Land Consolidation as a key Instrument*

Project period: 2012 – 2014 (3 years)

Ph.D. student: Morten Hartvigsen

Business Ph.D. project in cooperation between Orbicon A/S (private company) and Aalborg University, Department of Development and Planning

University supervisors:

Prof. Esben Munk Sorensen and Prof. Stig Enemark

18

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Three overall research phases:

- 1. Investigating the land reform and land privatization process in Eastern Europe since 1990, its outcome in form of farm structures and subsequent development of rural land markets.**
- 2. Identifying best international practise with land consolidation in the region as an instrument to address the structural problems with land fragmentation and small average farm sizes.**
- 3. Providing recommendations for simplified and cost-effective land consolidation procedures and practices where tailor-made national land consolidation programs are prepared within a specific country context.**

19

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First phase:

Land reform and land privatization and its outcome

Research questions:

- 1. What are the characteristics of the agricultural structures in relation to farm sizes and land fragmentation that occurred in the region after the land reform and land privatization in the 1990s?***
- 2. How have the rural land markets developed subsequent to the land reform and land privatization process?***
- 3. Under which conditions is fragmentation of land parcels a barrier for the development of the rural land market and the agricultural sector in general?***

20. februar 2012 20

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Second phase:

Land consolidation as an instrument to address the structural problems

Research questions:

- 1. What have been the driving factors behind the introduction of land consolidation in the countries in Eastern Europe?*
- 2. What have been the key approaches and elements in the land consolidation instruments introduced in the region?*
- 3. What are the experiences and results with the introduction of land consolidation in the region in relation to improvement of agricultural structures and the facilitation of development of rural land markets and rural development in general?*

20. februar 2012 21

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Third phase:

Recommendations

- 1. How can simplified and cost-effective land consolidation procedures based on international best practice be developed?*
- 2. How can the developed procedures be used as a scientific platform for future donor funded projects and governments in the countries in the region when building up national land consolidation programs?*
- 3. How can the developed scientific platform be used to strengthen the market position of Danish consultancies within the field of land consolidation, land management and rural development in Eastern Europe?*

22

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- In the first phase the aim to to establish an overview of the land reform process (restitution and distribution) in each of the countries in Eastern Europe.
- In many countries data and information on the land reform process and its outcome is not available in English.
- **I hope very much for your cooperation !**
- In the second phase about introduction of land consolidation in the countries, a main ressource will be available project reports and country presentation (e.g. from FAO workshops in Prague and Budapest).
- The desk studies will be supplemented by qualitative interviews with key persons (Government staff and consultants). **Again I hope for your assistance.**

23