

## **Hungary case study**

### **Land consolidation in Hungary**

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## **Introduction**

### ***Historical background***

Hungary has a favourable geographical location for agriculture within the Carpathian Basin. The Hungarian agriculture has good growing conditions taking the soil quality, climate and terrain into consideration. It has been always in the focus of politically charged issues, especially as land ownership and the structure of farming are concerned. Ownership and use of land went through dramatic changes in the second half of last century as the results of land policy.

Individual farmers had been forced by the socialist regime to establish co-operative farms after 1948, and the so-called second land reform was completed by 1962. Ninety percent of the total agricultural land became covered by large-scale co-operative and state-farms by that time. A recent land reform has started in the beginning of the last decade, after the change of the political system. Due to the introduction of Compensation Act in 1992, at least 50% of the country's total area was involved in the compensation process associated with the privatisation of land, cooperative farms, and the majority of state farms. The structure of land ownership and land use developed inadequately, as the result of land compensation and privatisation.

### ***Hungarian agriculture and its characteristics***

The share of agricultural area from the total area is high in Hungary compared to other European countries. Its percentage exceeds 60% of the total area (Table 1).

Due the recent land reform, the dominance of state owned land had been eliminated except the forest area, vast majority of productive land is in private ownership now and cultivated by private entrepreneurs (farmers), corporate farms (companies) and co-operatives.

Privatisation of the Hungarian agriculture has been in progress along land privatisation since 1992, based on the two main pillars of land compensation and privatisation of state farms. Land compensation started in 1992 with the goal of partial restitution of agricultural land. The first stage of state farm privatisation started with the transition of these large-scale farms into business associations (companies limited by shares or limited liability companies) in the period of 1992-1996. Shares and business quotas of the companies have been sold without the agricultural land in

the second stage. Privatised companies signed land-leasing contracts with the Hungarian State for the rights of further use of land.

**Table 1: Distribution of land area by land use categories (2002)**

| <b>LAND USE CATEGORY</b><br>(Type of cultivation) | <b>AREA</b><br>(1000 ha) | <b>AREA</b><br>(%) | <b>STATE OWNED</b><br><b>AREA</b> (1000 ha) | <b>STATE OWNED</b><br><b>OF <math>\Sigma</math> AREA (%)</b> * |
|---|--------------------------|--------------------|---|--|
| Arable land                                       | 4 516                    | 48,54              | 280   | 6,20   |
| Garden  | 98                       | 1,05               | 0   | 0  |
| Orchard   | 97                       | 1,04               | 9   | 9,28   |
| Vineyard  | 93                       | 1,00               | 4   | 4,30   |
| Grassland   | 1 063                    | 11,43              | 233   | 21,92  |
| <b>Agricultural land together</b>                 | <b>5 867</b>             | <b>63,06</b>       | <b>526</b>                                  | <b>8,96</b>  |
| Forest  | 1 772                    | 19,05              | 1 026                                       | 57,90  |
| Reed  | 60                       | 0,65               | 19  | 31,66  |
| Fish-pond   | 33                       | 0,35               | 9   | 27,27  |
| <b>Productive land together</b>                   | <b>7 732</b>             | <b>83,11</b>       | <b>1 580</b>                                | <b>20,43</b>   |
| Uncultivated land                                 | 1 571                    | 16,89              | 453   | 28,84  |
| <b>Total area</b>                                 | <b>9 303</b>             | <b>100,00</b>      | <b>2 033</b>                                | <b>21,85</b>   |

Source: KSH, FVM.

\* by land use category.

Privatisation in agriculture generated a wide range of diversity in legal status, size and ownership of agricultural holdings. There are nearly 1 million private holdings with the average size of 4,5 ha. Small holders - private farmers - cultivate 47 % of the total agricultural area, medium- and large scale corporate farms (companies and co-operative farms shares 40 percent of cultivation Table 2).

**Table 2: Distribution of land use by type of agricultural holdings (2002)**

| <b>Type of agricultural holding</b> | <b>1996</b><br>(1000 ha) | <b>1996</b><br>(%) | <b>1997</b><br>(1000 ha) | <b>1998</b><br>(1000 ha) | <b>1999</b><br>(1000 ha) | <b>2000</b><br>(1000 ha) | <b>2001</b><br>(1000 ha) | <b>2002</b><br>(1000 ha) | <b>2002</b><br>(%) |
|-------------------------------------|--------------------------|--------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------|
| Companies                           | 2 615                    | 28,11              | 2 538                    | 2 410                    | 2 620                    | 2 560                    | 2 785                    | 3 040                    | 32,68              |
| Co-operatives                       | 2 010                    | 21,61              | 1 825                    | 1 671                    | 1 495                    | 1 230                    | 855                      | 638                      | 6,86               |
| Individual farmers                  | 4 192                    | 45,06              | 4 627                    | 4 745                    | 4 689                    | 3 983                    | 4 196                    | 4 339                    | 46,64              |
| Other                               | 486                      | 5,22               | 493                      | 477                      | 499                      | 1 530                    | 1 467                    | 1 286                    | 13,82              |
| <b>Total area</b>                   | <b>9 303</b>             | <b>100,00</b>      | <b>9 303</b>             | <b>9303</b>              | <b>9 303</b>             | <b>9 303</b>             | <b>9 303</b>             | <b>9 303</b>             | <b>100,00</b>      |

Source: KSH, FVM.

Large numbers of individual farmers do not have available land to earn appropriate income for profitable and sustainable farming, as the result of inadequate distribution of land use by agricultural holdings (Table 3).

**Table 3: Number of individual farms (thousands) by land size**

| <b>Land size (ha)</b> | <b>1991</b><br><b>(Thousand)</b> | <b>1994</b><br><b>(Thousand)</b> | <b>2000</b><br><b>(Thousand)</b> |
|-----------------------|----------------------------------|----------------------------------|----------------------------------|
| 0 - < 0,2             | 645                              | 458                              | 374                              |
| 0,2 - < 0,5           | 412                              | 345                              | 204                              |
| 0,5 - < 1,0           | 200                              | 152                              | 99                               |
| 1,0 - < 10,0          | 138                              | 225                              | 232                              |
| 10,0 - < 100,0        | 1                                | 22                               | 49                               |
| > 100,0               | 0                                | 0                                | 2                                |
| <b>Total</b>          | <b>1396</b>                      | <b>1202</b>                      | <b>960</b>                       |

Source: KSH, FVM.

Owners of small parcels of land have been leaving the business by land leasing or offering their land for sale on the market or directly to the Hungarian State for the National Land Fund.

Profitability of agricultural production in most of the farming enterprises is very low. The net income per hectare of agricultural area is one third of the EU average due to the low input efficiency, low level of subsidy, poor machinery and last but not least the unfavourable farm structure. Share of agricultural sector in the nation's economy decreased significantly from 7,5% to 3,4% between 1991 and 2000.

Land consolidation became basic need for landowners and land users as well.

### **Frameworks and current activities of land consolidation**

#### ***Legal framework***

Hungary amended existing regulations and introduced new laws on ownership and use of land during the last ten years.

- Act IV. of 1959 on Civil Code contains the basic rules of contracting, acquisition of ownership and tenure.
- Act LV. of 1994 on Arable Land defines the rules of acquisition land-ownership and land tenure, sets the pre-emptive rights of purchasing land and land-tenure, rules of utilisation and protection of agricultural land.
- Detailed rules of pre-emptive rights in regards of purchasing land and land-tenure are set by Decree 16/2002. (II.18.) of the Government.
- Resolution No. 48/2002 (VII.19.) OGY of the Parliament on Land Policy Guidelines actually is not a law, but declares the most important land policy objectives of the country.
- Act CXVI of 2001 on National Land Fund (NLF) defines the legal framework of setting up NLF and establishing the institutional background. The Act sets the purpose of state owned land assets included in NLF, and the main rules of utilisation of the land-assets by sale, swap, or leasing. National Land Fund Organization (NLFMO) is the property administrator of the NLF.
- Decree 254/2002 (XII.13.) of the Government on detailed regulations of registration, management and utilisation of National Land Fund's assets; sets detailed rules of registration and valuation of land-assets. It regulates the utilisation (sale, tenure, swap) of land-assets in details and defines assessment methods of land-value for transactions.
- Decree 255/2002. (XII.13.) of the Government on the purchase of cultivated land by State for life annuity. A particular regulation sets rules of purchasing lands for NLF from elderly people against paying life annuity.

Further laws regulate the land registration and survey, land expropriation and protection. Hungarian and EU laws provide the frame of paying subsidies for agricultural producers.

Some elements of legal framework are associated with land consolidation purposes, but there is no comprehensive law of land consolidation.

### ***Institutional framework***

#### Land office network, National Cadastral Programme

Hungary has a network of land offices as part of the public administration. The network consists of 116 local (district) land offices. The offices are in charge of carrying out the task of three groups of main functions: land survey and cadastral functions; classification, qualification and protection of land; land registration, keeping records of land ownership and land use. As far as their tasks and duties are associated with land consolidation, land offices have key roles in land consolidation from the professional public management's side. The National Cadastral Programme was launched with the goal of providing updated official maps and related databases for the land office network.

#### National Land Fund

The National Land Fund (NLF) was established in 2002 basically to provide state owned agricultural land for voluntary land-swap with the goal of helping the development of appropriate ownership and farming structure for sustainable farming. NLF has to support the improvement of farm structure in accordance with the rural development objectives of the country. NLF involves nearly 70% of the state owned agricultural land representing slightly more than 6 % of the total agricultural land area of Hungary. NLF has considerable share of forest area, about 37% percent of the total. The majority of the stated owned productive land belongs to this part of the treasury assets managed by the National Land Fund Management Organization (NLFMO). NLFMO can initiate land swap or can enter into agreement of ownership transfer with landowners. Land swapping transactions must ensure land consolidation, provide land for livestock farming or implement important objectives of public interest (e. g. flood prevention). The contracts and agreements are subject of the Civil Code, there are not special rights assigned for NLFMO as the owner of the land on behalf of the Hungarian State.

The existing well-developed, advanced legal and institutional frameworks are fully operational, they are the essential backgrounds for starting land consolidation projects in Hungary. Nevertheless, the lack of comprehensive Land Consolidation Act is necessary to carry out land consolidation on larger scale.

### ***Current activities***

#### German-Hungarian cooperation, TAMA Project

A computer-aided land consolidation project called TAMA started in 1993 and concluded with a final workshop in 2000. The project was carried out in Hungarian-German cooperation. The project's aim was to develop a method for computer aided land consolidation. The pilot project involved 16 settlements in 4 counties in

Hungary. The final, main goal of the project was to improve the living conditions in the rural areas based on the complex approach to land consolidation.

#### Dutch-Hungarian cooperation, TALC project

The Ministry of Agriculture and Rural Development of Hungary (MARD) launched a new project “Technical Assistance on Land Consolidation in Hungary” (TALC) in 2002, within the cooperation of DLG, the Netherlands. The aim of the project is to implement a land consolidation process as it has been determined by the Munich statement: “the application of land consolidation should be seen in the framework of an overall agricultural and rural development policy and as an essential tool within a range of instruments to achieve sustainable rural development”. The TALC Project organises workshops and study tours both in Hungary and in the Netherlands for the staffs of MARD, land offices, NLFMO and other institutions engaged, with the goal of developing ideas and tools for feasible land consolidation. The project focusing on local and regional (associated with e.g. flood protection in the Upper Tisza Valley) land consolidation tasks. The project is still going on and it will come to an end in 2005 by a concluding workshop and study tour in Hungary.

#### National Land Consolidation Strategy

The National Land Consolidation Strategy (NLCS) has been recently developed for MARD by the Research and Information Institute for Agricultural Economics (Budapest, Hungary). NLCS reveals the historical background of land policy, presents the current structure of landownership and land use and the influence it has on the profitability, sustainability and competitiveness of Hungarian agriculture and rural life. Three different scenarios of nationwide land consolidation have been described (spontaneous, voluntary land consolidation; institutional, but not compulsory land consolidation, promoted and helped by the Hungarian State; overall, land consolidation with both voluntary and obligatory elements). Based on advantages and disadvantages of the three scenarios, institutional land consolidation can be taken into consideration as a feasible one. The NLCS still has to be approved.

### **Lessons have been learned during recent developments**

#### ***Current activities and projects***

The current activities and projects have contributed a lot to the awareness of the possibilities of land consolidation. Some of the most important experiences are the following:

- The schedule of land consolidation was too early. After 50 years of socialist collectivisation and bad memory of “socialist land consolidation” the new landowners didn’t show too much interest in land consolidation project. Land consolidation projects can be implemented on voluntary base only.
- One of the main problems is the lack of land consolidation law. The Act on Arable Land contains some land consolidation elements, for example changing of land parcels on voluntary base, but this is unsuitable for comprehensive, concentrated land consolidation. The progress in this field could be accelerated by the new Land Consolidation Act, and the National Land Fund.

- The procedure of land consolidation is expensive, landowners in Hungary are not able to pay the cost themselves. The Hungarian State must be the major financer of land consolidation projects but the Hungarian State has not sufficient financial sources for land consolidation. Land consolidation can be achieved with success in good economic conditions only.
- The establishment of state owned land fund is recommended in each settlement to support a successful land consolidation.
- The project proved that the simple land consolidation model is not enough; the rural population would require complex solution, like landscape development, village renewal and rural development.
- The technical tools, infrastructure, technology, and professional knowledge are available to implement land consolidation process.
- The land consolidation program is a long term and time consuming process, continuous and efficient reconciliation is needed for the preparation and implementation of each projects.
- The bottom up initiative can lead to a simpler and quicker implementation. The close cooperation between authorities and the civil participants is very important. Interactive planning of land consolidation is a precondition for a good solution.

#### ***Further development on medium term basis***

Hungary became the member of the EU on 1 May 2004. Further efforts aiming at the rural development and improving the competitiveness of agriculture are required. Substantial change of land policy and regulation can not be expected during the next seven years of derogation prohibiting foreigners and legal entities to acquire ownership of arable land in Hungary, except fine tuning and adjustment. Further consolidation of land ownership and land use are expected in medium terms but the achievement of comprehensive land consolidation is expected on long term basis, within the frame of National Land Consolidation Strategy and the Land Consolidation Act, which have not been approved yet by the political decision makers.

#### ***Issues to be addressed on short term basis***

##### Legal issues

Special land consolidation law is required for comprehensive land consolidation. A draft of the Land Consolidation Act has been completed for years but policymakers have not dealt with it due to the lack of political will. The Land Consolidation Act can be expected to pass the Parliament and to be issued within the next 3 years.

##### Professional issues

Structure of land ownership will be improved gradually by different measures to form viable, economic farming enterprises:

- elimination of common agricultural land ownership resulted by privatisation,
- small-scale, voluntary land exchange, spontaneous land consolidation,
- continuous co-operation with other countries experienced in complex approach and implementation of land consolidation,

- land banking activities through National Land Fund extended to contribute to land consolidation activities,
- training of engaged institutions of public management,
- exploring and utilizing co-financing sources of local, national and EU level.

### **Summary**

The structure of land ownership and land use developed inadequately, as the result of recent land compensation and privatisation. Land consolidation is a basic requirement by the sustainable, competitive and profitable agriculture. A complex approach of land consolidation taking rural, regional and national developments into consideration is the basic requirement of feasible projects. A legal framework – Land Consolidation Act – has to be passed and introduced for launching voluntary based, institutional land consolidation with the participation of the Hungarian State. State-involvement promotes land consolidation process and helps financing it on long term basis by accessing the available local, regional, national and EU sources.