



5th International Workshop Skopje





21-24 April 2013

Leasing as option for structural improvement

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Issues to talk about

- *Mechanisms for structural dynamism*
- Leasing vs. sales markets
- Some figures
- Main aspects to reflect on further
- Some references




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Classical objective (for land consolidation, land markets...):

Structural improvement of farming sector

At which level?


- parcel, farm, farmer, infrastructures, crop, production system






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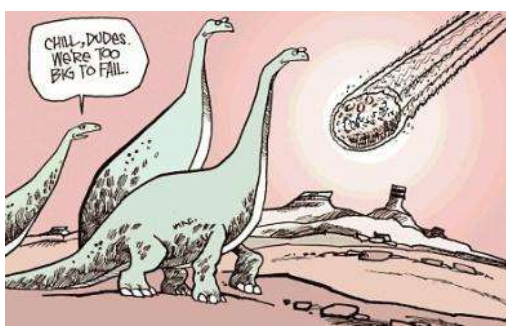
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Improvement: *the bigger, the better (giantism)?*





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Improvement: *too small..., for what?*






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Improvement *maybe* NOT related to the size, BUT to the process of adaptation to changing environment and circumstances (in time and space): from *structural improvement* to *structural dynamism*




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Not only based on the classical criterion: economic efficiency and performance

- equity, poverty reduction-mitigation
- entry into agriculture
- avoiding degradation of resources
- ...



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The *why* and the *for what* are crucial for defining the *how*

Dynamism aiming at:

- ... making agriculture production viable
- ... allowing technological change
- ... a better country's balance of payments
- ... reducing risk of extreme poverty and social exclusion
- ... increasing state revenues
- ...

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Land consolidation and Land markets [property] as *mechanisms* for *structural dynamism* (but not the only ones)

In fact, *leasing arrangements** *can be* more *useful* than sale markets or land consolidation in terms of *structural dynamism*...

Land use [crop] consolidation...

* There are a large variety of such arrangements, from the small-scale labour tenancies and sharecropping agreements common in Africa, Asia and Latin America, to the highly mechanized agricultural tenancies of northern Europe and other OECD areas. While very different in their contexts, all arrangements are characterized by a similar form, involving a separation between the ownership and the use of land. (FAO, 2001)

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There is one thing that solves all problems...



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Advantages of leasing arrangements:

- Less influenced by credit market imperfections
- Overcome retention of land as wealth storage/safety net...
- Saves money to be allocated in technology, equipment (or just keeping liquidity levels higher)




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Advantages of leasing arrangements:

- Rental prices closer to net land rent (compared with sale prices)
- Less [partly] transaction costs



Balance of “ownership” and “use” functions of land: more flexibility



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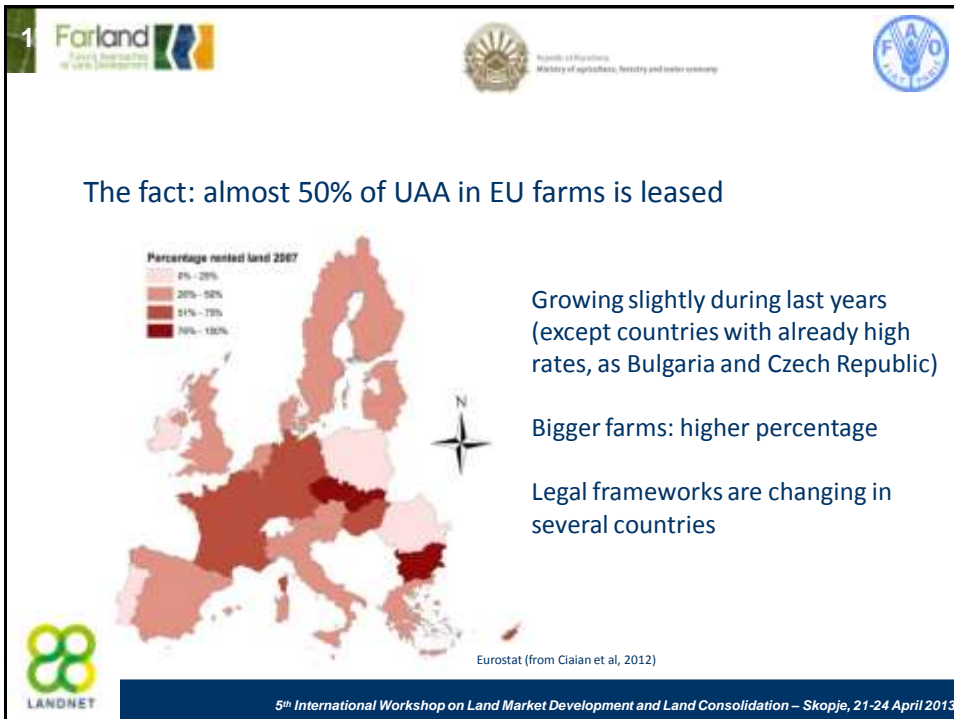
Weak points:

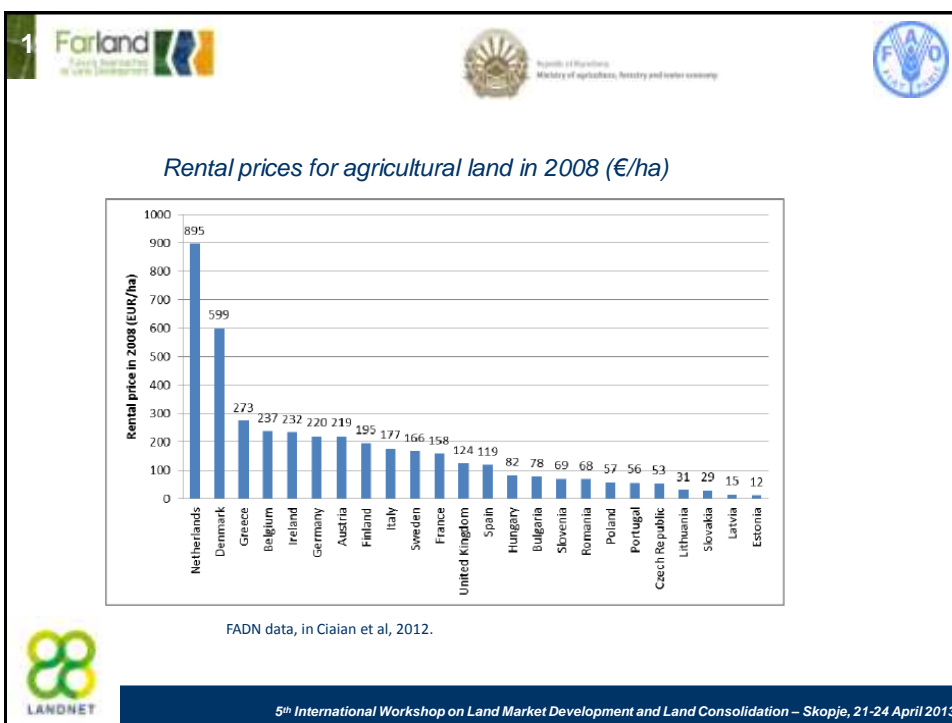
- Not used as collateral
 - Although not only fix assets count for that
- Less incentives for investment: uncertainty for planning
 - Although related to time perception and risk sharing
- More constraints for land use decisions
 - Although depending on the type of land and crops/use
- Transaction costs
 - To a less extent



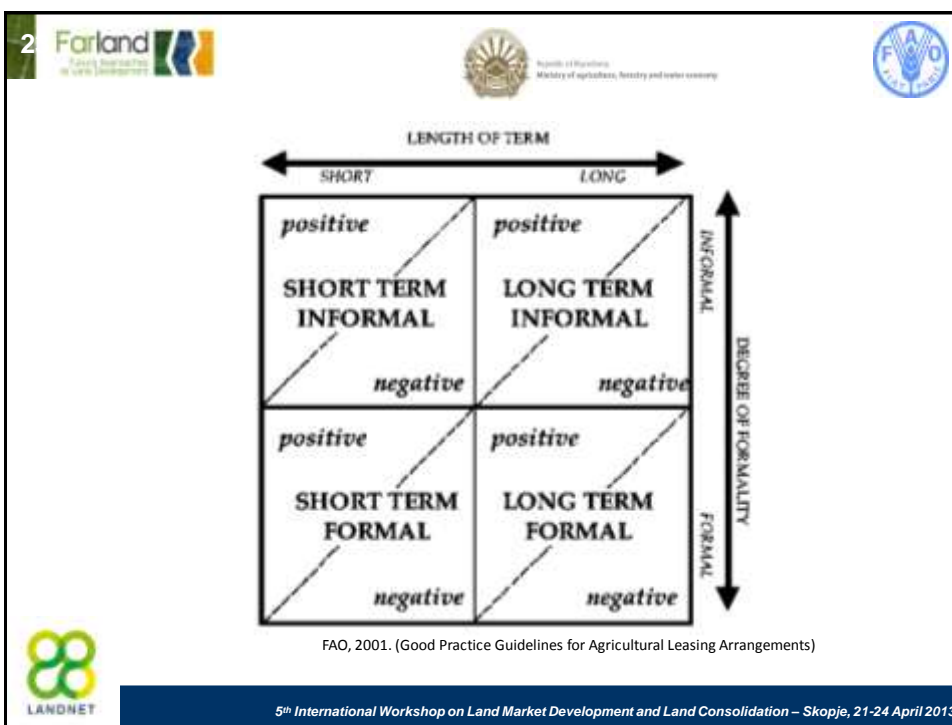


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- FAO
- Current situation framed by:
- Characteristics and evolution of tenure structures:
 - ownership fragmentation
 - ratio land owners vs. land users/farmers
 - ...
 - Socio-economic dynamics
 - Land policy (and other structural measures at agricultural sector)
 - spatial planning framework
 - land consolidation – land banking activities
 - land markets (sales and rental) regulations
 - land taxation approaches
 - ...
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FAO


What are the issues at stake?


- 1. Balancing *rights, duties, incentives* and *risks* between owner and tenant (different bargaining positions)
- 2. Transaction costs
- 3. Contract enforcement and moral hazard
- ...

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-1. Balance between owner and tenant:


- Mutual agreement (customs) vs. regulation (rules)
 - *Stickiness* and conflicts between formal and informal institutions
 - The most important: trust
- Tenancy length, termination and renewal
- Rent price
- Quantities
- Rights-duties
- ...







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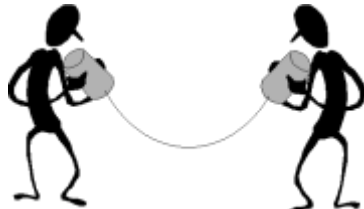



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-2. Transaction costs

- Information
- Procedures and taxes
- Indirect effects – institutional-legal environment (the case of capital gains)





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-3. Contract enforcement and moral hazard

- Covenants: compensations , conditions of return, improvements
- Dispute resolution models (agreement on)
- Control and resolution mechanisms








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Some developments in Galicia:


- Leasing increased significantly 1999-2009 (from less than 20 to 30%)
- Mostly *bigger* farms
- Mostly oral contracts: not seen as a problem by farmers
- The “complete package” rule
 - landowners “like” to rent all parcels to the same farmer
- “Leasing consolidation” takes place too
 - framed by social relationships



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Some developments in Galicia:

- New concerns of landowners regarding agricultural practices
 - i.e. use of sewage sludge
- More distance, more years (but freedom for the parties)
- Leasing of state-owned land: from 4 pages contract to 26 pages contract.
- Leasing of state-owned land: monitoring and the “good condition” rule


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- Dual structure: small family farms vs. big corporate farms
- Leased land mostly in bigger farms
- Leased land, mostly state-owned?
- Data about leasing of private land?

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Thank you for your attention



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For this session:

- Some figures from the homework
- Tenants – owners – government
- Filling the gaps: which actions?