

EC JRC Project:

*“Land Market Development and Small Farms’ Access
to Land in the Pre-Accession Countries” (LMSF-AC)*

**Analysis of land market development and small farms
access to land in the pre-accession countries**
Final results

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- **Aim of the project and project tasks**
- **Approach:** survey questionnaire, focus groups
- **Key results**
- **Conclusions & recommendations**

Project:

- **Aim of the project:** strengthen the understanding of the functioning of land markets in the Western Balkan countries/territories (WB) and implications for small farm households' access to land
- **Project financed by:** European Commission Joint Research Centre (JRC)
- **Duration:** December 2017-August 2018

Tasks:

- **Task 1:** Collect information about rental and sale land markets in the WB countries
- **Task 2:** Collect information about the land market policy and regulations in the WB countries
- **Task 3:** Focused groups with relevant stakeholders to identify factors affecting the functioning of land markets and small farms' access to land in the WB countries/territories
- **Task 4:** Comparative cross-country analysis of the land markets and small farms' access to land in the WB countries/territories

Countries/territories studied (7): Albania (AL), Federation of Bosnia and Herzegovina (BiH-FBiH), Republic of Srpska (BiH-RS), Kosovo (KO), Former Yugoslav Republic of Macedonia (FYRM), Montenegro (MN) and Serbia (SR)

Questionnaire survey (Tasks 1, 2):

- Respondents: national experts (project partners or from relevant institutions); 13 in total
- Detailed questions on key project topics/tasks
- Narrative descriptions as well as numerical data requested

Focus group discussions (Task 3, 4):

- 2 focus groups in each country/territory; 14 altogether
- 7-19 participants/group: farmers, farmers' associations members, scientific institutions, local municipalities, banks, directorates, development agencies etc.
- Additional in-depth questions: identification of factors affecting land markets and small farms' access to land in WB
- Notes from focus groups: valuable input for cross country analysis (Task 4)

Desktop analysis (Tasks 1-4):

- Mostly of relevant statistical data and legislation documents

- There is **no uniform definition** for small agricultural holdings
- Predominance of small and fragmented farms
- In **Federation of Bosnia and Herzegovina**, small agricultural holdings usually refer to households with less than 1 ha of agricultural land **(67%)**
- In the **Republic of Srpska**, farms are categorized only as commercial or non-commercial households based on different criteria
- In **FYR of Macedonia** of family farms have SO less than 2,000 EUR **(60%)**
- **Serbia** defines small farm holdings as farms up to 2 ha, i.e. up to 5 ha of UAA **(49%)**
- **Montenegro** defines small farmers based production of some agricultural products, produced per day, week or year (e.g. a small farm produces maximum 350 eggs per week, 100 liters of raw milk per day; **85 %**)
- **Kosovo and Albania** didn't provide official definition of small agricultural holdings

Country/territory		AL	BiH (FBiH)	BiH (RS)	FYRM	KO	MN ¹	SR
Data for year	Year	2013	2016	2016	2016	2014	2010	2012
Total UAA	1000 ha	1,16	1,179¹	1,004	321	414	221	3,437
Owned by family farms	%	48	67	98	85	98	95	82
Owned by small farms (<2 ha)	%	n/a	57	n/a	41 ²	n/a	20 ⁴	8
Owned by agric. companies	%	n/a	n/a	2	15	2	5	18
Other information:								
Owned by the state	%	52	33	n/a	n/a	4	45	23 ³
Share of uncultivated land	%	10 ¹	17	26	7	4	28	11

¹ Expert estimation

² Agricultural holdings with up to 3 ha of UAA

³ Period 2012-2015; only the area of rented state land is included in total UAA

⁴ Expert estimation

- Data are still not fully comparable
- Some countries/territories have a great share of state-owned land (AL, MN)
- Great differences in the share of uncultivated land

Results: Rental market; number of transactions and transacted area (ha)

Number of transactions	AL	BiH (FBiH)	BiH (RS)	FYRM	KO	MN	SR
Data for year	2017	2015	2017	2016	2016	2017	2012
State owned agricultural land	10	234 ¹	479 ²	n/a	3,904	5	7,693
Privately owned agricultural land	n/a	n/a	n/a	n/a	20,679	575 ⁴	35,000 ⁴
Total	n/a	n/a	n/a	1,417³	24,583	580⁴	42,693
Transacted area (ha)							
State owned agricultural land	155	2,494 ¹	17,999 ²	n/a	6,311	110	261,315
Privately owned agricultural land	n/a	n/a	n/a	n/a	60,032	n/a	613,927 ⁴
Total	n/a	n/a	n/a	2,360³	66,343	n/a	875,242⁵
<u>Informal rental contracts (%)</u>	<u>90%</u>	<u>< 5 %</u>	<u>n/a</u>	<u>70 %</u>	<u>n/a</u>	<u>70%</u>	<u>5-10 %</u>

¹ Data for 5 out of 10 cantons

² Data refers to rent and concession together

³ Lease of agricultural land in total (state and private)

⁴ Expert estimation

⁵ Total rented UAA by agricultural holdings for money or in kind

- Lack of reliable data
- High share of informal renting implies limited functioning of land markets

Results: Average rental prices of agricultural land in the last available year

	AL	BiH (FBiH)	BiH (RS)	FYRM	KO	MN	SR
Data for year	2017	2016	2016	2016	2014	2010	2012
Average rental prices of agricultural land (EUR/ha)	75-1,000 ¹ (220-380) ²	15-150	50-250	70 ³	542	100-1,000 (average 400) ⁴	180 ⁵ -197 ⁶

¹ Private land; based on interviews with the real estate companies

² Data from focus groups

³ Data for private and state-owned arable land

⁴ Expert estimation

⁵ Privately owned arable land, medium quality; expert estimate

⁶ State-owned arable land, medium quality

- Lack of reliable data
- **Data not comparable cross-country:** privately-owned vs. state-owned, different categories and quality of land etc.
- Prices based on different criteria (location, land quality, land category, natural conditions, kinship etc.)
- Prices for state-owned most often regulated, privately-owned freely formed

Results: How are the rental prices of agricultural land formed?

	State owned land	Privately owned land
AL	<ul style="list-style-type: none"> Auctions, organized by agricultural ministry 	<ul style="list-style-type: none"> On the market, based on different criteria (land quality, steepness, ...)
BiH (FBiH)	<ul style="list-style-type: none"> Partly regulated by government- initial minimum rental price is defined 	<ul style="list-style-type: none"> On the market
BiH (RS)	<ul style="list-style-type: none"> Set prices according to the class of agricultural land and its location 	<ul style="list-style-type: none"> On the market
FYRM	<ul style="list-style-type: none"> The starting price defined according to the cadaster class and location Final price is formed on a public tender A bidder, who offers the highest price 	<ul style="list-style-type: none"> On the market
KO	<ul style="list-style-type: none"> On the market, based on the public competition tender 	<ul style="list-style-type: none"> On the market, based on the public competition tender
MN	<ul style="list-style-type: none"> On the market 	<ul style="list-style-type: none"> On the market
SR	<ul style="list-style-type: none"> The initial price determined on the basis of the rents paid for the agricultural land in the previous year 	<ul style="list-style-type: none"> On the market, in agreement with the tenant

- Typically less developed than rental market
- Lack of data or estimates for number of transactions and transacted area: **in all countries/territories, except FYRM**
- When the land is sold, there is no formal transfer of ownership
- Changing of purpose of agricultural land; problem in most countries/territories
- Sales prices vary with land quality, category, region, natural conditions in all WB countries/territories
- Inheritance hinders the transfer of agricultural land and leads to further fragmentation: **FYRM, KO**

Table: Average sales prices of agricultural land

	AL	BiH (FBiH)	BiH (RS)	FYRM	KO	MN	SR
Data for year	n/a	n/a	n/a	2016	n/a	n/a	2015
Average sales prices (1,000 EUR/ha)	4.0-8.0	5.0-175.0	2.5-50.0	11.0-35.0 ¹	3.4	1.0-4.0 ² (up to 30.0 ³)	7.7 ⁴

¹ Arable land

² Meadows and pastures for cattle breeding

³ Coastal land, for cultivating olives and citruses

⁴ Arable and non-cultivated agricultural land

- Land market regulations **inadequate and complex**
- Register of agricultural land and cadaster **not updated and reliable**
- Typically **unclear property rights**
- Institute of **pre-emptive rights** regarding the purchase of agricultural land established in most countries/territories
- No sanctions for **changing the purpose** and **abandonment** of agricultural land in most countries
- **Inheritance** leads to further fragmentation of agricultural land

Agri-policy measures related to land market

AL	<ul style="list-style-type: none">Land Information System (LIS) with data about land consolidation projects; some land cons. projects implemented in recent period
BIH (FBiH)	<ul style="list-style-type: none">Funds collected from the charges for change of purposes of agricultural land to land remediation and improvement, subsidizing interest rates on agricultural loans for purchasing agricultural land
BiH (RS)	<ul style="list-style-type: none">Rent of state agricultural land, irrigation investments of the most fertile land; some incentives for purchasing of agricultural land
FYRM	<ul style="list-style-type: none">Providing market information on land market; improvement of the credit market to support land consolidation; decrease of the taxes for land transfer; farm inheritance by a single person; taxes for agricultural land that is not used for agricultural purposes; common ownership; arondations
KO	<ul style="list-style-type: none">Update of cadaster; realization of unfinished land consolidation projects; regulation of agricultural land with voluntary access; irrigation projects; subsidies and grants from the government; increase of the information and transparency in the land market activity; improvement of the Land Management System
MN	<ul style="list-style-type: none">Land consolidation operations (land consolidation, irrigation)
SR	<ul style="list-style-type: none">Public support for land consolidation, drainage, irrigation, organization of field roads, improvement of agricultural land quality, etc.

Results: Typical reasons for the rejection of agricultural credits

	AL	BiH (FBiH)	BiH (RS)	FYRM	KO	MN	SR
Insufficient farm business income	+	+	+	+	+	+	+
Insufficient household income	+	+			+	+	
Weak previous relationship with the creditor	+						
Poor credit history of the applicant			+	+			+
Lack of collateral		+	+			+	+
Insufficient business plan					+		

- Limited lending volume of agricultural credits in WB countries/territories – in general, not only for purchasing agr. land
- Main rejection reasons: insufficient farm business income, lack of collateral and insufficient household income
- Small farms perceived as having far less possibilities to obtain agricultural credits compared to big farms or agricultural companies

Results: Typical conditions for agricultural credits

	AL	BiH (FBiH)	BiH (RS)	FYRM ⁵	KO	MN	SR
Max. amount of credit (000 EUR)	1.5-2.4 ¹	5-50	25-250	0.5-250	3-100	Up to 15	5-50
Interest rate (%)	5-10 ²	3.4-11 ³	3.8 - 7 ⁴	6-8 ⁶	8-27 ⁷	3 -13	8.5-9.9
Duration of credit (months)	240-300	12-144	60-120	48-96	36-120	Up to 100	Up to 84
Minimum participation	n/a	n/a	n/a	20%	1,000 EUR	n/a	20%
Collateral	120-150%	150-200%	Mortgage, bill of exchange	Real or movable estate	100-150 %	Guarantors or mortgages	Client's promissory notes
Grace period (months)	0,5	0-36	12-36	6-24	3-18	Up to 48	Up to 12
Lending volume /year (mio EUR)	5.2	10-12	38	89	66	n/a	318

¹ For short-term investments

² Real interest rate; in MFI the rate is 17-24 %

³ Refers to effective interest rate. In MCOs it ranges from 10.6% to 20.1%

⁴ Average effective interest rate; in MCOs it is 20.5 %

⁵ Data refers to credit terms for fixed assets of commercial banks' own credit programs for agriculture

⁶ Annual fixed interest rate

⁷ Nominal interest rate

General conclusions:

- **Lack of (reliable) data and statistics; important when interpreting results!**
- Small average size of agricultural holdings; diverse definitions
- Land fragmentation; in some cases extreme

Rental market:

- Weak (except SR), but better developed than sales market
- In 4 countries/territories high share of informal rental contracts (70% or more)

Sales market:

- Predominantly weakly developed
- Problem of land use change (agricultural land to construction sites)
- Land abandonment
- Limited sales of state-owned land

Land market regulations:

- Inadequate and complex; non-functional (not fully implemented)
- Unfinished denationalization processes
- Unclear property rights
- Complex administrative procedures

Agri-policy measures related to land market:

- Few and ad hoc; typically low budgetary support
- Direct and indirect measures implemented or foreseen

Agricultural credit market:

- Lack of access to credit for rural population
- Lack of collateral
- Poor economic position and social insecurity of small farmers

General:

- **Establish and update information systems: farm structure surveys, registries, cadaster etc.**
- Improve knowledge transfer regarding agr. land market and available agr. land
- Focus on prospective farms, drivers of agriculture and RD in WB countries

Rental market:

- Regular updating of land register and cadaster
- Enable young/prospective farmers more favorable renting of state owned land

Sales market:

- Regular updating of land register and cadaster
- Legislation to prevent land use change
- Introduce land use fee; to mitigate land abandonment and improve cultivation

Land market regulations:

- Complete the restitution & denationalization; registration of land titles and ownership rights, establishment of efficient land records and monitoring system
- Same inheritance rights for all beneficiaries, regardless of age & gender
- Establish legislation preventing further ag. land fragmentation (institute of protected farms)

Agri-policy measures related to land market:

- Support land consolidation with investments in rural infrastructure
- Establish public farmland and forest fund (state-owned land); uniform rules and procedures for renting
- Introduce land use fee; to prevent abandonment of agricultural production and ensure the cultivation of agricultural land; funds collected could be used for land consolidation projects

Agricultural credit market:

- Increase the volume of lending in agriculture by establishing special credit lines for small agricultural holdings and simplify application procedures
- Setting-up producer groups and organizations of small agricultural holdings, which would increase the possibilities to obtain agricultural credits and provide necessary collaterals

- Land market ineffectiveness impedes growth of farm size and modernization of agricultural sector
- Serbia: most developed land market with largest average farm size, largest land market activity and several governmental measures addressing the issue
- WB countries/territories still have a long way ahead towards establishing functional and efficient agricultural land markets

Thank you for attention!

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