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INSTITUTIONS AND DEVELOPMENT

**LAND MARKET IN ALBANIA: UNRESOLVED
PROPERTY OWNERSHIP RIGHTS**

LUCIANA KOPRENCKA,
OLTIANA MUHARREMI

Faculty of Economics
University of Vlora "Ismail Qemali", Albania

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Abstract: After gaining independence in Albania in 1912, property ownership experienced major reforms. During communism many agricultural lands were seized by the Agrarian Reform Law. In 1990, with the fall of communism there was a huge demographic movement of people from villages to urban areas, where they settled in lands that were used by the Cooperatives. This created a lot of problems with previous land owners whose land was seized and given to the Cooperativa. Today there is a problem with the rights to property ownership, and legal certificates of ownership.

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Introduction

The development of land property market in Albania has been slow as a result of property right issues that continued in the 1990's after the collapse of communism. Land reforms carried out in Albania are quite different from the reforms carried out in other former communist countries, because this land during the communist regime was totally brought under the ownership of state. The reforms bring out the decrease of productivity of the entire economy and of the level of living. The privatization of agricultural land in 90s distributed land to former employees of agricultural cooperatives and state farms. The process did not account the ownership of 1945 years and brought an obstacle to economic development of the country. It caused state of constant conflict between new and former owners who even today after 20 years still have not received their property and yet they are not compensated. Land reform legislation deficiencies and the uncertainty caused an extreme land fragmentation, limited use of machinery, low productivity, land barren, and limited credit access for the farmers.

The return to democracy in Albania after 50 years of total centralization from previous communist regime created a strong demographic movement associated with uncertainty on the title of ownership and legal vacuum. This brought an influx of informal housing, formalized the process of legalizing illegal property market.

An historic view on property ownership in Albania

Before the independence from the Ottoman Empire, land property was organized in ciftlik and timar (Civici, 2000). In the early 1900's Albania had a land-based system called "latifondist" and unequal distribution of land. Agriculture was under the monopoly of certain families. The first reform of agricultural land in Albania was completed in 1945. The state

initiated a reform process of eliminating private ownership of land. Years later farmers were forced to combine their land and livestock into agricultural cooperatives and state farms. The final stage of collectivization began in 1965 and resulted in the nationalization of all land in 1976; even small traces of private ownership of land were totally eliminated. Albania became the only former communist country that completely replaced private property with collective property, allowing villagers with a maximum of 10 chickens per family and a garden that will not exceed 200 m². This process led to the complete destruction of the country's economy, with loss of productivity, lack of food, and decreases in general welfare. At the end of the 1980's the government began several small micro-economic reforms which were aimed at allowing private ownership of land associated with the uncertainty of property rights. In 1990 with the establishment of the democratic system, the government undertook a series of reforms which were the basis for the privatization of the economy. In 1991 about 85% of the arable land was left barren, vineyards and 1000 ha, over 25 000 ha of greenhouses were destroyed with a value of 650 million USD. The year 1991 marked the second agrarian reform with the approval of the Land Law 7501, which provided the distribution of land, agricultural land and fruit trees and olives to all employees of cooperatives based on the number of persons per households, in return all cooperatives and state owned farms were eliminated.

The agrarian reform in 1991 benefited 480 000 families, about 1.8 million small parcels were distributed by the village land commissions. Decisions on allocation of land and ownership certificates were issued by committees elected in the village. New owners received free land. Titles were then registered by cadastral offices in rural areas. The law allowed for free distribution of land for employees of cooperatives through a land patent "in use". The approval of the law was argued that areas of agricultural land per capita were very small up to 0.22 ha / person (perhaps less in Europe), most of

the population resided in farms (64%), the population had tripled compared with agrarian reform years. There were major changes and a demographic shift among different regions and transformations in the country's infrastructure and geography. A serious problem was created in identifying the property and related legal documents before 1946; Land Law 7501 did not recognize ownership of agrarian reform before 1945.

To avoid a disagreement with the new law with former land owners of the years before the Law 7698 was issued to provide compensation to former land owners. There were also created district commissions for property restitution for former owners. The compensation for a large proprietary is not yet available today after almost 20 years. This is one of the reasons that investments have been held hostage in the land market in Albania.

TABLE 1. AGRICULTURAL LAND PER SECTOR, 1950 - 1990 (thousands ha)

Year	Public Sector		Cooperatives		Private Sector		Total
	Hectare	Percentage	Hectare	Percentage	Hectare	Percentage	Hectare
1950	13	3.2	21	5.4	357	91.4	391
1960	65	14.2	330	72.2	62	13.6	457
1970	124	20.7	454	74.8	21	3.5	599
1980	151	21.4	532	75.9	19	2.7	702
1990	170	24.1	504	71.6	30	4.3	704

Source: INSTAT, Albania.

The problem of compensating legal owners for the land has created a constant state of conflict over land because of the demands of these owners for the return or compensation for land. The properties of state farms were distributed to the employees of these farms through Land Law 8053 which gave property owners the right to "use property." They were legally recognized as the rightful owners of land in December 1995. Such privatization carried out in Albania was not observed in any other former communist countries: in Bulgaria, Hungary, and Czech Republic. In these countries land was restituted to former land owners, a consistent part of farm land is operated by former cooperatives and restructured state. Only Albania and Romania distributed land to former farm workers and farmers, and therefore private farmers are the dominant form of farm organization that resulted after the reform.

The results of those reforms in the market land are:

- establishment of a private system of production;
- total elimination of farm cooperatives;
- ownership-fragmentation of land and its use created 480 000 farmers and 1.8 million parcels;
- an abandonment of land, only 50% of agricultural land is being worked;
- uncertain property titles has held hostage for 20 years the development of a well-defined land market.

The status for "property titles"

The Land Law 8053 in 1995 delivered legal recognition of former workers of state enterprises as land owners of the former state enterprises. However, reforms did not overcome uncertainty in property rights caused by contradictions in ownership and use of land. Therefore, de facto owners of land did not legally own these properties. As a result, the status of land ownership in informal settlements was characterized by three types of owners.

- Legal owners including state and private owners based on the Law No. 7501, 8053, 7698; and private owners that were compensated since they were not given their own land from a natural catastrophe or state projects;

- Informal and illegal property buyer. This group includes all buyers who bought land in informal way from legal private owners, and those who bought them from the former owners. Uncertainty for both of these buying categories characterized by the fact that they do not own a certified legal document for transfer of ownership or possession of documents are not legitimate;

- Illegal owners - individuals illegally located in land owned by the state, and land with individual privacy.

Both these categories do not possess certified property documentation. The categories mentioned above indicate that the legislation until 1995 did not provide appropriate security for possession of land, especially for land buyers. Security was provided by laws 7501, 8053, and 7698 for the initial ownership of land but not during its transaction. Conflict of ownership and related issues, generally are the most important problems in the transition period in Albania. Legitimate land market almost does not exist, due to conflict and insecurity on the authenticity of the property. This uncertainty has limited respect to property resulting in loss of desire to work and develop it. The main feature that characterizes today the issue of ownership in Albania is a conflict between the legitimate owners of old and the new rightful owners, as well as conflict between the legitimate owners of old and newcomers, which have occupied land and have built without permission.

Fragmentation of land

One obvious consequence of land reform in Albania is the extreme fragmentation of land. The creation of 1.8 million small parcels, 4-6 parcel per owner as middling, average family land surface 1.17 ha, average parcel size 0.55-0.2 ha, average farmers distance to the parcel from 1-6 km, great distances between them and the great distance from settlements prevents effective use of land.

Main reasons of land fragmentation are the following:

- content of low itself;
- demographic development of villages and population concentration in particulars areas;

- land privatization during several stages;
- different interpretation of law on land;
- national fragmentation.

The small farm size unsettled land property issues, a use of modern technology that is limited to machineries, poor infrastructure, and absent or underdeveloped know-how in direct sale and marketing techniques. Though land reform was finished in 1992, there were about 1 million small farms in 2005 with an average of 1.1 ha per farm and productions in most cases were just above subsistence level (Ministry of Agriculture and Food, 2006). The small scale agriculture has few possibilities to be developed beyond subsistence, for professional development of farmers and an increase of size and infrastructure of arable land. Farmers cultivate more than one land patch, the majors' part between 3 and 4. When taking into account the above mentioned small size of land patch, the more difficult it becomes to increase the use of technology and, therefore, the level of productivity. Limited financial resources are another reason for the level of technology in agriculture production. More than 50% of farmers employ manual work and animals to cultivate their land. Low levels of production and sales do not contribute to the improvement of living conditions; as a result, farmers have less motivation to work the land, leaving it barren.

Non formal living areas and the legalization process

Albania is one of the most special cases of all former communist countries, in terms of attitude to land and territory management. In Albania during the communist regime all private property became 100% state owned. Prior to 1991, the strict state control on internal migration resulted in an artificial and inefficient spatial distribution of population. During the communist period, migration toward cities was totally controlled. In 1991, at the time of the transition, 60% of population was located in rural zones. The collapse of the communist regime in 1991 triggered a vast migratory movement toward the cities, especially from the eastern mountainous part of the country toward the plains of the western coast. Following the gradual opening of the economy, people migrated toward cities where they expected that there would be more economic opportunities.

The migrants from rural areas settled quickly around major cities in the western parts of the country. The uncertainty of land tenure and the legal framework vacuum created by the collapse of the communist regime made it easier to claim a lot of vacant land in the immediate periphery of cities. Indeed, in the absence of laws and regulations, the only way to develop land and build houses was to do it informally.

Informality of construction and informal areas is a phenomenon, which lies in the whole territory of Albania, from south to north and center, on the outskirts of cities. Most informal settlements were established in the lands of former state enterprises and industrial zones. Albania can easily be characterized by widespread informal urban areas. It is estimated that 60-70% of building constructed since 1990 (around 200.000-220.000 buildings) are extralegal. Most of

these have been built since 1997 amounting to an estimated investment of some 3 billion USD (32% of GDP) (ALUIZNI).

Informal housing has no access to formal property and mortgage market. This situation hinders the development of the real estate and land markets, which in turn impedes foreign direct investments. Just to separate Albania once and for all from informality the Law for legalization 9304 (2004) and the Law 9482 (2006) were implemented, and both have the following objectives:

- Re-planning of any informal area to ensure the functioning of their urban neighborhoods, keeping areas needed for infrastructure, road access and public space;
- Return the existing buildings in accordance with building standards and land use, and legalizing them under administrative law;
- Establishment of ownership and lease rights for persons who have occupied these lands and buildings;
- Creation of funds for compensation of former owners;
- Regulation of ownership relations between informal builders, owners and the state;
- Inclusion of real-authenticated in the national register of assets.

Regulation of informal settlements will provide opportunities for investment transactions and suburban areas by entrepreneurs of the formal economy. Also, the revenue that will be created by legalization is thought could give impulse to economic growth. Formalization of ownership will enhance development of land markets, and this brings the tax implications of living in informal settlements, through tax on inherited land. The government has created an institution, which is responsible for the rightly implementing of legalization process. This institution is ALUIZNI (Agency Legalization, Urbanization and Integration of the Areas / Informal construction). The reform commenced for the legalization of illegal buildings has a mission to end finally informality.

In conclusion it can be affirmed that in there are 681 informal areas (578 in the process and 103 approved that occupy an area of 40 409.92 hectares of land, and about 2 million m² apartment additions without permission). 2/3 of his area is in private and state property, and only 1/3 is the property of the former owners. Most of the revenue that will be provided by the legalization of informal property will be used to compensate the former owners, whose lands are occupied by illegal constructions.

The budget impact of legalizing informal urban areas in Albania could be significant. With around 220 000 building informal urban areas property taxes could yield about 14 million USD or 0.15% of GDP, while the onetime transfer fee could yield some 459 million USD or 4.9% of GDP. This would be in addition to any payment from new legal owners which, under similar assumptions could amount to around 690 million USD or 7.3% of GDP (ALUIZNI). While the underlying assumption may be subject to change, the fiscal implications are likely to be significant. Legalization process includes the entire territory. All informal areas which are declared as touristic zones, historical zones, important areas

for public access and interest, areas of poisons and land slide, strategic zones are excluded from this process.

Conclusion

Deep informality caused obstacles for the development of land market and the entry of foreign investments in Albania. The process of legalization of informal property will have positive effects on the Albanian economy. It will bring financial income, part of which can be used for compensation of former owners and for the development of local economies. It will also be essential for the development of the financial system as well as real estate property market because it will increase credit to the economy, using as collateral for the borrowing of assets of authentication.

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