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# Developing agrarian structure through the disposal of state-owned agricultural land in Croatia

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## ABSTRACT

The papers analyses the disposal of state-owned agricultural land in the Republic of Croatia in comparison with the countries of Central and Eastern Europe (CEE) that went through similar agrarian reforms. There are 890,214 ha of state-owned agricultural land in Croatia. The data shows that Croatia has not managed to accomplish the goals set by Programs for the disposal of state-owned agricultural land and only 20.6% of the state-owned agricultural land is offered for disposal by public tenders (sales, lease, concession, return and other purposes), similar to CEE. Therefore, the disposal of state-owned agricultural land is primarily important for the consolidation of farms and increasing their current average size.

**Key words:** state-owned agricultural land, state-owned land disposal, agricultural land consolidation

## INTRODUCTION

During the pre-accession period, Croatia, as well as other countries of Central and Eastern Europe (CEE) underwent the transition from planned to market economy, in order to create a new agricultural structure based on private ownership and market oriented economy. With pre-existing problems, it also faces the consequences of historical heritage where large state and cooperative farms mainly consisted of privately owned land. Therefore, the land, which was once taken from its owners, had to be returned. Most countries of CEE opted for selling the state-owned agricultural land and returning the cooperative agricultural land to its rightful owners, thus enabling farmers to expand their production capacity and strengthen their businesses.

State-owned land in Croatia is mostly unused

so this Paper analyses the means of disposing of the state-owned agricultural land in comparison with countries of CEE. It also analyses the legal framework as well as the causes of the limited use of the state-owned agricultural land and why this is one of the key measures for the increase of the small average farm size today.

## MATERIAL AND METHODS

The papers analyses the disposal of state-owned agricultural land in the Republic of Croatia in comparison with the countries of Central and Eastern Europe that went through similar agrarian reforms, based on the data provided by the Croatian Ministry of Agriculture and experiences of the CEE countries. Most CEE countries have been through the transition from socialist to market economy, as is the case with Croatia, so many

authors analyse land reforms and the economy restructuring in those countries (Brooks, 1991, Bojnec and Swinnen, 1997, Swinnen and Mathijs, 1997, Csaki and Nash, 1998, Csaki and Lerman, 1997, Zawojnska, 2002).

In order to gain insight into the analysis of carried out land reforms in Croatia, it is necessary to mention some key documents such as The strategy of agriculture and fisheries, The Rural development strategy, and The program of Land consolidation in Croatia.

The disposal of state-owned land in Croatia can be viewed primarily through numerous changes happening since the Law of agricultural land has been passed, with all its amendments since Croatia gained independence (Official gazette 34/1991, 79/1993, 54/1994, 48/1995, 19/1998, 105/1999, 66/2001, 87/2002, 48/2005, 90/2005, 152/2008, 21/2010) but also through research papers dealing with the possibility of placing the state-owned land through different forms of disposal (Svržnjak, 2001, Baban i Ivić, 2003).

The index method shows an increase of the average farm size as well as the increase of total used land in Croatia from 2003 to 2008, according to data gathered from the Program of land consolidation in Croatia 2009-2011. In order to compare the average farm size in the countries of EU, Eurostat database was used.

## RESULTS AND DISCUSSION

The land structure of agricultural farms in Croatia today is influenced by the legal system of the former country which did not allow for the consolidation of family farms as it developed on the socialist doctrine which aimed to strengthen the state and social ownership and decreasing the private sector in agriculture. Therefore, in discussing on the results of research can focus on three parts:

### a) *Agrarian structure in Croatia*

Since the Second World War private ownership of family farms had been limited by various agrarian reforms, by taxing policies for small family farms,

attempts to collectivize and later on purchase land from private owners in order to increase social farms. After the change of state structure, the ownership has become a key category protected by all institutions (Ambroš, 2005), and despite all historical hardship, family farms have managed to survive and keep within their ownership the majority of agricultural land. According to data of the Program of land consolidation of the Ministry of Agriculture, fisheries and rural development, there are 1,087,536 ha of used agricultural land. 76.2% of that is owned by family farms, and the rest (23.8%) by legal subjects (agricultural companies and associations). It is also true for most European countries that family farms dominate in the ownership of agricultural land (71%). Countries with less than 50% of agricultural land owned by family farms are still the countries of CEE without the solved privatization of state-owned/communal land (Bulgaria, the Czech Republic, Hungary, Slovakia).

In comparison with the EU countries, Croatia has a smaller average farm size by 7.1 ha (utilized agricultural area – UAA, table 1.), which makes it, together with Bulgaria, Cyprus, Greece, Italy, Hungary, Poland, Malta, Romania and Slovenia, a country with an average farm size under 10 hectares. On the other hand, the Czech Republic, Denmark, France, Luxembourg and the United Kingdom are the countries with the average farm size over 50 ha.

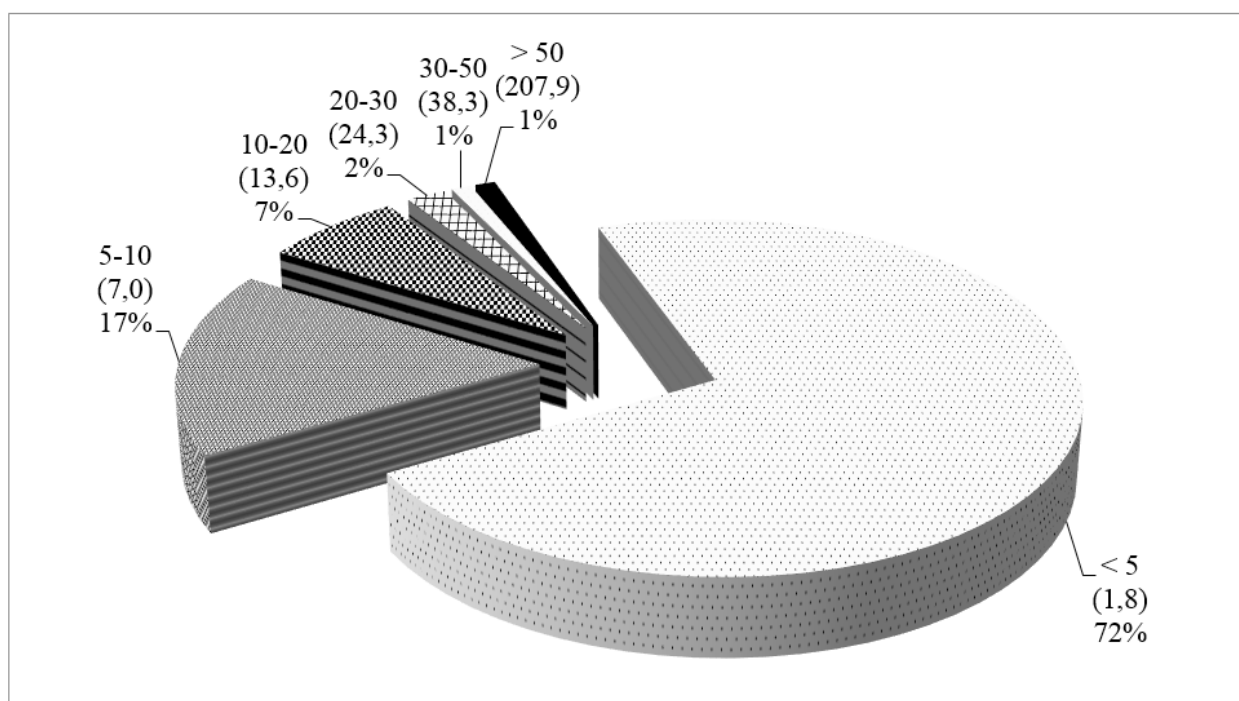
If we observe the number of farms according to the average size of agricultural property in Croatia, the most numerous are farms in the category of up to 5 hectares (72.4%) with an average size of 1.8 ha. When compared to 2003, the average size of the property in 2008 in that category declined by 16.4%, or at an average annual rate of 3.5%. A decrease in the average farm size (UAA ha) in the analyzed years was recorded in the category of farms larger than 50 ha by 15.7%, which is an average annual rate of 3.5%. All other categories show a slight increase in the average size of properties of 0.1-0.5% (Graph 1).

One of the main reasons for the economic inefficiency of agriculture lies in the unfavorable agrarian structure. Rational management of the

fundamental agricultural resources is further complicated by many other factors such as additional division of farm land into several plots, permanent loss of agricultural land due to urbanization, inefficient management of state land, a considerable proportion of uncultivated and abandoned land, the inadequate enforcement of existing legislation, the general lack of land registers and the slow process of coordinating and updating land registers in the land registry, which limits land market.

There is also the problem of the older owners of family farms who can no longer cultivate their agricultural land but the land held as “security” and the emotional value for next generations, which often inherits the land<sup>1</sup>. Therefore the Agriculture Act (Official Gazette 66/2001) and the Strategy of Agriculture and Fisheries (Official Gazette

89/2002) specifically emphasize the land policy measures as a set of measures for influencing the rational management of agricultural land as a resource of interest to Croatia. In order to not only improve the agricultural structure in the terms of increasing the size of the family farms as the fundamental organizational form in agriculture, but also to establish and improve the agricultural land market, the Strategy of Agriculture and fisheries defines the privatization of state-owned land, whose implementation is analyzed in the Paper, as the fundamental measure for land consolidation<sup>2</sup>.



Graph1. Ownership structure of agricultural farms in 2008\*

\* average size of farm ownership as written in parenthesis.

Source: Draft - Program of land consolidation of agricultural land in Croatia 2009-2021, Ministry of Agriculture, 2009

1 Lovrinčević (2009) emphasizes that the agricultural market trends in transitional countries are a delicate economic, political, but also a social topic considering the fact that the agricultural land is primarily used for agriculture by the part of population generally most susceptible to poverty.

2 Except the privatization of state-owned land, other measures have been mentioned for the land consolidation: changing Inheritance law in the part regarding agricultural land, the development of land-market information system and the integration of data in land registry as well as its updating.

The data shows that from 2003 until 2008 the area of used agricultural land in Croatia increased by 29%, and average size of agricultural farms by 9.5% which was greatly influenced by legal measures of state-owned agricultural land disposal. Considering the fact that there is still

79.4% of state-owned agricultural land available for disposal, the future holds further positive effects of implementing analysed consolidation measures for the purpose of changing agrarian structure.

Table 1. Total used land, number and size of agricultural farms in 2003 and 2008 in Croatia

Size of farm (ha)	Number of farms		Utilized Agricultural Area (ha)		Average farm size (UAA ha)		
	2003	2008	2003	2008	2003	2008	Index 2008/2003
< 5	85.018	111.477	111.477	198.374	2,1	1,8	83,6
- 5 - 10	31.131	25.750	25.750	179.043	6,9	7,0	100,3
- 10 - 20	10.278	10.125	10.125	137.246	13,2	13,6	102,5
- 20 - 30	1.802	2.552	2.552	62.025	24,1	24,3	101,0
- 30 - 50	1.126	1.969	1.969	75.433	37,9	38,3	101,0
> 50	898	2.094	2.094	435.412	246,6	207,9	84,3
Total	130.253	153.967	153.967	1.087.533	6,5	7,1	109,5
Index 2008/2003			118	129			

Source: Draft - Program of land consolidation of agricultural land in Croatia 2009-2021, Ministry of Agriculture, 2009 as well as authors' calculations

#### b) *Disposal of agricultural land*

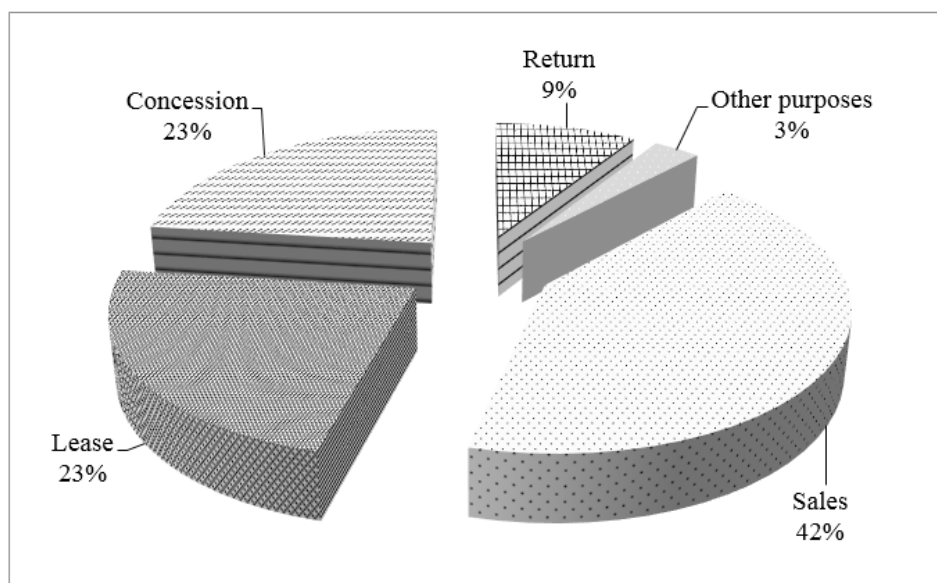
Since Croatia's independence in 1991, all formerly socially-owned agricultural land has become state-owned. The disposal of state-owned agricultural land is regulated by the Law on Agricultural Land, which has been amended several times since 1991 because its implementation showed considerable faults and impediments which delayed the disposal of farmland.

Since 2002 the process of disposing and privatizing state-owned agricultural land has been decentralized because it is implemented on the local level in accordance with Programs for the disposal of state-owned agricultural land (Programs), approved by the Ministry of Agriculture. There are 890.214 ha of state-owned agricultural land in Croatia. In their Programs, local municipalities

had to define the total state-owned agricultural land in their areas, determine the land which needs to be returned, sold, leased but also other land (for example, for building cemeteries, roads, etc.). According to the Programs, 60.8% of state-owned agricultural land is available for disposing or, more precisely, 540,973.31 ha of land<sup>3</sup> and it is determined to sell most of it, lease 23%, 23% is set for concession while 11% of the state-owned agricultural land is to be returned or used for other purposes (graph 2.).

<sup>3</sup> Some municipalities have still not drafted their Programs, and some Programs have not been approved by the Ministry of Agriculture. Without the Program, which needs to be approved by the Ministry of Agriculture, municipalities cannot dispose of land-owned agricultural land.





Graph 2. Type of disposal of state-owned agricultural land according to Programs of local municipalities.

Source: Ministry of Agriculture

Although the Programs plan for the majority of the land to be sold (42%), unresolved property and legal issues resulting from double land records, which are run separately and uncoordinatedly, prevent the sales. Until the geodetic survey is performed and until the land property and legal issues are resolved, which is a long-term and expensive process, the land set for sales is temporarily leased, just as it was the case in other countries of CEE. In the Czech Republic 25% of the state-owned agricultural land was disposed that way, in Slovakia 15%, in Poland 19% and Eastern Germany 7%.

Leases and concessions of state-owned agricultural land in Croatia have mostly been realized through public bids. That means that only 34,0% of the planned state-owned agricultural land has been made available through public bids (table 2.). There is no privatization with lease and concession, the agricultural land remains in the ownership of the state, and the user of the land pays a fee to the owner, the state. The privatization of the state-owned agricultural land, besides sales activities, is also done through the return of taken property. However, the process is long because there is usually lack of necessary documentation or

the land is now within a consolidated production units.

Due to the above mentioned reasons, Croatia has not managed to accomplish the goals set by Programs and only 20.6% of the state-owned agricultural land is offered for disposal by public tenders (sales, lease, concession, return and other purposes), which means that 706,480.30 ha is still available.

If we assume that the mentioned area is leased at the average price of 75.84 EUR<sup>4</sup> based on the Regulations on the initial price (Official Gazette 40/2009), it is easy to calculate the financial loss of not disposing the agricultural land of 53,028,261.92 EUR and unused financial means for the programs of consolidating agricultural farms. According to the Ordinance on the conditions and ways of using funds generated from the sale, lease and concession of state-owned agricultural land (Official gazette 102/02), local municipalities and counties may only use the realized funds for programs of cadastre and geodetic land surveys, land registers, land development programs in the process of land parceling and hydromelioration and so on.

4 Average exchange rate of EUR = 7,5 HRK.

Table 2. Planned and realized disposal of state-owned agricultural land according to Programs of local municipalities in Croatia (2001 - 2009)

	Planned for disposal (ha)	Realized (ha)	(%)
Sales	227,241.41	50,470.52	22.2
Lease	124,079.50	74,897.78	60.4
Concession	125,680.92	58,420.40	46.5
TOTAL*	477,001.83	183,788.70	38.5
Return and other purposes	63,974.47		0.0
TOTAL according to Programs	540,976.31	183,788.70	34.0

\* Not including agricultural land planned for return or for other purposes

Source: Ministry of Agriculture

On its way to EU, Croatia, as had other CEE countries, has passed the transition from a planned to a market economy in order to create a new agricultural structure based on private ownership and market-oriented economy. Along with the existing privatization problems, Croatia has also had to deal with the consequences of its historical heritage in which the predominant large state and collective farms were mainly formed from privately owned land<sup>5</sup>. Therefore, the taken land needed to be legally returned to rightful owners while at the same time restructuring cooperatives. Most CEE countries opted to return the cooperative agricultural land to its former owners and sell the state-owned land, but until that was made possible, the land was leased.

### c) *Agency for Agricultural Land*

The reasons for new and fundamental changes of the Croatian Law on Agricultural Land emerged in 2008 because it had become obvious that the prescribed forms of disposing state-owned land were administratively long-term and complicated even though the local municipalities had the authority to dispose of the state-owned land. Moreover, data from cadastre, land registry and the situation in the field was still not integrated, which in turn disabled the sales leaving the issue of unused agricultural land. It was therefore decided to establish the State Agency for Agricultural Land, which took over the land disposal affairs from the local municipalities

which had not done the Program of disposing the agricultural land. The Law on Agricultural Land from 2008 clearly defines the preemptive right of sale and lease, directed primarily at family farm owners, employed at their own farms and legal entities registered for doing agricultural activities and registered in the Farm Registry. In addition, the law defines the turnover of private agricultural land, which until then was only aimed at the disposal of state-owned agricultural land. It was determined that the owner of agricultural land during the sale or lease must submit their bid to the local government which in turn proposes the winning bidder to the Agency. However, the privately owned agricultural land market, which is mostly owned by family farms, is not sufficiently dynamic and developed mostly due to the aforementioned fragmented parcels of agricultural land and unresolved property issues. In order to achieve greater efficiency in the privately owned agricultural land market, the Agency needs to purchase agricultural land in a free market with an obligation to form a land fund, and it should use the ways of disposal of agricultural land (sale, lease or exchange) to affect the structure of the fragmented and uncompetitive farms through consolidation. However, the decision of the Constitutional Court states that the provisions have been declared as unconstitutional on the grounds that they intrude in private property rights, and until further notice, the Agency may only decide on the issues of state-owned agricultural land.

5 The exception is Poland, just like Croatia, due to discontinuation of the collectivization process.

However, although the Agency has been established, it has no influence, and this is the case with other countries of the CEE, where "land funds" have been formally established, or the so called state land reserves for the purpose of land consolidation (Slovenia, the Czech Republic, Slovakia, Poland).

## CONCLUSIONS

One of the prerequisites for every successful agricultural production is agricultural land. Today's fragmented farms in Croatia do not contribute to the overall efficiency of agricultural production, which decreases their competitiveness of the market.

From 2003 to 2008 Croatia saw the increase in the total utilized agricultural area used by 29%, and the average farm size increased from 6.5 ha to 7.1 UAA ha. After Croatia joins the EU it will be fully exposed to the influence of world agricultural markets, Croatian farmers will need to grow their business, which generally means an increase in agricultural production volume and production capacity, of which the most important is agricultural land.

In Croatia, there are 890,214 hectares of state-owned land, of which only 20.6% is made available. Therefore, one of the important measures that will surely affect the increase in the average farm size (UAA ha) in Croatia would be making the remaining state-owned agricultural land available by lease, concession or sale. Some of the reasons, why these measures have not resulted in a satisfactory economic success, are numerous problems, similar to those of other CE countries: from unresolved legal and ownership matters and the fragmentation of farms to the inefficiency of the Agricultural Land Agency. Due to the mentioned problems most of the state-owned agricultural land is leased. The research results show that the current financial losses of non-disposal of the remaining state-owned agricultural land amounts to 53,028,261.92 EUR. This measure could not only direct the financial means from leasing the state-owned land into solving the mentioned problems, but it will also have a direct influence on the

consolidation of farms.

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## Promjena agrarne strukture kroz raspolaganje državnim poljoprivrednim zemljištem u Hrvatskoj

### SAŽETAK

U radu se daje analiza raspolaganja državnim poljoprivrednim zemljištem u Republici Hrvatskoj u usporedbi sa zemljama Srednje i istočne Europe (SIE) u kojima su provedeni slični postupci zemljišne reforme. U Republici Hrvatskoj ima 890.214 ha državnog poljoprivrednog zemljišta. Podaci pokazuju da Hrvatska nije uspjela ostvariti ciljeve postavljene u Programu za raspolaganje državnim poljoprivrednim zemljištem te da je samo 20,6% državnog poljoprivrednog zemljišta dato na raspolaganje putem javnih natječaja (prodaja, zakup, koncesija, povrat i ostale namjene), slično kao i u zemljama SIE. Stoga je raspolaganje državnim poljoprivrednim zemljištem prvenstveno važno zbog okrupnjavanja poljoprivrednih gospodarstava i povećanje njihove prosječne veličine.

**Ključne riječi:** državno poljoprivredno zemljište, raspolaganje državnim poljoprivrednim zemljištem, okrupnjavanje poljoprivrednih gospodarstava