



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Property Rights Insecurity and Agriculture Land Market - The Inherited Challenge of the Post-communist Land Reform in Albania

***Edvin Zhllima, Drini Imami, Klodjan Rama**

Agricultural University of Tirana, CERGE-EI

Rr. Pajsi Vodica, Nr.3, Kodër-Kamëz, 1001 Tirana, Albania

ezhllima@ubt.edu.al



**Paper prepared for presentation at the 165. EAAE Seminar
'Agricultural Land Markets –
Recent Developments, Efficiency and Regulation'**

Humboldt-Universität zu Berlin, Germany, April 4-5, 2019

*Copyright 2019 by E. Zhllima, D. Imami and K. Rama. All rights reserved.
Readers may make verbatim copies of this document for non-commercial
purposes by any means, provided that this copyright notice appears on all
such copies.*

Property Rights Insecurity and Agriculture Land Market - The Inherited Challenge of the Post-communist Land Reform in Albania

Edvin Zhllima, Drini Imami, Klodjan Rama

Abstract

Land consolidation has been viewed by policy makers as panacea for tackling the inherited challenges of Albania's egalitarian land reform. The paper argues that farmers' efforts towards farm consolidation through land purchase and rent-in are affected by overall structural factors. Farm structure, farm-orientation and other socio-economic factors play an important role in farmers' decision to purchase and rent-in agricultural land. Rental market has been the most common mechanism for consolidation, although agriculture land rent is not suitable for all agriculture activities, such as those which require long term investments.

Keywords: Land market, land consolidation, land security, purchase, rent-in, Albania

JEL Code: Q15

1. Introduction

In the context of the transition from planned into market economy in the early 1990s, the Albanian government undertook a radical land reform in the agricultural sector. Agricultural land was divided equally on a per capita basis to approximately 380.000 rural households, resulting in high land fragmentation. The allocation of the land was accompanied with distribution of preliminary land titles to 80% of the newly established farms. Land titles were not distributed according to the legal provisions (of the agriculture land reform) for 1/5 of the agricultural land, such as the mountainous northeast Albania, where land was given to the "pre-collectivization owners" in line with the respective "communities' will" (Zhllima et al, 2010). In some of these areas a mixed approach was used, distributing the land per capita but respecting pre-collectivization boundaries (Kodderitzsch, 1999). Property rights insecurity emerged from the overlap of claims between the "post 1991 reform (new) owners" and "pre-collectivization (old) owners", since in most cases the first category did not obtain land owned by their ancestors before collectivization, and on the other hand, most of the latter category were not (fully) compensated for their "loss" of inherited land rights (Lemel, 2000; Zhllima et al., 2010; Zhllima and Imami, 2012).

Agricultural land market in Albania was envisaged to serve as an important instrument for the consolidation and efficient distribution of land, as well as a basis for restructuring the agricultural sector (Kolderitzsch, 1999; Giovarelli et al., 2001). Since the first decade after the beginning of the reform (Lemel, 2000; Wheeler and Waite, 2003) until recently (WB, 2006; FAO, 2019) various studies show that rural immovable property market has weakly developed. Scholars found that property rights insecurity has a negative impact on land sale/buy decision (Lemel,

2000; Giovarelli, 2001). Another obstacle is the knowledge gap on formal land sale rights (Zhllima et al, 2010).

A consolidation trend of agricultural land has nevertheless been observed over the years. According to the last agricultural census carried out in 2012, the number of farms has decreased, while the average farm size has increased by 15 % (from 1.04 ha/farm in 2002 to 1.20 ha/farm in 2012) (FAO, 2019); yet, it remains very low. The slow farm consolidation process is caused by several factors, including a dysfunctional agriculture land market.

Various authors have found that sales market of agriculture land has been very rigid, while rental market has proven to contribute more to the land consolidation. From the beginning of the land privatization process until 2007, less than 2% of the rural households have sold their land in the formal land market, and only 3.6% of them have rented their land in a formal way (Chan-Halbrendt and Fantle-Lepczyk, 2013). Survey studies from Swinnen et al (2006) and later of Deninger et al, (2012), reported that 10% of the farmers enter into land leases. Qineti et al (2015) found that since the end of the privatisation process, less than 3% of the total agricultural land was exchanged between households, in which rental markets have occupied about 15% of the land exchanges in the their study area. Agriculture land rent market relies largely on informal agreements.

However, few studies have been conducted about the effects of the land distribution process on the farm households' land market decisions in post-socialist Albania. Some scholars have contributed valuable insights into the impact of land rights on land market decisions during 1994-1998 (Lemel, 2000; Zhllima et al., 2010). Lemel (2000) identified two types of tenure insecurity: formal and subjective insecurity. By "formal" insecurity he defined the insecurity coming from low availability of documentation, the registration discrepancies, inaccurate mapping, etc. By subjective insecurity is understood the owner's perception on the insecurity of his/her property. Both types of insecurity have been found to affect land market decisions in early 2000, as confirmed by Zhllima et al (2010). While both Deninger et al (2012) and Qineti et al (2015) have revealed some characteristics of the land transactions and the market actors, the earlier has been more focused on the impact of land transactions on land market structures and efficiency.

This study explores factors that affect farmers' likelihood to engage in land transactions both in land sale market and land rental market. The objective of the paper is to analyse the main attributes (the land tenure, land acquisition type and farm activities) of the farms who are engaged on land transactions, based on survey data collected in various areas of Albania. We argue that the functioning of the land market is related to land tenure and land acquisition approach as well as to farm and farmer economic, institutional and social factors. Possession of formal land titles may be necessary but not sufficient to encourage farmers to engage in purchasing/selling and/or renting agricultural land. Farm structure, access to capital and farmers' social background is significantly important.

In a time of rapid demographic change and were the generation experiencing the land reform is ageing, it is crucial to know more about the decisions involved in renting or selling the land in Albania. The functioning of agriculture land market, assuming the effective use of other markets, vis-a-vis the enforcement of land rights, is thought to boost transactions and reduce fragmentation. As agriculture sector grows through farm consolidation, farmers who grow by purchasing or renting-in land could improve efficiency and market access, while those who sell land may have more financial leverage to shift to off-farm activities (Deininger, 2003;

Deininger and Feder, 1998). The rental market is expected to be even more prominent, considering the limited access to capital in rural areas. The rental market is influenced by same factors and incentives but is shorter in terms of time and costs. Overall, land rental market is vital for transferring land from less productive to more productive producers (Deininger et al (2012).

The paper is organised as follows. Section 2 provides theoretical insight on the importance of land security in the context of agricultural development and investments. Section 3 elaborates the method including the operationalization of variables used in the analysis. Section 4 presents the results of the analysis while the last section provides the concluding remarks.

2. Theoretical Background

A review of literature from Swinnen and Vranken (2007) indicates that in transition countries key factors for land market engagement are relative factor endowments, commodity characteristics, market imperfections, and the nature of the land reform. Access to capital and labor (Deininger and Jin, 2006), tenure security (tenure security (Platteau, 1996), personal values, motivation and goals (Grubbström and Eriksson, 2018), are very important.

Farmers' long term decisions on land transactions such as land sale depend on individual opportunity cost of keeping land in current use, expectations over the future and tenure security related to the current and alternative land uses, as well as off-farm employment opportunities. The incentive to undertake long term decisions on land is affected by the expectation of the farmers to benefiting from higher productivity or income, the costs and the accompanying risk (rise of conflicts and block of transaction, eviction and theft). The land rental market is less affected by tenure insecurity, capital requirements and does not create high opportunity costs to farmers as they can still have their emotional bonds to it, use it as collateral and collect stable rents (Swinnen et al. 2006). Grubbström and Eriksson (2018) indicate that values and emotional bonds connected to land and the family farm may drive farmers toward renting out land in order to maintain control over the resources. Therefore, considering these advantages we assume that land rental market, although typically based on short-term and informal arrangements, has been and will remain instrumental for Albania's agriculture development.

Land transactions, mainly long term decisions, have been subject of several economic theories, though taking a different perspective in each stream of economic thought. The Neoclassical Economics assume farmers as profit oriented and utility maximizing agents, who act perfectly rational under perfect information and zero transaction costs. This theory does not explain the exogenous factors affecting the land decisions under positive transaction costs and bounded rationality. Moreover it does not capture the behavioural changes under transition (Murell, 1991), thus neglecting the importance of rapid changes of institutional factors affecting property rights. The theory treats land as a simple production factor - not taking into account, for example, land as a specific asset used as inflation hedge, social prestige incorporated with sentimental and inheritance values for the farmer (Hubacek and Vazquez, 2002). Therefore, neoclassical theory has limitations to fully explain land long term decisions

An alternative theoretical approach uses the property rights and transaction costs as main factors for land market functioning. Insecure property rights increase the farmers transaction costs and thus reduce the incentive to purchase, sell (or even rent out) their plots of land to more productive farms (Deininger and Jin, 2006; Feder and Noronha 1987; Feder and Feeny 1991). The theory of

transaction costs considers property rights as related to transaction costs, assuming that “for any asset each of these costs is rising and that both full protection and full transfer of rights are costly”, thus creating a situation of non-complete property rights impeding people from finding the gains from their assets and the optimal distribution of property rights (Barzel, 1997).

In the agricultural land market, the land rights are attached to the social identity and norms of land allocation. Agriculture land market is based on social norms (Hurrelman, 2006) and hence, being or not a member of a community reveals different implications toward the extent of transactions. The transaction costs should be lower for members of the community as the investigation costs are lower and they can easily confirm the property rights of the seller and the possible existence of other claimants (Zhllima et al, 2010). Thus, when land market activities take place out of kinship or inner village relations, uncertainty over the owner’s rights of possession calls for optimal state legal systems to assure the right of the farmers to sell (Feder and Feny, 1991). Here customary rights become part of informal institutions defined by North (1990) as the formal and informal rules of a society or of organizations that facilitate coordination among people by helping them form expectations, shape their interaction with the others and enforce their claims. Since Albanian villages are mostly homogenous, customary rules for transacting land may be accompanying the legal rules. In the subsequent section, in order to measure the land rights influence we use two indicators i) the type of land allocation norms applied in the village and ii) the existence of the titles.

Research shows that non-monetary values linked to land such as social status play a role in farmers’ decision making (Howley et al., 2015). In Albania, being a collectivist society we see values linked to identity, status and social and cultural capital as strongly linked to the community, group or kinship references. According to Baron and Byrne (1984) the values are formed through social learning. For instance, a farmer residing in the village before the land reform of 1991, share different values to land compared to a new resident.

The rental activities are a proper instrument for expanding the plot size and being more oriented to the market. Farmers find it easier to rent in land from kinship families and neighbours. According to previous studies, the larger the plot, the greater is the surplus available for cash sales and the greater the contribution to family income (see Lerman et al., 2004). Therefore, the number of plots and farm size can be insightful indicators to control for agricultural land consolidation. Other factors such as access to services and infrastructure and farm characteristics (size, labour, capital, type of farming activity, etc) are frequently cited by scholars for affecting farmers’ decisions in engaging in land transactions. To account for these factors, we use distance from urban areas, the type of farm and access to remittances in our model. Using remittances we include in our assessment very important income variable to identify their effects on the participation decision. Moreover we consider the household as making decisions on resource allocation between farming (expanding on land use) and exiting out of agriculture toward non-farm activities. Therefore remittances can be considered also as the most important sign of economic rent reallocation in the household in today rural areas in Albania.

Leasing out land or selling may be a solution for farmers wishing to retain ownership while retiring from active land use. Retiring farmers may be reluctant to sell their land (Grubbström and Eriksson, 2018) and young farmers might be more willing to expand their land use. Therefore age and education of the farmer could serve as a reliable proxy for capturing the individual

characteristics of the farmers who carry the land related decisions. The following subsection provides further details on the method of assessment and use of variables selected.

3. Methods and Procedures

3.1. Sample selection and data collection approach

This paper is based on a structured survey that was carried out as part of a larger study analysing various aspects of agriculture land property rights. A purposive sample survey was conducted during May-August 2010 with 621 households representing different types of agriculture land tenure deriving from the 1990 land reform. The survey was carried out in five districts of Albania (Korçë, Pogradec, Kavajë, Shkodër and Durrës) covering North Western, Central and Coastal part as well as South Eastern part of the country. The districts were selected based on the interviews with key experts and representatives of various institutions related to agriculture land rights. In each district was selected one commune that has implemented both types of land distribution. In every selected commune, there were purposely selected 2-3 villages targeting different types of land distribution: i) distribution to “new owners” according to the 1991 Law 7501 (per capita); ii) distribution of land according to the pre-1945 inner village land division boundaries in line with “community will”. Altogether there are 15 villages. The targeting of villages with different types of land distribution within the same commune was done to minimize differences regarding factors, which affect land market and land investments such as accessibility to agricultural markets, proximity to urban centres, key agro-ecological features, farm typology, i.e. whether it is livestock-oriented or crop-oriented, as well as socio-economic factors such as age, education level in the household, access to remittances and whether the households lived in the village before 1991, which is the year of the land reform. The households in each village were selected randomly and mainly the heads of the households were interviewed. There were interviewed 30-50 households in each village according to the village population size - the sample size accounted for more than 30% of the total number of households for most villages.

3.2. Estimation method for assessing factors influencing land transactions

To analyse the factors impacting land consolidation efforts, four logistic regression models have been constructed, given the binary nature of the dependent variables, namely land purchase, land sales, land rented-in and land rented-out. The functional form of the models is shown below:

$$\ln Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k$$

Where $\ln Y$ is the natural log of the odds that Y equals one of the categories, either 1 or 0. Meanwhile, the β_s represent the changes in log odds of Y to a unit change in X_s which are the covariates. The logit model says that the response variables Y are independent given the covariates X (Winkelmann & Boes, 2006).

The main variables used for the analysis have been operationalized as follows:

$$\ln Y_{jk} = \beta_0 + \beta_1 \text{Land_Reform}_{jk} + \beta_2 \text{land_title}_{jk} + \beta_3 \text{farm_size}_{jk} + \beta_4 \text{plot_num}_{jk} + \beta_5 \text{livestock}_{jk} + \beta_6 \text{remittances}_{jk} + \beta_7 \text{Urban} + \beta_8 \text{Age}_{jk} + \beta_9 \text{Resident_1991}_{jk} +$$

$$\beta_{10}Education_{jk}$$

Dependent variables Y

- *Purchase*- is a dependent variable capturing land purchases performed by the interviewed farmers during the period 1991-2010. It is operationalized in a binary form where 1 = purchase of land and 0 otherwise, for farm j in the village k.
- *Sales* – is a dependent variable capturing land sales performed by the interviewed farmers during the period 1991-2010, where 1 = land sales and 0 otherwise, for farm j in village k.
- *Rent-in* – is a dependent variable capturing whether the farmer has rented in land during the period 2005-2010. It is operationalized as a binary variable where 1 = land rented-in and 0, otherwise, for farm j in the village k.
- *Rent-out* – is a dependent variable capturing whether the farmer has rented in land during the period 2005-2010. It is operationalized in a binary form where 1 = land rented-out and 0 otherwise, for farm j in the village k.

Explanatory variables (the same for the four models)

- *Land Reform* – is operationalized as a binary variable where 1 indicates land received according to the land reform of 1991 (Law 7501), and 0 indicate other forms of land acquisition which are not aligned to the legal norms defined by Law 7501.
- *Land title* – is operationalized as a binary variable where 1 indicates the possession of any form of land documentation evidence used as proxy for land titles that the farm household possesses for each land plot. The indicator is based on data gathered in plot level and used as average in farm level. The idea behind is that possession of land titles would increase land tenure security and consequently the likelihood of farmers to engage in land transactions that, in turn, would contribute to land consolidation.
- *Farm size* – measures the farm area in dynym (1 dyn = 0.1 ha), acquired during the privatization and distribution process in the village in 1991-1992.
- *Plot number* – is the number of plots per farm. This variable is an indicator of land fragmentation.
- *Livestock farm* – is a dummy variable indicating whether the farm is oriented towards livestock production, where 1 = yes and 0 = otherwise (e.g. crop farming).
- *Remittances* – is a dummy variable measuring whether the farmer has received remittances from abroad, where 1 = yes and 0 = otherwise. The expectation is that farmers that receive remittances are more likely to expand and consolidate their farm due to increased access to low cost capital.
- *Distance_urban* – Distance from urban area is a continuous variable measuring the distance (in minutes) from farm household to the (closest) main urban area. The expectation is that quick and low cost access to urban areas would provide the farmers with exit options from agriculture through engagement in off-farm activities and labour markets.
- *Age* – is a continuous variable measuring the age of the interviewed farmer. The expectation is that younger farmers are more active and have higher incentives to be engaged in land transactions.

- *Resident_1991*– is a dummy variable, capturing the demographic changes during the transition period. It may be expected that farmers who were not living in the village before 1991 are more willing to buy land (for example, those without land, or who had very small farm size, because of low land availability in respective villages, could start farming only through buying land, e.g. in another village), where 1 stands for having lived in the village before 1991 and 0 = otherwise. On the other hand, based on the transaction cost theory, it may be expected that farmers who have been residing in the village before 1991 are more likely to engage into land purchase since their information, trust and relational power is stronger than outsiders or those migrating in the village after 1991.
- *Education* - This variable is operationalized by dividing the number of members finalizing education above primary level with the number of members having an age of more than 14 years old. The indicator gives the share of household members (over 14 years old) that have an education level above the primary education.

Since some variables such as land reform and distance to urban areas are sampled at the village level, the standard errors of the coefficients will be biased. Therefore, in order to account for village differences and allow for intragroup correlation between the variables without affecting the estimated coefficients, the standard errors are clustered by village. Also, in order to check for model correctness, specification and goodness-of-fit tests have been performed. Hosmer and Lemeshow's goodness-of-fit test suggest that the predicted frequency and observed frequency should match closely, and that the more closely they match, the better the fit. In statistical terms, a good fit will yield a large p-value, which in our case for all models is above 10% significance level.

3.3. Survey results on land transactions

The results of our survey found that agricultural land market is fragile in Albania. Since 1991, when the land was distributed, only 14% of the surveyed farms have purchased and 6.6% have sold land. Meanwhile, with respect to the rental market, it is shown that about 30% of respondents have rented-in land during the period 2005-2010 and about 10% have rented land out. So, as explained above, the majority of land transactions have taken place at the rental market especially rent-in land. This is comparable with other surveys (Swinnen et al. 2006; Deninger et al, 2012; Qineti et al, 2015).

Kinship relations and social ties in the village are very important. Most of the rent-in land agreements are made with farmers within the same village in 62% of the cases, relatives 33% and only 3% with the people outside the village. Most of the information for the plots available for renting in is found through casual information in places of gathering (cafés, main shops) and in 40% of the cases through family links. Based on the answers of those renting-in land, the landowner defines the price in 60% of the cases. The arrangements are typically made verbally (no formal contracts).

Farmers were asked also about the willingness and the perceived obstacles that affect their decision to purchase agricultural land, which showed that more than 60% of the farmers were not willing to buy land (Table 1). Among those farmers expressing lack of willingness to buy land, more than 15% find it very difficult to buy land due to insecurity of land rights. Another frequently mentioned reason is farmers' strong emotional ties to land (which hinders many

farmers from selling land). Other farmers (15%) view that buying is not a feasible investment for agriculture activities (e.g. low profitability does not justify the cost of land purchase).

Most land transactions consist of small plots of less than 0.5 ha of land (plots for development or mixed use). Land reform outcomes, such as farm size and land fragmentation measured as the number of plots per farm are within the national average (1.3 ha and 4 plots per farm respectively). The variable livestock farm measuring farm orientation shows that in average about 50% of the sampled household farms are orientated towards livestock.

Concerning other socio-economic variables such as remittances, distance to urban areas, age, education and whether the household lived in the village before the time of land reform in 1991, it is shown that about 33% of respondents receive remittances from abroad, the average distance to main urban areas is about 30 minutes, the average age of respondents is about 51 years old, the share of household members that have a level of education above primary education is 30%.

As shown in Table 1, the formal land security alone derived from land titles and/or legal procedures do not appear to be the major reason for affecting the willingness of farmers to engage in land purchases. Other socio-economic factors appear to play also an important role in farmers' preferences and willingness to purchase land. Nevertheless, such stances are inconclusive since they are based on perceptions.

Table 1: Perceived obstacles in purchasing agricultural land

		The main reason why it is difficult to buy agricultural land							Total
		Land is an asset which means security so people do not sell it	Legal procedure too complicated	Land titles not clear.	Hard to find land without disputes	There is no profit to buy land for agriculture purposes	Land is very expensive for agriculture	Other	
Are you interested to buy more land?	Yes	52	8	16	6	18	26	22	148
	No	65	29	40	13	22	54	59	282
	Total	117	37	56	19	40	80	81	430

Source: Field survey results

We consider essential also the modes of land allocation in the villages. As also found by Deninger et al (2012) using Albanian Living Standards Measurement Survey, the modes of land acquisition and land tenure are very diverse in Albania. In our surveyed farms, about 40% of the respondents have acquired their farm land according to Law 7501, while the rest have different forms of land tenure. About 90% of respondents have a land title of different form (official, ancestral, contract etc), and only 10% do not possess a land title of any form.

To explore further how property rights impact land decisions and assess their preferences on land purchases, we drew two hypothetical scenarios based on different combinations of land ownership, by juxtaposing the formal land distribution (land obtained through Law 7501 of 1991) to other options of ancestral land tenure (Table 2). In the first row, it is compared the preference

of farmers for purchasing land obtained through Law 7501 against ancestors' (fathers) land without documents.

As shown in Table 2, about 80% of respondents would prefer to purchase a land obtained through Law 7501 against 20% that would prefer to purchase somebody's ancestors' land without documents. In the second row, it is compared the combination of land obtained through Law 7501 with ancestors' (fathers) land but with old documents from pre-1946 period¹. In this case, about 64.5% of respondents would prefer "father's land" with "old papers (documents)" (pre 1946), compared to purchasing lands from new owners who obtained land through Law 7501 with complete (official) land titles. Interestingly, although accurate documents received according to Law 7501 are recognized as official ownership titles by institutions such as notaries, almost 2/3 of respondents still would prefer somebody's fathers' land with old documents, which are not recognized and not acceptable for formal land registration.

Table 2: Land purchasing options

Option 1	%	Option 2	%
Land obtained through Law 7501 with accurate documents	79,4	Father's land without documents	20,6
Land obtained through Law 7501 with accurate documents	35,5	Father's land with old documents (before 1946)	64,5
Land obtained through Law 7501 with accurate documents	7,1	Father's land with documents of 7501	92,9

Source: Field survey results

Finally, it is evident that the most preferred choice by farmers is purchasing somebody's ancestral "father's land", but which has been in line with the requirements of Law 7501 (with complete official land titles). About 93% of the farmers preferred this option of land tenure, since it guarantees both types of tenure security, official and ancestral.

4. Factors affecting land consolidation

Regression results presented in Table 3 show that the variable indicating whether the land has been obtained through Law 7501 or other land tenure forms is statistically significant for land purchases and sales, albeit with opposing direction. That means that farmers are more likely to purchase agricultural land that has other forms of land tenure other than agricultural land simply obtained through the land reform of 1991. This is in line with the hypothetical scenarios presented to farmers related to the tenure arrangements they would most prefer for purchasing agricultural land (see Table 2 above). When it comes to selling agricultural land, farmers are more likely to sell agricultural land that is obtained through Law 7501. Also in this case, it is

¹ In 1946, the newly established communist regime undertook a drastic land reform that expropriated large land owners.

shown the farmers' attachment to ancestral land, not only simply as a land tenure security issue but more in the sense of the socio-cultural dimension of land ownership.

On the other hand, land titling does not show to have a significant influence on the likelihood of farmers to engage in land transactions of any form that would lead to land consolidation. As explained earlier, having a (formal) land title is not sufficient to increase the perceived land tenure security among Albanian farmers. This appears rather illogical when considering that such land can hardly be used as collateral for any potential investment and access to credit. However, currently agriculture land is rarely used as collateral, and banks hardly finance farms in Albania.

Table 3: Regression results for land consolidation

VARIABLES	(1) purchase	(2) Sell	(3) Rent-in	(4) Rent-out
Land_Reform	-0.989*** (0.370)	0.885** (0.419)	-0.070 (0.363)	1.318 (0.831)
Land_Title	-0.284 (0.339)	-0.194 (0.434)	0.199 (0.291)	-0.461 (0.359)
farm_size	0.024*** (0.006)	0.001 (0.011)	-0.000 (0.009)	0.028* (0.016)
plot_no	-0.179** (0.086)	-0.012 (0.078)	0.200** (0.090)	0.022 (0.143)
Livestock	-0.956*** (0.353)	-1.114*** (0.364)	0.497* (0.270)	-0.719** (0.280)
Remittance	0.604* (0.325)	0.168 (0.338)	-0.405 (0.248)	0.045 (0.327)
Urban	0.005** (0.002)	-0.011 (0.010)	0.008 (0.006)	-0.010 (0.011)
AGE	-0.014 (0.011)	0.002 (0.012)	-0.025*** (0.005)	0.008 (0.012)
Resident_1991	-3.132*** (0.607)	2.543*** (0.675)	-0.423 (0.451)	1.974** (0.777)
Education_Score	-0.369 (0.428)	-0.581 (0.399)	-0.857*** (0.321)	0.296 (0.412)
Constant	2.725*** (0.627)	-4.647*** (1.114)	-0.301 (0.627)	-4.899*** (0.990)
Observations	621	621	621	621
Wald Chi2	345.09	104.46	109.89	117.84
Prob>chi2	0.0000	0.0000	0.0000	0.0000
Pseudo R2	0.2210	0.0720	0.0673	0.1161

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

The positive relations between remittances and land decisions to purchase show that access to capital to purchase agricultural land has often been ensured by remittances from abroad, especially from Greece and Italy, where the majority of Albanian migrants live. This is very important since, as mentioned above, commercial banks rarely provide loans to farmers (for

investment or land purchases) (FAO, 2019). Farmers' capital needs are mostly met by remittances or other forms of informal financing, and in some cases from micro-financial institutions which rely on social network/trust – in all these cases agriculture land is not used as collateral. However, land purchase is yet a non-viable financial decision considering that credit rates were above 8% in the period prior to the survey organisation. Contrary to the expectations, remittances do not influence other land related market activities. Considering Albania's migration characteristics, where a part of the household such as elders and children remain with the family while men emigrate, there is no need for the household to sell or rent out the land.

Farm size affects land consolidation dynamics in different ways. Results show significance and positive correlation only with land purchases and rent-out. That implies that the higher the farm size, the higher is the likelihood of farmers to purchase land, which is rather logical, because larger farms tend to be better equipped and more efficient, in the case they are market-oriented, and thereby in better position to buy land. On the other hand, large farms which do not utilize land i.e., farmers who have migrated to urban areas or abroad but have large agriculture land area are more likely to rent-out when compared to smaller farms.

On the other hand, land fragmentation has a negative impact on land purchases, but a positive effect on the rent-in land. Having several plots would add more burden to farms that are oriented towards intensive crop production agriculture to meet the needs for labour force, but on the other hand, in livestock-oriented farms, many land parcels are used for grazing and fodder, with no labour-intensive activities required.

The land transactions are also related to the agricultural orientation of the farm. Our results show that farmers that are oriented to crop farming are more likely to engage in the land market, for both purchasing and selling as compared to livestock farmers. Livestock farmers appear more likely to rent-in land. In the Albanian context, this is logical since livestock farming requires large land surfaces to meet fodder needs of the farm. Land provided for livestock feeding, makes up in average more than half of the land used. Also, considering that most land is fragmented in small parcels of ca 0.3 ha each, it is not feasible/profitable to purchase land to produce animal feed, but rather rent-in land. Furthermore, for producing animal feed crops, considering the short crop cycles, renting is as suitable option. Meanwhile land purchase is more feasible for more intensive and profitable crops such as greenhouse vegetable, for which, considering the significant fix/long term investments, renting land is not a suitable option.

Other socio-economic factors such as distance to urban areas, age, education level of the household and being a resident in the village before 1991 play also an important role in land consolidation. The longer the distance to urban areas the higher is the likelihood of farmers to purchase agricultural land. This can be explained by limitations in exit options of farmers to get engaged in other off-farm activities or other employment opportunities in the urban areas.

As expected, age is also significant and negatively related to land purchases. Similarly, farm households with lower education level and of younger age are more likely to rent-in land. The characteristics of the head of households reflect the transfer of the land due to migratory effects and the social capital changes in the village.

As far as demographic changes in villages are concerned, our models show that residents that settled in villages after 1991 are more likely to purchase agricultural land. Indeed, for farmers who do not have or have little land (e.g. in whose villages there was low land per capita),

purchasing land in other villages is the only strategy to engage into farming, while many farmers from more remote rural areas have bought land in other villages with better services to build houses in addition to farming purposes.

5. Conclusion

More than two decades ago, during the early phase of transition into a market economy, Albania adopted an egalitarian approach to agricultural land privatisation. Agriculture land of state farms and agriculture cooperatives was distributed to farmers according to a “per capita” principle, often resulting in an overlap of claims between pre-collectivization (before WWII) owners and post-communist owners who benefited land from the transition reform. This approach radically reshaped the farm structure of Albania’s agriculture, resulting in numerous small farms and high land fragmentation that hindered the development of agriculture. Land consolidation has been considered as a solution to this structural issue, while land market as one of the most feasible mechanisms.

With the further market consolidation of the agriculture sector, the agriculture land market is a mean to facilitate the reallocation of the land use to those users who further integrate into market oriented agriculture while easing the other economic options to others. The rental market is expected to be even more vital, considering the limited requirements for capital, the short time effects and the possibility left to land owner to maintain the social status and identity as land owner. The paper explored factors that affected farmers’ engagement in land transactions both in land sale market and land rental market. It analysed main economic, social and institutional characteristics of the farm, farmer and the environment where transaction took place, based on survey data collected in various areas of Albania.

The results show that land sale market is still fragile in Albania lack of capital flow in the villages, strong attachment to social values to land and high transaction costs. Agricultural land rental market is more active and based on informal and close relational type of transactions. Although land title has often been viewed as the solution to land consolidation and a functional land market, results show that land acquisition modes and other socio-economic and cultural factors are similarly important. These factors play an important role in the farmers’ decisions on which land market activities to engage, whether to purchase, sell, rent-in, rent-out land.

Both land sale and rental transactions are influenced by the culture and the actual conditions of agriculture sector, i.e. the limited market orientation and high fragmentation. For farmers who benefited less from the land reform of 1991 and/or coming from remote rural areas, purchasing land in other villages viewed as the only strategy to engage in and go on with farming activities,.

Land purchases are more favourable for expansion of crop-oriented activities. As such agriculture support policies promoting perennial crops and other long term investments should consider the fiscal support for land purchases. A positive step has been the exemption of land sale tax for agriculture/farming purchases. However, farmers are still hesitant to purchase land obtained through the land reform of 1991. The slow progress on land titling accompanied with no strong efforts to compensate former land owners who had land before 1945, are making farmers stick to the less risky options of land transactions i.e. buying plots where both current and pre-1945 land rights are respected. Such plots are more frequently located in villages where agriculture land was allocated by using the per-capita criteria (Law 7501) but keeping the location reference of pre-

1945 to certain families and clans in the village. With the strengthening of formalisation of the agriculture sector and the increased presence in farmers' support schemes, the role of titling is crucial, although not clearly contributing to land transactions in this study. In order to respect the emotional and historical values that Albanian farmers attach to owning particular land parcels and to fulfil the gap on titling that persists in various areas of the country (mostly north-east and south-west Albania), the government should promote a community-based land titling. In case the government uses the same criteria of Law 7501, a persisting resistance against re-allocation and later on in land transactions may appear. This is in line with the understanding of various scholars observing the land reform during the first decade in countries of Eastern Europe and in Albania (Van Dijk, 2007; Sikor and Mueller, 2009).

Remittances that are a major source of capital, especially at a time when access to (formal) credit is limited, provide farmers with the necessary means to involve in land purchases. The positive relations of remittances on land decisions to purchase show that access to capital to purchase agricultural land has often been ensured by remittances from abroad, especially from Greece and Italy, where the majority of Albanian migrants live. On contrary to the expectations remittances does not influence other land related market activities.

The rental market activities are more frequent. While enhancing the functioning of the land market particularly selling takes a long time and imply reforms of trust and awareness related to public institutions, the land rental market can be more easily promoted and developed. They are a more active and easily accessible instrument to consolidate land for agriculture purposes in remote areas with higher land fragmentation and high orientation to livestock activities. Rental market also is more useful for short and periodical needs for land required to produce animal feed, considering the short time cycle of animal feed crops.

Farm land sale and rental markets are positively related to farm size, whereas land fragmentation has a negative impact on land purchases, but a positive effect on the rent-in land. Considering a more prominent role of the rental market to the re-distribution of land use with no costs to farmers' emotional bonds, further stimulus is required through an effective land taxing scheme. The reviving the land rental market is expected to be more emphasized with migration and a continual increase of financing schemes from national and EU pre-accession based grants, which consider as eligible farmers investments on lands under rental contracts.

Considering also the fact that younger farmers are more likely to rent-in land, rental markets seems to play an important role by reallocating land to young households staying in the village. These trends imply that the rental market could be a poverty remedy to those starting a new family in the village. Therefore, a rational and less expensive policy choice could be to promote rental market as conducive to a more productive, socially acceptable and financially viable measure to agricultural development. The accompanying of rental activities with advisory services would be more beneficial to the agriculture sector if oriented towards those farmers who are renting-in agricultural land.

The study has several limitations. One limitation is the fact that the survey does not control for the emotional bonds related to land location which was subject of land transaction. Moreover the survey was implemented in 2010. Thus, caution should be paid when generalizing the findings for the present context. Nevertheless, the findings are still relevant and of interest to understand the farm behaviour towards land market given that not much change has occurred related to land consolidation. Recent reports (FAO, 2019; SWG-JRC, 2018), show that the current land market

situation, and thereby also challenges and implications, are similar. As we emphasised earlier in this paper constraints in other rural markets such as inputs, labour, credit and output markets, may have important effects on agriculture land markets and should be on the focus of policy making in the near future.

References

- Baron, R. A., & Byrne, D. (1984). "Social psychology understanding human interaction". Boston: Allyn and Bacon, Inc.
- Barzel, Y. (1997). "Economic analysis of property rights", Second Edition in Political economy of institutions and decisions, Cambridge Press, UK.
- Chan-Halbrendt, C., & Fantle-Lepczyk, J. (Eds.). (2013). Agricultural markets in a transitioning economy: an Albanian case study. CABI Publication.
- Deininger, K., & Feder, G. (1998). "Land institutions and land markets," Policy Research Working Paper Series 2014, The World Bank.
- Deininger, K. (2003). "Land policies for growth and poverty reduction", World Bank Policy Report, Washington DC, USA.
- Deininger, K., & Jin, S. (2006) "Tenure security and land-related investment", Evidence from Ethiopia European Economic Review 50, pp. 1245–1277
- Deininger, K., Savastano, S., & Carletto, C. (2012). Land fragmentation, cropland abandonment, and land market operation in Albania. The World Bank.
- FAO (2019). Country report of Albania: Support to the implementation of the Regional Initiative on Empowering Smallholders and Family Farms.
- Feder, G., & Nishio, A. (1996). "The Benefits of Land Registration and Titling: Economic and Social Perspectives", Paper presented at the International Conference of Land Tenure and Administration, Orlando, Florida.
- Feder, G., & Noronha, R. (1987). "Land Rights Systems and Agricultural Development in Sub-Saharan Africa", World Bank, Washington, D.C.
- Feder, G., & Feeny, D. (1991). "Land tenure and property rights: Theory and implications for development policy", The World Bank Economic Review, 5, pp. 135–153.
- Feder, G., Onchan. T., Chamlamwong, Y., and Hongladarom. C. (1988). "Land policies and farm productivity in Thailand", Johns Hopkins University Press. Baltimore, MD.
- Giovarelli, R., & Bledsoe, D. (2001). "Land reform in Eastern Europe, Western CIS, Transcaucuses, Balkans, and EU Accession countries", RDI, Washington, USA.
- Grubbström, A., & Eriksson, C. (2018). Retired Farmers and New Land Users: How Relations to Land and People Influence Farmers' Land Transfer Decisions. *Sociologia Ruralis*, 58(4), 707-725.
- Howley, P., Buckley, C., O Donoghue, C. and Ryan, M. (2015). "Explaining the economic 'irrationality' of farmers' land use behavior: The role of productivist attitudes and non-pecuniary benefits". *Ecological Economics* 109, pp. 186-193.
- Hubacek, K., and Vazquez, J., 2002, "The Economics of Land Use Change", Interim Report IR-02-015, International Institute for Applied Systems Analysis.

- Kodderitzsch, S. (1999). "Reforms in Albanian Agriculture. Assessing a Sector in Transition", World Bank Technical Paper No. 431: World Bank.
- Lemel, H., (2000). "Rural Property and Economy in Post-Communist Albania"(Eds). New York, Oxford: Berghahn Books.
- Lerman, Z., Csaki, C., & Feder, G. (2004). Evolving farm structures and land use patterns in former socialist countries. *Quarterly Journal of International Agriculture*, 43(4), 309-336.
- Murrell, P., 1991, "Can Neoclassical Economics Underpin the Reform of Centrally planned Economies?" *Journal of Economic Perspectives*, 5 (4), pp. 59-76
- North, D.C. (1990). "Institutions, institutional change and economic Performance", Cambridge, UK.
- Platteau, J-Ph. (1996). "The Evolutionary Theory of Land Rights as Applied to Sub-Saharan Africa: A Critical Assessment." *Development and Change* 27: pp. 29–86.
- Qineti, A., Rajcaniova, M., Braha, K., Ciaian, P and Demaj, J (2015). "Status quo bias of agrarian land structures in rural Albania". *Post-Communist Economies*, 27:4, 517-536
- Sikor, T., and Müller, D., 2009, "The Limits of State-Led Land Reform: An Introduction", *World Development*, Vol. 37, No. 8, pp. 1307-1316.
- SWG & JRC. (2018). Analysis of Land Market Development and Small Farms' Access to Land in the Pre-Accession Countries. Final Report for Albania for LMSAF Project-Directorate-General Joint Research Centre of the European Commission (not yet published)
- Swinnen, J., Vranken, L., and Stanley, V., 2006, "Emerging challenges of land rental markets-A review of available evidence for the Europe and Central Asia region", World Bank, Washington DC, USA.
- Swinnen, J., & Vranken, L. (2007). Patterns of land market developments in transition (No. 179). LICOS discussion paper.
- Van Dijk, T. (2007). Complications for traditional land consolidation in Central Europe. *Geoforum*, 38(3), 505-511.
- Wheeler, R., & Waite, M. (2003). "Albania country brief-Property rights and land market". Land Tenure Center, University of Wisconsin, USA.
- Winkelmann, R., & Boes, S. (2006). Analysis of microdata. Analysis of Microdata. Berlin Heidelberg: Springer-Verlag.
- World Bank. (2006). "Status of land reform and real property markets in Albania", Tirana Office, Albania.
- Zhllima, E., Viaggi, D., & Müller, D. (2010). "Property rights of land and its perception in rural part of central Albania", paper prepared for NEW MEDIT Journal No 3.
- Zhllima, E., & Imami, D. (2012). The Albanian land rights security perception and factors influencing it. *Albanian Journal of Agricultural Sciences*, 11(1).