

Rural Land Market in Armenia: Formation Peculiarities and Development Trends

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1. General Information

Armenia is geographically located in the South Caucasus and bordered by Georgia, Turkey, Azerbaijan and the Islamic Republic of Iran. The total length of its land boundaries is 1,026 km, including a 167-km border with Georgia, 268 km with Turkey, 556 km with Azerbaijan and 35 km with the Islamic Republic of Iran. The total area of Armenia is 29,800 km², with a land area of 28,400 km². As a predominantly mountainous country, Armenia has little arable land, which represents about 20 per cent of the total land area: 27 per cent of the land is meadows and pastures, and 53 per cent is unused land and forests. About 76.5 percent of the country's territory is between 1 000-2 500 m above sea level. The capital city is Yerevan.

2. Land Reforms: Experience and Results

After the declaration of the independence in Armenia the first step of economic reforms was the land privatization when at the end of 1990 the Supreme Council of RA adopted the laws " On the ownership", "On peasant and peasant collective economies " and " the Land Code ".

The principle of free-willness was put on the basis of Armenian privatization policy, that is to say the peasants should choose themselves whether to dissolve or keep collective farms. The Armenian villager was deprived of the right of land ownership for more than 1500 years. The pine for private land has forced to implement the state policy of land reform through a difficult way: that is privatizing all the land to peasants and liquidating all the collective and state farms. Almost all the collective farms have been liquidated: 2/3 peasants' votes were only necessary for their preservation.

The principle of land disposition and the interrelation between the sizes of the privatized land (plots) and peasant families: During the land disposition both the quality and the category of land were taken into account, that is to say every family got land from each quality and category. And the size of the privatized land directly depended on the family size. The size of the plot was defined by the ratio of family - a member in the following order:

- for families of not more than three members - one land parcel;
- for families from four to six members -two land parcels;
- for families of seven and more members -three land parcels.

For presenting the scales and the quantity of the work done it will be sufficient to point out the fact that in Armenia in 01.01.1991 there existed 860 collective and state farms that have at their disposal 697,6 thousand ha of agricultural land (without pastures).

Due to 01.12.1991, that is only within 11 months, 713 of old structured economies from the pointed quantity were liquidated and 344.6 thousand hectares of agricultural land (arable land, perennial plantings and hayfields) were privatized.

By the end of 1993 the basic work on land privatization has been completed in Armenia. By that time 63 percent of all arable land, 80 percent of all orchards and 91 percent of all vineyards were in private hands.

As a result of the privatization program 324 000 family farms have emerged, along with just 265 collective farms.

The number of peasant economies was continuously increasing: in 1997 it was increased to 331.6 thousand, which owned 431 thousand hectares of agricultural land.¹

Due to 01.01.97 in the state ownership there were only: 1) about 26.5 % of the arable land, which was mainly the land of the state reserve intended for distributing to young families as allotments (for housing construction) in the future; 2) about 48.8 % of hayfields, privatization of which in large-scales was not stipulated from the very beginning of the reform and 3) pastures, privatization of which was not stipulated in this reform at all.

Without touching the positive and negative sides of land reform in Armenia we can conclude that it was preceded very quickly providing the principles of fairness and equity. However, the lack of experience in that field and the geopolitical situation did not give the opportunity for the quick formation and development of agricultural field in Armenia.

Anyhow, the state agricultural economy in Armenia has stopped its existence. The institute of private land ownership, after almost 1500 years of interval, became dominating again.

3. Steps towards Formation and Development of Viable Land Market: Second Phase of Land Reforms

Thus, at the end of 1993 the main activities of land privatization in Armenia have been completed, however, the effective land management, formation and development of land market were hindered by a number of factors, such as:

- Not improved, not corresponded legal framework to local conditions,
- Economically not viable land parcels: land fragmentation,
- The absence of land policy implementing institution,
- The absence of the secured land titles²,
- The absence of information and documents confirming the sizes and boundaries of real property,
- The absence of information on property rights and restrictions,
- The absence of cadastral values (assessed values) and valuation principles corresponding to the current situation,
- The absence of cadastral maps and etc.

¹ Land balance of RA in 1997

² According to "Results of research of peasant economies", p19, the interrogation, carried out under the aegis of WB in January-February 1997 has revealed the fact that approximately 11 % of peasants only had state certificates of land ownership.

Proceeded from the necessity of solving the above-mentioned and a number of other tasks, the second phase of the land reforms has been initiated in the Republic. The reforms have been implemented in two main directions: institutional and legislative.

The first step directed to the implementation of reforms was the establishment of the State Committee of the Real Property Cadastre of RA (SCC) in 1997. It was authorized to implement the improvement of the real property field's legislation, the registration and guarantying real property titles, as well as the cadastral surveying. Committee is also responsible for title registration on real property, cadastral maps, and property units' boundaries as well as for cadastral valuation for the purpose of land and property taxation. The state cadastre committee and its local subdivisions were also obliged for the implementation of the first title registration and disposition of ownership certification without any charges. At this moment from 928 communities of the country the first title registration procedures have been started in more than 778 communities and have been even completed in prevailing part of them. The first title registration and the disposition of ownership certificates are expected to be completed till the end of 2005.

One of the arrangements directed to the formation of land market was the preparation of cadastre maps for whole territory of the country in the result of which the land fund was classified according to the subjects of ownership and target purpose. For instance, in Ararat valley in the result of mapping activities app. 5000 ha of land, which had been previously considered as unused, was included in the arable land classification.

In 1999 the Civil Code as well as in June, 2001 the Land Code of Armenia were entered into the force, which not only have strengthened the institution of private land ownership in Armenia, but also have provided the progress of regulating some private aspects of land ownership, which are: 1) alienation of the state reserve land and the land for non-agricultural purposes (inhabited, industrial, etc.), 2) contribution of principles of land alienation auctions, 3) control over the implementation of the land legislation; 4) definition of the frameworks of the authorized bodies which realize the alienation of the state and municipal land; 5) transfer of the land for use (leasing and etc.); 6) legislative basis for leasing; 7) control and monitoring over the land use and etc.

It is worth to mention that for real property market development and effective land management the existence of illegally used land in huge amount offers serious obstacles, as result of which thousands of property units have been excluded from the real property turnover artificially changing into the "dead" capital. While such amount of property could be served as a source for credits. This problem required legislative solution and in 2003 the National Assembly has adopted corresponding law, according to which the illegally used agricultural land was legalized and registered.

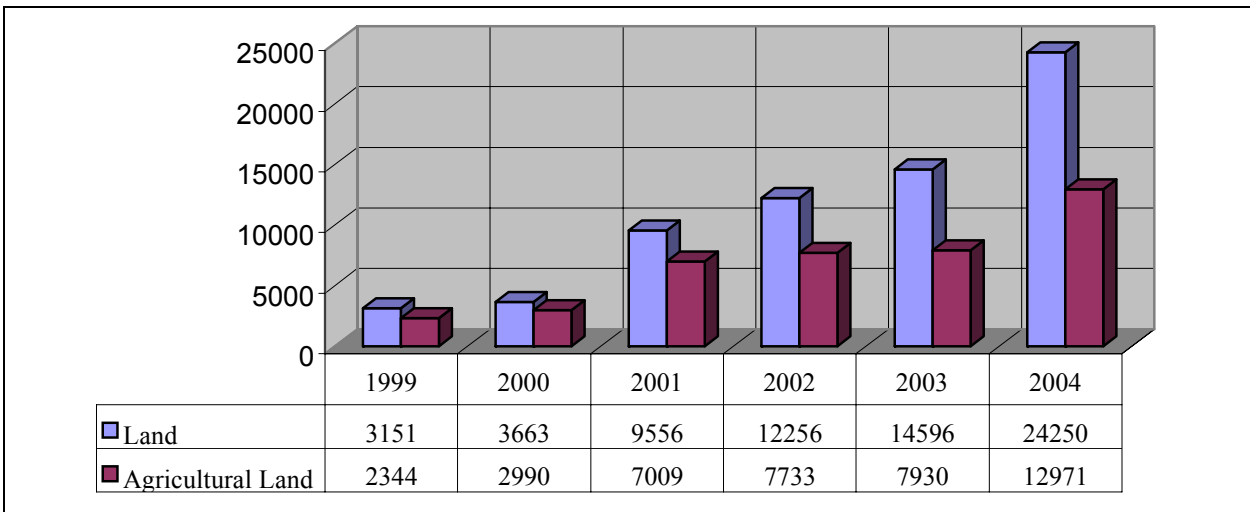
The next important arrangement related to the formation of land market was the transfer of state land to the communities' ownership. According to the Government decree all state land should be transferred to the communities during four years. Therefore, the land, which is not necessary for the state and community use could be alienated to the citizens and legal entities.

These processes have already been started in almost all the communities of the country and the state land have already been transferred to app. 36 % of all town and village communities of the country. Such kind of procedure gives an excellent opportunity to farmers, involved in agricultural production, to enlarge their holdings, moreover, that the auction prices are pretty lower from the market prices. Besides, the existence of community owned land is an important factor for the implementation of land consolidation projects.

4. Land Market and its Development Trends

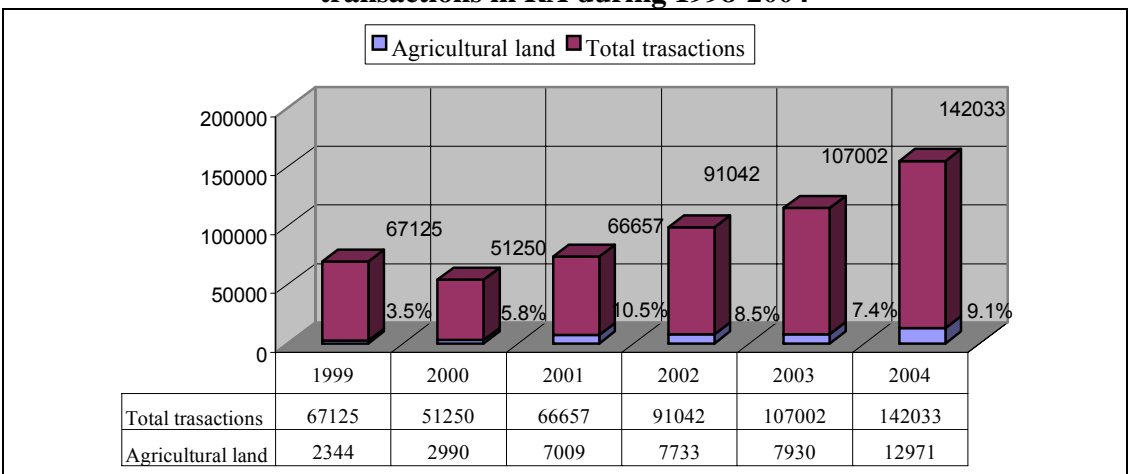
As a result of the second phase of land reforms land market in Armenia has underlined its specific outlines. This fact is certified by eightfold increase of land transactions during the period of 1999-2004 in Armenia

The dynamic of land transactions, including agricultural land, during 1999-2004 in Armenia



As it was mentioned above, real estate market has been greatly enlivened. But however, within the total real property transactions the share of agricultural land was not big enough, which is particularly a result of land fragmentation, badly built infrastructures including irrigation system, not availability of credits, particularly hypothec credits for agricultural land.

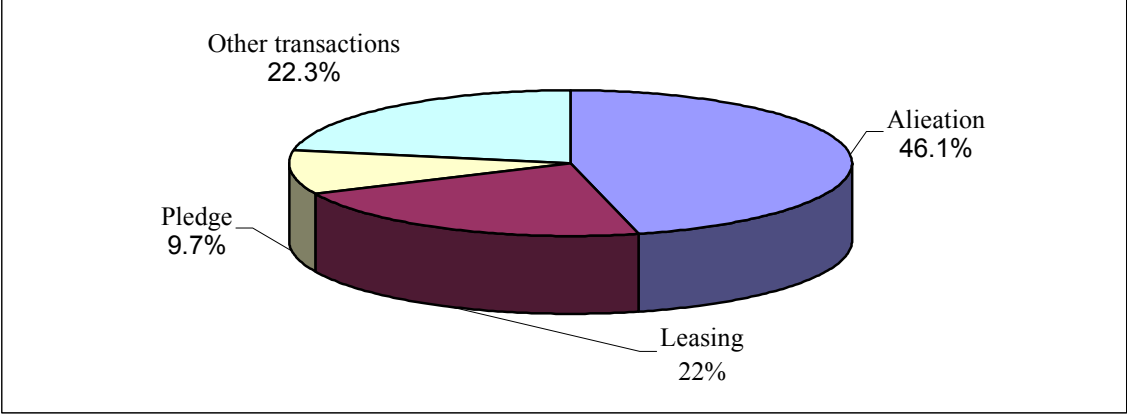
The share of agricultural land transactions in total number of real property transactions in RA during 1998-2004



Anyhow, in the real property turnover land has already been involved not only as a subject of purchase and sell but also as a subject of mortgage and leasing.

In 2004 within total quantity of agricultural land transactions the alienation transactions totaled to 46.1%, leasing transactions - 21.9% and pledge transactions - 9.7%.

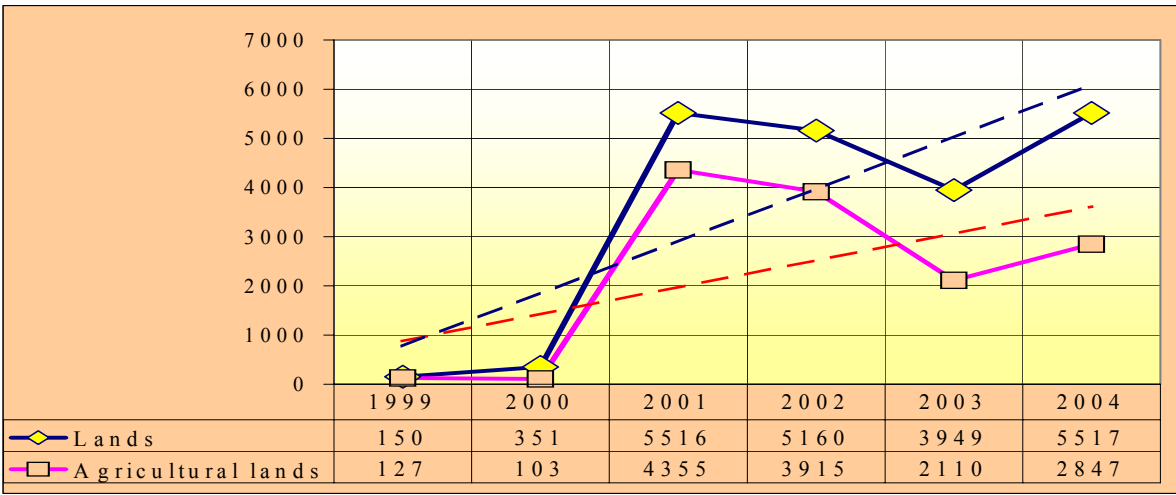
Agricultural land transactions in 2004



In 11443 land sell and purchase transactions 2792 were implemented through auction sales of community land during 2004. In spite of positive shifts noticed after the application of auctions, however there are a lot of serious tasks to be solved. Particularly the existence of differences between the prices formulated in auctions and market values is a subject of special discussions, which is the result of pretty complicated and non-transparent auctions.

Regarding the leasing transactions of agricultural land, in 2004 they have been increased more than 22 times in comparison with 1999.

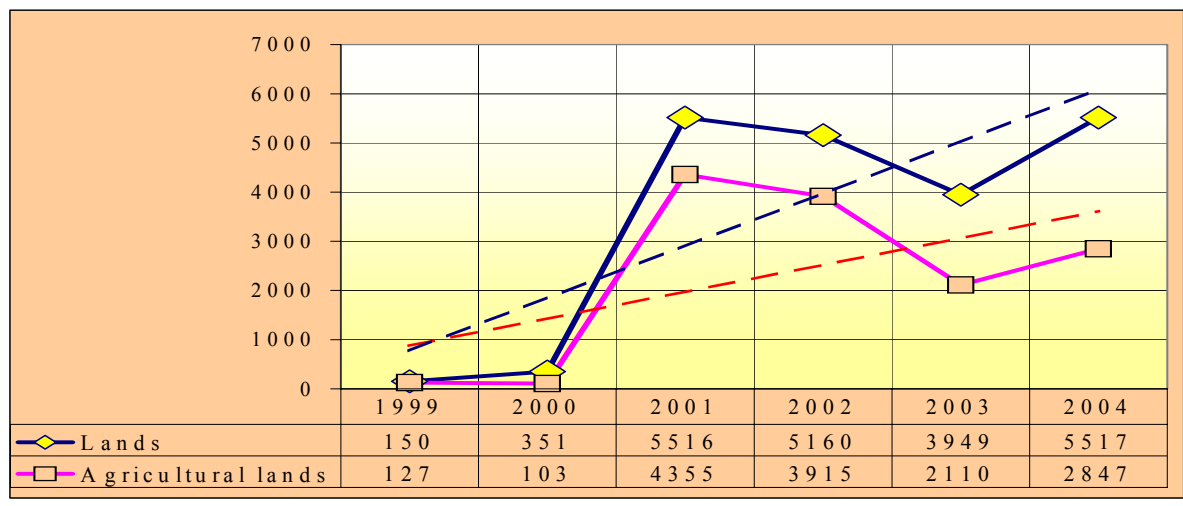
The dynamic of quantity of land leasing transactions, including agricultural land during 1999-2004



The spire of implemented land leasing transactions in 2001 is obviously visible from the graph above. It may be commented as a result of new Land Code adoption, which, in its turn, brought the non-official land transactions into the legal field, that is they received the state registration.

During 1999-2004 it was stated a tangible growth of land pledge transactions where prevailing part was the agricultural land.

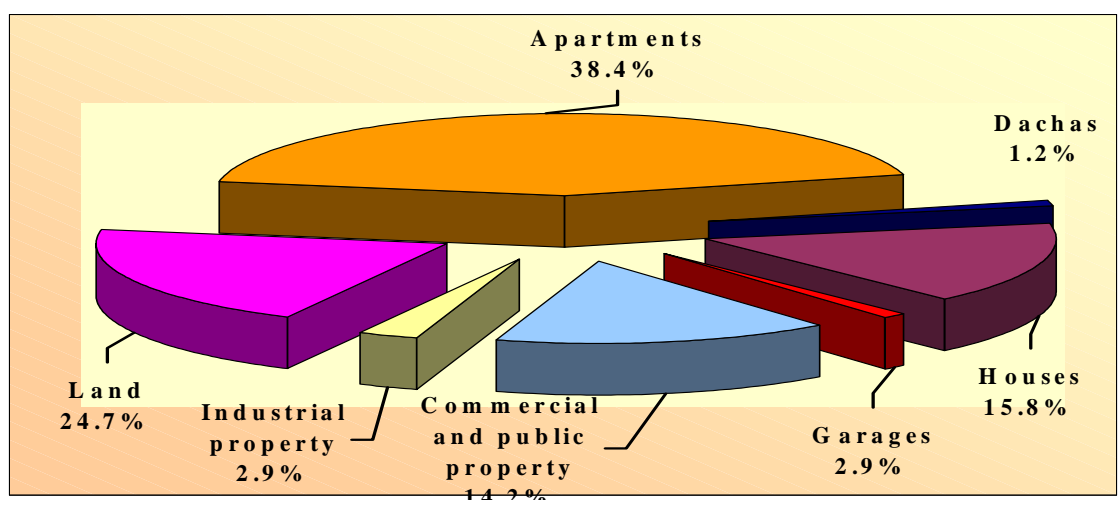
The dynamic of quantity of land pledge transactions, including agricultural land, during 1999-2004



It is worth to note that regardless the increase of pledge transactions quantity, the institution of hypothec has not been formed yet, which also offers obstacles on the way of land market formation.

Summarizing the above mentioned analyses, it can be concluded that the improvement of the legislative framework, the regulation of rights, the extensive process of the state and community land privatization and the implementation of other initiatives by the state brought to the formation and development of viable land market as well as to the involvement of agricultural land into the real property turnover in Armenia.

The distribution of real property transactions according to property types in 2004



In 2004 land transactions were already amounted to 25% in total transactions of real property.

Conclusions and recommendations

Summarizing the main results of the analyses it can be concluded that from 2000 the following factors have had essential influence on the activation of civil turnover process of real property, including land:

- Certain stability of socio-economic and political situation,
- Current level of investment projects' implementation,
- Certain adjustment of legislative framework,
- Reduction of services' terms for transactions implementation and decrease of payments levied for them,
- Adoption of normative legislative acts coming from the new land code,
- Licensing of real property market participants: realtors, real property valuers, topographic and cadastral surveyors,
- Continuation of first title registration etc.

However, land market and effective land management of Armenia is not secured from obstacles, for the elimination of which there are serious steps to be realized:

- As it was already mentioned the existence of differences between auction and market prices is an important issue. From 2004 to the first quarter of 2005 app 14937 ha of agricultural land was alienated through auctions, which confirms that there is a great demand for agricultural land owned by communities. And the great demand is consequence of low auction prices compared with market values. We think that the solutions of this problem are the augmentation of reserve prices and making auctions more transparent and public. For that purpose the Government of Armenia have presented to the National Assembly a proposal on amendments in Land Code concerning the reserve prices of auctions (instead of 30% of cadastral value for reserve price define 50%). Besides it has been determined 20 ha as a ceiling size for one agricultural parcel in auctions, and the auction announcements have to be published in mass media.
- In Armenia the institution of mortgage has not been formed yet. The establishment of effective mortgage crediting system should not only include the sphere of apartments' acquisition but also have to be addressed to agricultural land, which can serve as a serious stimulus for the land market development. In addition, the Government of the Armenia has already prepared the whole package of the legislative improvements aimed to the mortgage market development, which soon will be presented to the National Assembly of RA.
- Agricultural land fragmentation is also very serious obstacle on the way of land market development. It is necessary to implement short-term as well as long-term tactical measures directed to solving the land fragmentation problems. The short-term tactical measures directed to land consolidation have already been started in Armenia. The "Support to the preparation and implementation of land consolidation and improved land management schemes" pilot project of FAO from December 2004 is already implementing by the State Committee of the Real Property Cadastre of RA.
- From beginning of economic reforms there have no been implemented any extensive land quality improvement activities such as melioration, fertilization and etc, which obviously

diminish land demand. The mass activities of land quality improvement can serve as a serious stimulus in the process of development of agricultural sphere and accordingly land market.

– Another obstacle is the existence of agricultural land valuation approaches not corresponding to market conditions. The formation and development of methodical basis for agricultural land appraisal, which will reflect land qualitative indications and value creating factors, has become obvious necessity.