Lessons Learnt from the Emerging Land Markets in Central and Eastern Europe

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Abstract
This paper reports on the findings of a study into land markets in central and eastern Europe carried out under the Action for Co-operation in the field of Economics (ACE) programme of the European Union (EU) which was carried out during 1997 and completed in the first part of 1998. It examines progress in six countries en route from a command driven economy to a market based economy that is compatible with the requirements of membership of the European Union. The investigation involved detailed case studies in the Czech Republic, Hungary, Latvia, Poland, Slovakia, Slovenia and sought to identify those elements that are necessary for an effective and efficient land market. This led to the establishment of a three pillar model of the land market and a set of indicators for the assessment of land market development. The paper tries to identify the bottlenecks that may hinder land market development and summarises the findings of the comparative assessment in the study countries and their progress to reform. Finally, it makes a series of policy level recommendations aimed at the establishment of stable, efficient land markets able to support general economic development and the anticipated needs of EU entry.

§1. Introduction

In 1996 a study was commissioned to examine the progress of land market development in central and eastern Europe and to seek to identify policies that would be useful in overcoming transitional problems and in establishing a well regulated functioning land market, especially during the period leading up to EU accession. Members of the study team are listed in the acknowledgements in Appendix A to this paper.

The study sought to develop an understanding of land markets in countries in economic transition and hence to identify ways in which they can be developed so that they meet the needs of the societies that they serve. In particular, the aim was to identify policies that should have a positive impact on the land market in a manner that enriches the common good, facilitates economic growth and strengthens democracy. By understanding the framework within which both urban and rural land markets operate, it should be possible to bring about a general improvement in the "quality of life" of citizens and hence provide greater social stability and economic growth. Policy recommendations also need to be consistent with the broad objectives of countries seeking eventual membership of the EU.

It should be emphasised that there is no such thing as a completely open land market since all countries have restrictions of one kind or another, especially in the agricultural sector. Many of these restrictions are concerned more with who, and under what conditions, the land may be used, and with local social considerations, rather than with economics or law. For these reasons, the study did not seek a purely economic analysis of land markets, but rather sought to understand the broader political, social and historical factors that shape the attitudes of people.

The focus throughout the study was primarily on rural land markets and on agricultural land rather than forest areas. Urban land markets in the transition countries are characterised by a lack of access to capital and credit in the domestic sector (mortgage banks are a recent introduction), whilst the privatisation and restructuring of industry produced a surplus of (relatively) low grade commercial premises. Investment has stimulated property development, resulting in major growth in sectors such as retailing development in response to consumer demand.

Generally, the urban land markets are most buoyant in the capital cities, although progress is still hampered by incomplete reform of the administration (such as technical delays in the land registration process). Property investment is still perceived as high risk, especially where bankruptcy or mortgage laws are considered inadequate to safeguard an investor's interest, or where the valuation system is perceived as weak or inconsistent.

Currently the land markets are much more active in urban areas than in rural. This is in part because in many countries rural land values are so low that owners are unwilling to sell and in part there are still major disincentives that arise owing to structural impediments in the market arising from the socialist legacy. One consequence is a growing leasehold market in rural land that permits contractual arrangements for the use of land while circumventing the need for the formal transfer of land ownership rights.

The transition and land ownership

During the last fifty years, the countries of central and eastern Europe have experienced two profound changes in the dominant political ideology - a transition to a socialist command style economy during the early 1950's, followed by a transition back to a market economy in the years following 1989. The socialist years had a significant impact on the socio-economic and legal framework. The land policy that was practised during this period was driven by an ideological belief in the common or social ownership of property; the allocation of resources according to centralised planning including state intervention processes; and the associated suppression of the individual private ownership rights in property. This policy had a powerful effect on the legal framework and especially on the relationships between land, property and people and can be characterised by:

- changes in the legal framework associated with defining property and rights of ownership,
- concentration upon usage rights, as opposed to ownership rights,
- the passage of legislation which discouraged or inhibited trading in land and property, and
- the expansion of the state as owner / occupier or user of land.

This led to the discouragement of private land ownership with the result that the government organisations that had recorded this ownership focused instead on recording land use. In several countries, agricultural land was either taken into state ownership, or the individual private farmers were forced to join co-operatives. Many citizens found that their property was expropriated by the state. Additionally, the pattern of agricultural land was changed so as to create large fields that were the optimum for agricultural production. The evidence of the boundaries of the earlier smaller plots then disappeared from the landscape. In the urban sector, new socialised building took place without regard to the historical property rights, and the individual apartments and buildings were often not registered. There was no need for a functioning land market in this environment.

Calls for property restitution or compensation for loss of property followed the changes of 1989. There are interesting differences as to how these issues have been approached in the study countries, driven by the political aspirations and the mood of society in the country concerned. In Poland, there has been no large-scale restitution or compensation. Land taken into the possession of the state is subject to privatisation; as of March 1998, of the estimated 4.6 million hectares of agricultural land in the possession of the state, less than 650,000 hectares have been sold[1]. In Latvia, Czech Republic, Slovak Republic, and Slovenia, the restitution of actual property has taken place where reasonable and possible. The claimants must be citizens of the countries concerned and compensation is paid where restitution of the actual property is not possible. In Hungary, the approach has been fundamentally different: rather than carry out large-scale property restitution, the state adopted a policy of compensation for all claimants. By June 1998, more than 200,000 urban and 230,000 rural properties had been restituted in the Czech Republic and the process was more than 90% complete. There were approximately 60,000 cases for restitution in the Slovak Republic of which more than 80% were complete. By June 1998, Slovenia had settled more than 60% of the estimated 40,000 cases. Today, in all countries, the existing restitution is approaching completion.

Due to large scale border movements at the end of the Second World War (Poland) and mass migrations (Poland, Czech Republic, Latvia, Slovak Republic), there are large groups of potential applicants who are unable to claim under existing legislation. In Hungary, land was awarded in a compensation process and also granted to the former workers in co-operatives and state farms. More than 2.1 million new land units have been created, and the total area subject to compensation is more than 5.6 million hectares (50% of the area of the country).

A second major effect of the socialist period has been the impact upon field structure and the separation of usage and ownership. This problem is particularly acute in the Czech Republic and the Slovak Republic, where the owners lost their rights of disposal and independent farming and were forced to farm co-operatively. The effect on the land fabric was to eliminate the historic field boundaries. Today, there is no evidence on the ground of these parcels, and they can only be registered in simplified form (because there is no boundary data). This affects 9 million parcels in the Czech republic and 6 million parcels in the Slovak Republic (out of an estimated total of 23 million and 12 million respectively).

[1] Source: Agricultural Property Agency of the State Treasury, Poland

The third major effect was to reduce the importance of the regulatory authorities. Private financing disappeared, land valuation became oriented towards optimising agricultural production through detailed soil ecological analysis, and the land registers and cadastre were modified to reflect usage, not ownership, or in many cases were not updated at all. Financing was a state responsibility.

Land as a commodity

Land has a number of characteristics that distinguish it from other goods and services that may be traded in the market place. While the economist may view land as a commodity that is immovable and strictly limited in supply, the landowner may not view it from an economic perspective but rather as a cultural heritage. Concerns by the Czechs over the ownership of real property in the Sudetenland, by the Poles over the areas once known as Prussia or by the Latvians over areas occupied by people of Russian origin add a dimension to the land market. What may make short-term economic sense, drawing investment back into a country, may be totally unacceptable for political and social reasons. There is an emotional element that enters into the ownership of land that constrains the land market and hence cannot be ignored.

In many countries an informal market appears to have operated with transactions being agreed locally, for example over who should use the land and who should benefit from it. In all western communities there has been fragmentation in land management between the control of ownership and use rights, the former often being controlled at a central government level and the latter at the municipal or local authority level. This pattern is being repeated in many countries in transition. Confusion is compounded in the case of valuations that are sometimes a central government responsibility and sometimes a municipal task.

Within the land market, tenure, value and use are inter-dependent and yet at the administrative level they are treated quite separately making a formal understanding of land markets more difficult to achieve.

It is of course essential within market driven economies that land markets are supported by a clear legal basis that is administered by regulatory authorities who oversee the safe keeping and update of the legal title to property. Land and its associated buildings are traded according to their market value; they can be bought and sold, transferred from one owner to another or leased. The manner in which land or buildings may be used is, however, controlled by physical planning laws. Planning regulations affect the price that a purchaser will be willing to pay for any property since the permitted land use directly affects its market value. In looking at land markets, therefore, it is necessary to look at the factors that determine land values. These factors include matters particular to the individual land parcel such as the security of tenure and the nature of the use rights, and externalities such as the availability of credit.

In most countries land and property are subject to taxation for occupation and usage. As the monetary value of land and property is high, it is usual to borrow capital in order to finance the purchase. The borrower needs security for the loan in the event of default and this will normally involve a charge upon the property. The various rights and privileges of the owner, the mortgagor, mortgagee, the lessor, the lessee and the occupier must all be defined in law. On the event of death of the owner, the inheritance must be settled and this often leads either to the fragmentation of parcels (with one farmer owning many small plots scattered over a wide area) or fragmentation of owners with many people having claim to a single piece of land. Parts of Poland provide an example of the former. In some parts of the country a farmer may own fifteen fields each being less than two hectares and spread over an area of forty square kilometres. Slovakia offers an example of the latter where a single field of twenty hectares may have more than three hundred owners and over a thousand co-owners. In Slovakia changes in the law to prevent such multiplicity of ownership were rejected as they were judged to be contrary to basic human rights that in turn are protected by the Slovak Constitution.

Any proposed land market model must take all these factors into account. It must also recognise that in mature markets there is a range of parties involved and a variety of goods and services. In the land market, this means there will be a range of participants, including private individuals, corporate investors, speculators and financial institutions. There will also be supporting services including valuation, estate management and a mechanism to put the buyers and sellers in contact with each other (real estate brokers). Each of these contributes to the market and to the efficiency and effectiveness with which it operates.

§2. Modelling the Land Market

There is a general consensus that in order for a land market to work, there must be

- a clear definition and sound administration of property rights;
- a minimum set of restrictions on property usage consistent with the common good;
- the transfer of property rights must be simple and inexpensive;
- there should be transparency in all matters; and
- there must be an availability of capital and credit.

These requirements are necessary but not sufficient to guarantee an efficient and effective land market. It is obvious that underpinning all land and property development there need to be clear and consistent land policies that operate within a stable institutional framework.

In general under communism the policy was clear and consistent since most matters were under central control. With the breakdown of communism new policies had to be developed and new legislation prepared. In the early days in Bulgaria, for example, there were at least thirteen versions of a proposed new cadastral law in circulation while in several countries conflicts remain between different pieces of legislation introduced by different government ministries and departments. Because of the fragmented way in which land and property are administered, it is important that there is a national policy that is coordinated between the different Ministries.

The market operates through participants buying and selling goods and services. These market operations need to be supported by three regulated sectors - land registration and the cadastre, valuation services, and financial services. The efficient functioning of these elements is essential if the land market is to operate smoothly and formally. These supports may be regarded as the regulatory pillars that stand on the base of land policy. In the communist era, the first regulatory pillar (land registry and cadastre) was modified to focus on land use, the second regulatory pillar (valuation) reflected the potential use rather than market value of the land, while the third regulatory pillar (financial services) was almost non existent.

<u>Regulatory Pillar 1 – Land Registration and the Cadastre</u>

In all market economies the basic legal relationship between real property and its owner is officially documented in land registers that also record obligations or encumbrances that are charges upon the land. The official recording of this information is normally carried out by the state administration although professionals in the private sector may be empowered to carry out some of the processes. In many countries there is, in addition to the land title registers, a cadastre that was created to support land and property taxation. Unlike some land registers, the cadastre is map based, the plans recording the precise extent of the property boundaries. Many central and eastern European countries have followed the old Austrian practise of having the Land Register (the Land Book or Grundbuch) separate from the Cadastral Map. In some countries (e.g. Hungary, the Czech Republic and the Slovak Republic) both the land register and the cadastral map are integrated into one register and managed by a single authority. In others (e.g. Slovenia and Latvia), the land register and cadastre are maintained by separate authorities.

<u>Regulatory Pillar 2 - Valuation</u>

In many of the land reform programmes, great emphasis has been placed on cadastral reform and on computerising the land records. Only when this began to gain momentum did the focus move towards property valuation, a process that aims to establish the connection between monetary value and the property itself by producing an estimate of the capital value of the asset. There are various ways used to calculate this capital value that may involve estimates of the income potential or the actual market value of the property. The methodology may need to take into account such factors as access, utilities, improvements and, for agricultural land, the quality and permitted use of the land. In the case of the EU, an additional factor is the assignment of quotas for instance for milk or wine; if a land unit has an assigned quota then it may have a greater market value than land that has no such quota.

During the communist period, there was no need for an assessment of market value as the agricultural land value was connected to its potential productivity. In all of the central and eastern European countries, a system of land quality indicators was developed that involved soil type and estimated productivity of that soil type for a particular crop. This was assessed within a particular district or region. Using this approach, the communists hoped to be able to optimise the agricultural production across the country.

In the early stages of land restitution several countries delayed the introduction of land taxes, partly in order not to discourage land owners from reclaiming their rights. Now that the restitution programmes are nearing completion, the infrastructure for providing a valuation service and for the mass appraisal of real property is being put in place. In Latvia, for example, the mass appraisal that will form the basis of land taxes is itself based on the data gathered in the communist era since it can reflect the local comparative value between properties, even if in absolute terms it bears little relation to the market price.

Where property taxes exist, there is a general consensus that the amount of tax paid should be proportional to the value and amount of land held by the landowner. More recently, land taxation has been viewed as a land mobilisation tool, in that it can be used as a mechanism to promote good land management practices. By varying the tax rate, the actual usage of the land can be influenced. In order to adopt this practice, up to date and accurate information is needed regarding the land occupancy and its actual (rather than intended or possible) usage.

Valuation has suffered from a lack of expertise and a lack of data about market prices. Even today the methodology for valuation is weak in many of the transition countries and mass appraisals are based on ‘cadastral’ values that are calculated from land parcel areas, soil types and other objective criteria rather than on estimates or recordings of market price. In the command economies, land value was a tool for the efficient allocation of resources through the planning process. In a market economy, land value supports the re-allocation of resources according to market forces (supply and demand). The land valuation practices that developed in the socialist countries did not produce transparent, reliable estimates of monetary value that are required for an efficient and secure land market. New valuation procedures are currently being developed.

Regulatory Pillar 3 - Financial Services
The third regulatory pillar that is needed to support the land market is the delivery and regulation of financial services. A market economy requires that adequate financing mechanisms are in place to support the buying, selling, leasing and development of property assets, and it is essential that these financing mechanisms are regulated and supported by appropriate law. In the socialist economy, land resources were controlled by direct allocation of resources, without regard to their monetary value, and hence, in all socialist countries, this pillar was largely absent. In market economies it is normal for the private sector to provide the products and services within a clearly regulated institutional structure.

The financing mechanisms needed by a market economy require that investment in the property sector will give sufficient returns to warrant the risk and trouble of that investment. As such, property financing has to compete with other forms of investment such as interest earning deposits, stocks, government bonds and other securities. In the market economies, there is a range of financial products that can be used for property investment. Different financial instruments tend to be used by different types of investors such as government, co-operative groups, individuals or companies. Typically these will invest for different reasons; government will be concerned with infrastructure, establishing support services and housing while companies may invest purely on the expectation of financial gain or in order to use or develop a particular site. Individuals will normally invest in order to obtain secure living accommodation. For all investors who lack capital, financing will come from loans or grants.

Loans secured by charges upon the properties are mortgages and these are normally protected and regulated carefully by law. These form the principal financing mechanism available to the private investor and in countries such as the USA, the value of mortgage and house savings funds can total more than 45% of the annual GDP. Raising capital for investment can also be obtained from the stock markets and capital markets and both of these require a secure and well-regulated financial sector, plus confidence on the part of the institutions that make up this market - without confidence, investors stay away. Alternatively, governments may make development grants available such as rural credit or rural guarantee funds in order to support policies and programmes that they wish to prioritise.

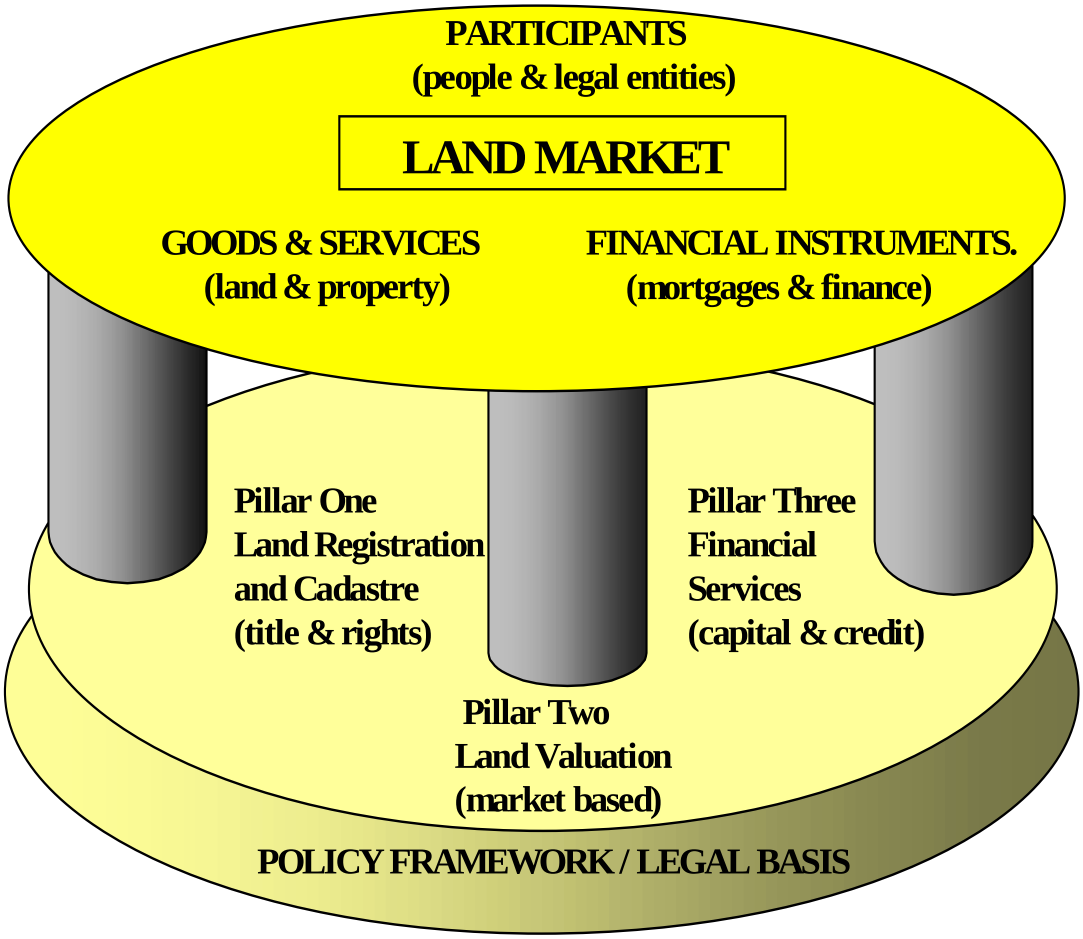

FIGURE ONE: The Three Pillar Model of Land Markets

The Three Pillar Model - Comparative Analysis of the reform process

The Three Pillar Land Market Model is shown in Figure One. The three regulatory pillars are constructed upon the legal framework of the country and are strongly shaped by the land policies adopted by government. Regulatory pillar one (land registration) provides the connection between land and property on the one hand, and people and legal entities on the other. Regulatory pillar two (valuation) provides the connection between land and property and finance mechanisms, while the third regulatory pillar (financial services) establishes the connection between finance mechanisms and people and other legal entities.

If government is able to adequately establish and support the pillars then the land market will provide a dynamic environment that includes

- the participants (land owners and tenants);
- the goods and services (the land and its use); and
- the financial instruments (mortgages, credit, capital financing,etc).

An efficient and effective land market can be characterised in terms of the effectiveness of the regulatory pillars; the land policy; the regulatory framework; and the dynamism of the market itself. Table One identifies those elements that are considered to have a significant impact. Where these elements are present, or are well supported, then this is a positive factor, while if the elements are clearly inadequate or weak, then land market development will be inhibited.

ELEMENTS THAT CHARACTERISE AN EFFICIENT AND EFFECTIVE LAND MARKET
The Policy and Regulatory Framework 1. Legal entities and all physical persons may own properties with equal rights. 2. Institutional structures are secure with well-regulated activities. 3. Clear policies create strong and clearly understood regulating authorities, a favourable environment for investment and strong motivation for individuals. 4. Agricultural and urban land management policies are clear. 5. Planning, environment, health and local administration policies are clear. 6. Planning and zoning controls are clearly understood and enforced. 7. Professional services exist, with basic assent and understanding from the public. 8. There are clear policies about information management, intellectual property rights and the protection of investments in data.
Market Assessment (Participants, Goods and Services, and Financial Instruments) 1. Landowners and tenants exist and represent a range of different stakeholders. 2. There is a strong private sector (with individuals, companies & family units). 3. Large corporate players exist (including investment funds, pension funds). 4. All government held land is basically held for public purpose or social housing. 5. The construction sector is established and healthy. 6. There is a variety of assets available, apartments, residences (of various sizes), offices, commercial buildings and agricultural land holdings. 7. Information on real assets available for sale is widely known and reliable. 8. Mechanisms exist to create new assets where needed, (i.e. the market is able to respond to demand by building more houses, etc.).
Pillar 1 - Land Registration and Cadastre 1. Sound legal basis for ownership and trading of property rights. 2. All necessary legal structures in place, especially inheritance. 3. Recording and registering systems are soundly implemented 4. There is no risk of unjustified expropriation. 5. Land and buildings can be traded and leased easily. 6. The quality of data held by regulators is good.
Pillar 2 - Valuation 1. Valuation is clear and well understood, based on market prices. 2. Valuations are accepted and used as basis for calculation of asset value. 3. The mechanism for offering real property for sale is clear. 4. Mortgage advice is available for residential property. 5. The quality of data held by regulators is good.
Pillar 3 - Financial Services 1. Cash sales are clear and supported. 2. Land and buildings can be used as security. 3. Special mortgages / credit facilities are available for agricultural land. 4. Bankruptcy and first charges on mortgages are supported. 5. Mortgages are available for residential property (up to a certain % of the value). 6. Financial products are tied to assets (e.g. pension funds can be used as security). 7. Taxation regimes are not subject to sudden change. 8. Tax implications for investments are clear. 9. Financing for investments exists and venture capital is available. 10. Foreign Direct Investment is encouraged and there is a low assessment of risk. 11. There is an understanding of how land and property taxes can affect land use. 12. The quality of data held by regulators is good.

TABLE ONE: Characteristics of an efficient and effective land market

The elements can be used as indicators of the current status of the land market. The land market can then be examined in terms of the elements identified in Table One, and each element can be scored (minimum value 0, maximum value 5) as a land market indicator according to Table Two. Using this scoring methodology, it is possible to assess the state of development of each of the regulatory pillars; the policy and regulatory framework and the state of the market, and also produce an overall score for each of the study countries.

On the basis of the scoring methodology put forward in Table Two, an overall score of less than 1.5 would indicate a very closed command economy with inadequate or missing regulatory pillars, communist style land policy and very little market activity. A score greater than 4 would be indicative of a market economy with adequate regulatory mechanisms of registration, valuation and finance, and a range of participants, goods and services, financing mechanisms and a favourable land policy.

Score	**Criteria**
0	There is no evidence at all that this matter is being addressed.
1	There is minimal evidence that the stated feature is present, but it is not clear that the requested functionality is provided.
2	There are some major problems, the system cannot be said to work adequately, but the basic components are in place or being developed.
3	The functionality is basically provided. There are some known problems, but things basically work.
4	The system works smoothly and could be considered consistent with what one would find in another market economy.
5	The feature or functionality offer performance levels consistent with that required for EU membership and with what one would expect in an EU member state.

TABLE TWO: Scoring for the land market indicators of Table One

The detailed case studies carried out as part of the ACE project enabled the study team to assign scores for each of the indicators of Table One for each of the six study countries. Although the numerical values are obtained from qualitative assessments and are therefore not rigorously derived, they should be consistent and provide a means of measuring a country's progress in comparison with other countries.

The scores were then used to prepare a Land Policy Framework Matrix (Table Three) that was used to summarise the key issues that arise during the reform process and to give a visual check on progress. The Matrix illustrates the overall progress that is needed in the reform of each of the land market sectors (land registration, valuation, financial services, market activity and land policy). The results for each of the six study countries are given in Appendix B. These tables

- help to quantify the current land market status of the study country,
- illustrate the progress in the overall reform process,
- identify and characterise the principal bottlenecks and inhibiting processes,
- allow comparative analysis, and
- facilitate the development of recommendations to support land market improvements.

The countries are progressing through four phases, starting with a command economy, moving through a transition period into a market driven economy with the final intention of reaching the status of the leading members of the European Union. Thus a score greater than 1.5 shows that the transition process has begun while a score greater than 3 shows that the land market is becoming active. A score in excess of 4 would suggest that a level has been reached that equates with that in the EU.

Measuring performance

While the earlier analysis indicates the state of development of the land market in the reform process, it takes little account of the actual performance as measured in terms of how active the market has become. Empirical evidence suggests that there is a direct correlation between progress in the transition towards the market economy and the level of market activity although as discussed earlier the performance is much stronger in urban rather than in rural areas. Table Four identifies performance indicators that may be used to assess the market activity. The performance indicators are compared with EU norms, obtained from examining the statistics of five EU countries - Denmark, Finland, Netherlands, Sweden and the UK (reported in the *Land Administration Inventory of Europe*, Part 2 published on behalf of MOLA by the UK Land Registry).

LAND POLICY FRAMEWORK MATRIX for (Country)							
COMMAND ECONOMY -------->I<-----------TRANSITION ECONOMY------------------->I<------MARKET ECONOMY-----> |----- EU------							
LMI score	<1.5	1.5-1.90	2.0-2.4	2.5-2.9	3.0-3.4	3.5-3.9	>4.0
Policy Level Framework	Government does not support land market development or individual property rights	Weak political support for objectives of land market. No broad political consensus.	Inconsistent or inadequate policies leading to fragmented land management.	Individual policies sound. Some policy difficulties with coordination & information exchange.	Policies are coherent and preparations have started for EU accession.	All reforms are complete and negotiations for accession are under way.	Clearly defined and integrated land policies that comply with EU regulations.
Market Assessment – Participants	Relationship between land and people is weak with focus on use rights and occupancy, not ownership. Strong informal sector. Poor information	Participation severely restricted with unclear ownership rights and outstanding legal claims. Identification of owners and parcels difficult	Participation starting but interest limited due to structural problems and lack of market confidence. Data flows are weak.	Relationship between land and people becoming clear. Growing interest in land as a market commodity. Data flows improving.	Strong connection between land and people with a range of participants and types of land for sale. Information flows are working.	Institutional investors and investment funds are active in the market. Risks in real estate investment seen as low. Information is transparent	Large range of participants, goods and services. Real estate seen as a good, safe long-term investment.
Pillar One – Land Registration and Cadastre	Registration not legally required. Insecure laws with respect to ownership, inheritance and disposal of rights. Weak regulating authorities.	Registration is legally required but there are inconsistent laws and confusion over administrative responsibility between agencies.	Compilation of registers and land reform under way. Institutional arrangements and land law need to be strengthened. Poor title information.	Requirements for land title registration are basically satisfactory but delays in transactions occur due to technical and organisation problems.	Land Registration System is basically working Problems with titling are mainly in large cities and in areas under land reform.	Records near completion. System working efficiently (except in capital cities). Titles are secure. Land reform is complete.	System is efficient and supports secondary market services, significant private sector involvement & cost recovery.
Pillar Two - Valuation	Absence of any accepted methodology for market based valuations. No body tasked with valuation.	There is a valuation methodology but little up to date or reliable data. Valuation may not be connected to market price.	Valuations tied to market price but results are unreliable due to poor data, low level of transactions, and poor reporting.	Systematic valuation records being compiled. Valuation seen as necessary to support the land market. Real Estate prices volatile.	Valuation system able to support market based property tax. Regulatory procedures are in place to monitor data quality .	Secure, reliable system supporting land transactions and fair and efficient property tax collection.	Complete valuation data sets available that can link to other land administration records. Significant private sector involvement.
Pillar Three - Financial Services	Almost complete absence of financing mechanisms.	Cash sales take place but the market is volatile with few transactions and potential speculation.	Mortgage support being introduced but foreign investment into real estate may be restricted.	Mortgages have become more accepted, and development financing is emerging.	Mortgages more widely available, interest rates near to EU/G7 norm .	Macro-economic stability helps real estate investment, encouraging institutional investors.	Pension funds, investment funds, life assurance and major investors are in place and safe
General Assessment	Land market operates through informal sector outside government authority.	Severe strategic impediments to land market activity with reforms progressing very slowly.	Major impediments to a formal land market. Reforms in progress but there are major policy weaknesses.	Reforms are being implemented but with unresolved difficulties that inhibit development.	System is basically working and land rights are seen as secure and transferable.	A mature market is beginning to appear with transparent land dealings.	Stable and secure real estate market, secondary market services developed.

TABLE THREE: Land Policy Framework Matrix

	Land Market Performance Indicator	Calculation method for CEC country	Expected figures for EU member
1	How complete is the land regularisation/restitution process?[2]	CEC_1 = Total number of properties settled Divided by Total number of cases expected	EU_1 = 100%
2	How complete is the land title database?	CEC_2 = Total number of loaded titles Divided by Total number of titles that exist	EU_2 =100%
3	What is the level of annual queries of the land title database?	CEC_3 = Total number of annual enquiries Divided by Total number of titles that exist	EU_3 =60%
4	What is the level of annual transfers of title?	CEC_4 = Total number of annual transfers Divided by Total number of titles that exist	EU_4 = 7%
5	What is the level of annual issue of mortgages?	CEC_5 = Total number of new mortgages per year Divided by Total number of titles that exist	EU_5 = 9%
Land Market Performance Indicator = $(CEC_1/EU_1+CEC_2/EU_2+CEC_3/EU_3+CEC_4/EU_4+CEC_5/EU_5) * 100$			100%

TABLE FOUR: Land Market Performance Indicators

Based on the definitions contained in Table Four, a Land Market Performance Indicator of 100% would indicate a land market reaching the same level of market activity as that which may be found within one of the more advanced EU member states. The Performance Indicator is defined in such a way that it reflects the availability of land that has clear title, with no regulatory impediments for sale, as well as the general market activity that includes enquiries, sales and mortgages. It is possible to develop this further and to include indicators based on area, land value and number of new constructions although this was not done in the present study.

The overall Land Market Model has two distinct measurement domains

- Land market indicators measuring the overall status of the land market in its transition from the command to market economy.
- Performance Indicators showing the overall level of activity compared with EU norms.

A plot of the Land Market Indicator against the Performance Indicator should produce a diagram like that in Figure Two (overleaf). A Performance Indicator of the order of 90-100% (Table Four) and a Land Market Indicator of 4.5 or 5 (Table One & Two) corresponds to the land market status in most developed EU states, while scores of <20% and <1.5 correspond to a closed command economy. In improving land markets the aim would be to increase both the market activity and the market reform, thus increasing the Land Market Indicator and the Performance Indicator towards their maximum values. The case studies suggest that the market has three phases of development:

Phase A. Early Phase – reform driven

The Land Market requires a certain amount of reform from its pre-1989 position before it can significantly develop. There must be a critical mass of property with clear title, secure boundaries and disposition rights. The legal basis must support private property, the regulating institutions must be in place and there must be a critical mass of participants with access to suitable funding. This implies that this phase is dominated by initial legal, institutional and regulatory reforms. There will only be a slow increase in market activity, linked to improvements in the technical infrastructure, once the initial conditions have been established. As the reforms become more substantial, the access to disposable property and the amount of available property becomes clearer, the regulating institutions begin to work, the financial institutions develop and the risks are seen to reduce resulting in increased market activity.

[2] This figure must take into account all matters connected with the full and correct registration of title (or deed) and full description of parcel data, i.e. it includes the completion or correction of problems such as restitution, compensation, missing property boundaries, missing owners and all matters which detract from the completion

Phase B. Middle Phase – market driven
The Land Market now has most of the institutions in place and they are functioning. The data quality is good and the regulating institutions are sound. The credit facilities are available. The market becomes open to a wider range of participants and it is the dynamic energy of these that drives the development. Significant increases in market activity take place for relatively little improvement in the institutional reform position. Land prices will rise significantly during this process and wealth creation is achieved.

Phase C. Mature Phase – harmonisation driven
The market is beginning to saturate as it approaches the levels consistent with market economies and the EU member states. In order to finally reach the EU levels, there is a further reform (or harmonisation) of laws and regulations that are required. These are more concerned with environment and the creation of instruments to implement EU policies such as the CAP (Common Agricultural Policy). Market activities will not be suddenly stimulated during this period unless significant distortions are introduced externally (e.g. the agricultural land market is suddenly liberalised overnight).

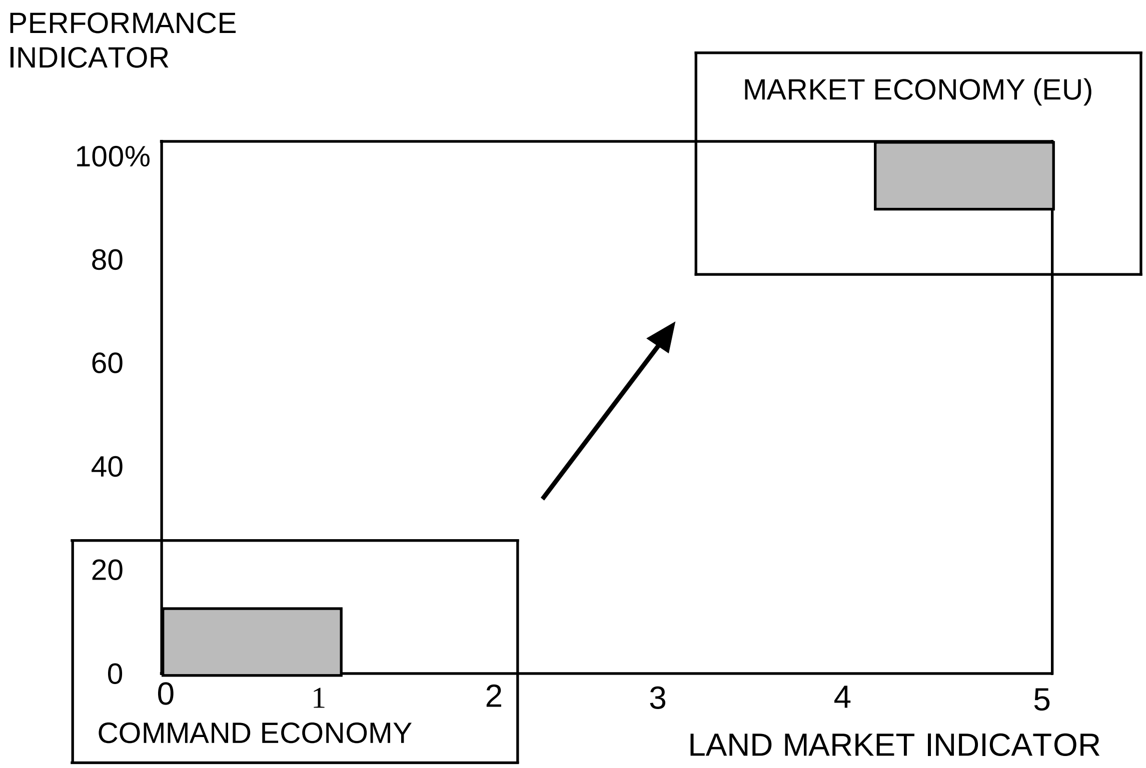

FIGURE TWO: Land Market Indicator and Performance Indicator

Figure Three shows the development of a Transition Curve, which can be expected to represent the path of a transition country as it experiences the different phases and identifies the dominant forces during the transition from the command to market economy.

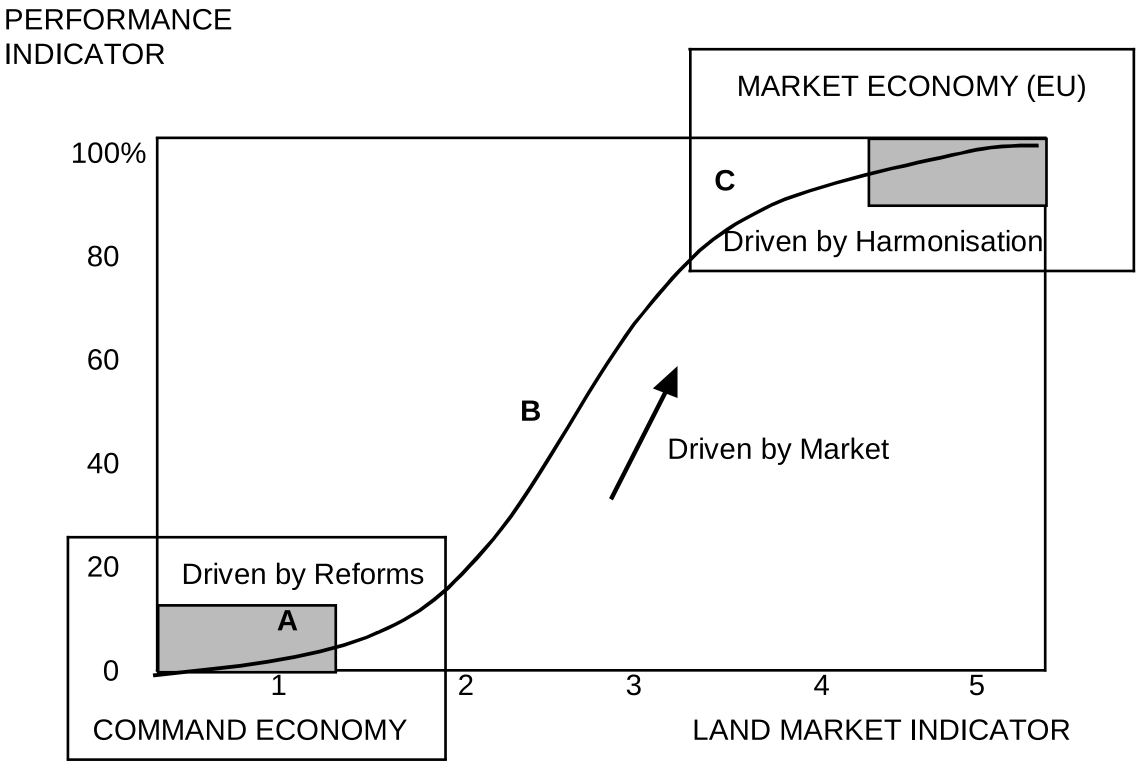

FIGURE THREE: The Transition Curve

§3. The Case Study

The theoretical analysis outlined in §2 above was developed through the gathering of data and a series of workshops in which various ideas and components of the model were discussed. The model was then tested and scores evaluated both by members of the research team and by representatives of the six countries concerned - the Czech Republic (CZ), Hungary (HU), Latvia (LA), Poland (PL), Slovakia (SK) and Slovenia (SI). The elements identified in Table One were quantified on the basis of the criteria that are given in Table Two. The results are given in Table Five based on data gathered in 1997 since when the markets have continued to progress.

A summary of Table Five is provided in Table Six. In general, as can be seen from Tables Five and Six, the market reforms have progressed fastest in the land registration and cadastral pillar and less quickly in pillars two (valuation) and three (financial services). The reforms in pillar one have received significant support from organisations such as EU PHARE and the World Bank and have enabled the land restitution and compensation programmes to be largely completed. This has been both a political priority and an economic necessity in satisfying the aspirations of the former landowners, and reducing the role of the state as the principal landowner and land manager.

The development of the valuation pillar has been more slow. The reasons for this are related to the lack of a historical role for property valuers and the lack of a central agency or institution charged with responsibility in this area. In addition, the relatively small number of commercial transactions during the early reform years and the lack of property taxes in most countries in the region have also caused progress to be slow. There is also a significant lack of information and expertise concerning valuation which has historically been concerned more with productivity than with monetary value. The financial services are mostly provided by the private sector, so naturally this pillar will only strengthen as the market deepens and there is an increased demand for financial products and services. Necessary precursors for this include mortgage laws to protect the interests of the various parties and clear, strong foreclosure and bankruptcy laws to lessen the risk of debtors defaulting and creditors being unable to obtain re-possession or adequate compensation. The generally higher level of interest rates in these countries also restricts demand.

Elements of the Land Market Model	CZ	HU	LA	PL	SK	SI
The Policy and Regulatory Framework						
1. Legal entities and persons have equal rights.	1	1	1	1	1	4
2. Institutional structures are secure.	4	4	4	2	2	3
3. Strong regulating authorities.	1	3	2	2	1	2
4. Agricultural and urban land policies are clear.	2	3	1	2	2	2
5. Clear planning, environment & health policies.	3	3	1	3	3	3
6. Planning & zoning understood and enforced.	3	3	3	3	3	3
7. Professional services exist & are supported.	3	3	2	3	3	3
8. There are clear policies on information.	3	3	2	2	3	3
Average	2.5	2.9	2.0	2.2	2.2	2.9
Market Assessment						
1. Landowners and tenants exist.	3	4	3	3	3	3
2. There is a strong private sector.	2	3	2	3	2	3
3. Large corporate players exist.	2	2	2	2	1	1
4. All government held land used for public good.	2	3	3	2	1	2
5. Construction sector is established and healthy.	2	3	2	3	2	2
6. There is a variety of assets available.	3	3	3	3	3	3
7. Information on real assets readily available.	2	3	2	3	2	2
8. Mechanisms exist to create new assets.	2	2	2	2	2	2
Average	2.2	2.9	2.4	2.6	2.0	2.2
Pillar 1 - Land Registration and Cadastre						
1. Sound legal basis for ownership and trading.	4	4	3	4	3	4
2. All necessary legal structures in place.	3	3	3	3	3	3
3. Recording and registering systems are sound.	4	4	4	2	2	2
4. There is no risk of unjustified expropriation.	4	4	4	4	4	4
5. Land and buildings can be traded easily.	3	3	3	2	3	3
6. The quality of data held by regulators is good.	3	4	2	2	2	2
Average	3.5	3.7	3.2	2.8	2.8	3.0
Pillar 2 – Valuation						
1. Valuation is clear and based on market prices.	2	2	2	2	2	2
2. Valuations are accepted.	2	2	2	3	2	2
3. Mechanisms for property sales are clear.	2	2	2	3	2	2
4. Mortgage advice is available.	2	3	2	2	2	2
5. The quality of data held by regulators is good.	3	4	2	2	2	2
Average	2.2	2.6	2.0	2.4	2.0	2.0
Pillar 3 – Financial Services						
1. Cash sales are clear and supported.	4	4	3	3	4	4
2. Land and buildings can be used as security.	2	3	3	3	2	2
3. Mortgages / credit facilities for agricultural land.	2	3	2	2	1	1
4. Bankruptcy and charges on mortgages supported.	2	3	3	3	2	2
5. Mortgages are available for residential property.	2	2	2	2	2	2
6. Financial products are tied to assets.	1	1	1	1	1	1
7. Tax regimes are not subject to sudden change.	2	2	2	1	2	3
8. Tax implications for investments are clear.	2	3	2	2	2	2
9. Financing and venture capital is available.	2	3	3	2	2	2
10. Foreign Direct Investment is encouraged.	1	4	2	3	3	2
11. Impact of property taxes understood.	3	3	2	2	3	3
12. The quality of data held by regulators is good.	3	4	2	2	2	2
Average	2.2	2.9	2.2	2.2	2.2	2.2

TABLE FIVE: Land Market Indicator scoring for the six study countries

Sector of Land Market	**CZ**	**HU**	**LV**	**PL**	**SK**	**SI**	**Mean**
Policy Framework	2.5	2.9	2.0	2.2	2.2	2.9	**2.5**
Market Assessment	2.2	2.9	2.4	2.6	2.0	2.2	**2.4**
Pillar 1 - Land Registration	3.5	3.7	3.2	2.8	2.8	3.0	**3.2**
Pillar 2 – Valuation	2.2	2.6	2.0	2.4	2.0	2.0	**2.2**
Pillar 3 – Finance	2.2	2.9	2.2	2.2	2.2	2.2	**2.3**
Overall Assessment	**2.5**	**3.0**	**2.4**	**2.5**	**2.2**	**2.5**	**2.5**

TABLE SIX: Overall Assessment of the Land Market Indicators

The Policy Framework supports all these activities. Governments must adopt clear policies and priorities and provide a sound organisational structure. There are often conflicts between Ministries concerning their respective areas of interest and this will influence the policy framework. The governments have had to develop transition policies for all sectors of the economy and it can be difficult to prioritise the aim of developing land markets in competition with other sectors.

Land Policy Framework Matrices were produced for each country studied and provided a profile of the overall reform identifying the major impediments at the time (see Annex B). The land market performance indicators described in Table Four were calculated for the six study countries, based on information gathered during the case study, and the results are shown in Table Seven.

	Performance Indicator (calculated as in Table 4)	CZ %	HU %	LV %	PL %	SK %	SI %	EU norm
1	How complete is the land regularisation/restitution process?	60?	95?	50?	75?	30	90?	100
2	How complete is the land title database?	90?	80?	30?	50	30?	0	100
3	What is the level of annual queries of the land title database?	10?	15?	5?	10?	10	10	60
4	What is the level of annual transfers of title?	1?	2.5?	1?	1?	1?	1?	7
5	What is the level of annual issue of mortgages?	0.1?	0.2?	0.05?	0.05?	0.1?	0.1	9
	Overall assessment (rounded to nearest 5%)	35	45	20	30	20	25	100

TABLE SEVEN: Land Market performance indicators for the six countries

When applied to Figure Three the position of each country on he transition curve becomes apparent, as shown in Figure Four.

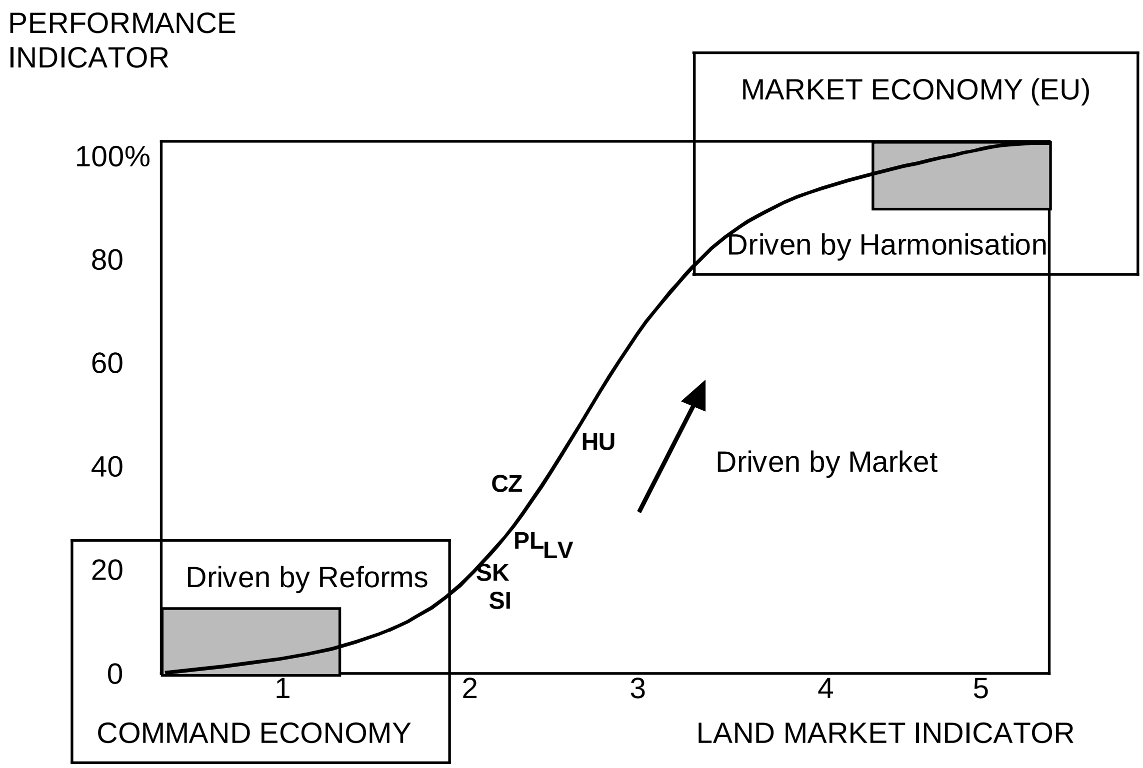

FIGURE FOUR: Transitional Curve for the case study countries

§4. Recommendations

In making recommendations, the study team made certain assumptions, namely:

- The basic reforms and market transition that are underway in the transition countries will continue and there will be no substantial change of political direction or orientation.
- The process of EU accession will continue.
- The governments of the transition countries are committed to open transparent land markets as a long-term objective.

The recommendations are presented as actions for governments to undertake. The emphasis is on encouraging governments to put in place the right base conditions and supporting framework to allow the land market to develop. Governments must of course be wary of over–regulation, yet must provide enough support to ensure that the regulatory measures are soundly implemented. Inevitably, whatever policies are adopted, they represent a compromise between the interests of the different parties, and what the government perceives as its political priorities. In particular:

1. Governments should concentrate on maximising the potential involvement of the private sector by providing the necessary base conditions and ensuring that the necessary legal and institutional frameworks are in place to support the buying and selling of land.
2. Governments should dispense with their role as a major land owner.
3. Governments should assume the responsibility for the initial modernisation and restructuring of the three regulatory pillars of land registration and cadastre, valuation, and financial services. They should identify measures necessary to support and encourage an increasing number of participants in the land market.
4. Governments should emphasise accountability, openness and transparency at all levels.

The policy recommendations that follow concentrate on those aspects that will bring real sustainable benefits in the development and nurture of land markets. It is not the intention to make specific recommendations for the individual case study countries, as each has its own specific set of circumstances. Instead, some general policy level recommendations are presented that appear to apply to all transition countries. These relate to:

- The completion of the transition process
- The establishment of a coherent national land policy
- EU accession and land ownership
- Land Administration – Institution building
- Land Market support measures

Recommendation No 1. Completion of Transition Process

Background.
The relationship between the ownership and use of land and property was broken or suppressed during the socialist era, limiting the citizen's powers of disposal with, in some cases, the land itself being expropriated. Large socialist agricultural enterprises and co-operatives were created and in many cases, the evidence of the earlier field boundaries was destroyed. In some countries, the land ownership records were not updated, even in the case of inheritance. As a consequence, the relationship between people and property became uncertain.

Land restitution programmes have addressed the issue of expropriated property. In the case of eligible claimants in the central and eastern European countries,[3] the programmes of restitution are largely complete though in some countries the problems of boundaries have not yet been addressed. In several central and eastern European countries there are still substantial inconsistencies or inadequacies in the completion of the land registers owing to the "missing parcels" and "missing owners" resulting from the socialisation of agriculture. The market mechanisms cannot work until the basic state directed reassignment of property relationships is complete and the records show a position that accords with reality. This does not mean that the old boundaries must be marked out in the field, but it does mean

[3] But note that there are still unsatisfied demands from former Polish and Sudetenland ethnic Germans, with claims on Polish, Czech and Slovak territory, and uncertainty in the position of non-citizens with permanent resident status in the Baltic countries.

regularising the new and old records in order that people can have clear title and also can see where the properties are located. This will mark the completion of the state intervention into the rearrangement of land ownership relations

<u>Recommendation 1 - Completion of the Transition Process</u>
It should be a policy objective of the government to complete the transition process in the land sector and establish the base conditions for market forces. This must include regularisation of all titles and ownership relations and the settlement of any likely future claims as a prerequisite for completing the process of economic transition.

Actions Required

1. Establish national policies for regularising all available land and property records, including the identification of owners and property boundaries.
2. Formulate and enact supporting legislation.
3. Create clear policies concerning restitution, indicating whether former landowners will be compensated for the loss of their properties either through physical restitution or other forms of compensation.
4. Develop a restitution or compensation scheme with supporting infrastructure.
5. Ensure that any existing pre-socialist land records are available and accessible for consultation.
6. Establish a democratic and socially acceptable process for settling all potential claims, including clear and independent appeals procedures.
7. Set up a temporary authority with responsibility in law for making decisions on a case by case basis. These decisions must then be recorded in the official land register.
8. Make optimum use of the resources of the private sector.

Success Indicators

1. The establishment of a clear land reform policy that is acceptable to the populace and represents a balance between the interests of the different parties.
2. All potential claimants have received consideration with no disenfranchised groups and no further claims outstanding.
3. All land ownership has been regularised and the land records harmonised.
4. The official land records (land register and cadastre) are being kept up to date.

Potential Impediments

1. Legislation that does not allow all potential claimants including expatriates to be treated fairly.
2. Legal difficulties with the restitution or compensation legislation.
3. Inability to trace historical owners and their heirs, possibly through the loss of title records.
4. Loss of cadastral records showing old property boundaries.
5. Loss of physical boundary information as a result of enforced collective farming.
6. Lack of base land values that ensure fairness when restituting in kind or through compensation.
7. Technical problems with supporting the restitution and compensation work-flow.
8. Inadequate recording of rights (e.g. use rights) within the land registers.

<u>Recommendation No 2: The Establishment of a Coherent National Land Policy</u>

Background
The establishment and operation of land administration systems and functioning land markets involves substantial co-operation between several different sectors of government. The transition countries are characterised by a lack of institutional co-operation and an absence of “ownership” of land issues that can lead to politics operating in a vacuum. There is a real danger that wider issues become lost and specific issues are addressed only within the narrower confines of a single ministerial brief. There are also dangers that policies in one sector will significantly impact on policies or ongoing programmes in other sectors, thus creating confusion and waste.

The state has potentially conflicting roles as landowner, as land administrator and regulator, and as creator of measures in support of land market development. There needs to be a coherent and integrated approach. The land market requires a clear national land policy that is implemented within a legal and regulatory environment that is certain, with government policies that are not subject to sudden change. All too often there is a lack of a high level integrated policy in land matters and little formal mechanism for inter-ministerial debate on land matters.

Recommendation 2 – The establishment of a coherent national land policy
Governments should develop an integrated national land policy, including the identification and provision of the necessary supporting means and instruments that will allow high level political debate and the obtaining of broad inter-Ministerial support. The creation of a coherent integrated strategy for dealing in land and property should be a priority for both urban and rural land.

Actions Required

1. Create a National Land Policy Forum that includes representatives from all Ministries and organisations concerned with land. Ideally the Forum should include private sector representatives drawn from the professions. The Forum should act as a high-level Policy Committee on land matters.
2. Establish a working group, responsible to the National Land Policy Forum, that will prepare a Land Policy Statement setting out the immediate and near term policy objectives. The statement should also identify the roles and responsibilities of the various agencies involved in land administration.
3. Ensure that the mandates of the key land management agencies are clear and without conflict or competition so that the work of different Ministries and organisations can be harmonised. In particular, ensure that matters such as rural development, environmental protection, land use recording, taxation records, and agricultural monitoring are harmonised with land registration, cadastre, valuation planning and local land use controls.
4. Clarify the legal basis of land ownership so that support for private property is clear and unequivocal, and the public understand the necessity for registration.
5. Clarify the role of the state as landowner so that it retains only such land as is necessary for its operations.
6. Recognise the need for a range of financing measures, and ensure that adequate safeguards are in place for mortgage encumbrance and foreclosure.
7. Encourage openness and transparency in all land dealings and ensure that contract law is adequately structured for conveyancing so that land dealings can be simply and speedily transacted.
8. Ensure that land taxation regimes are stable and are not subject to sudden change.
9. Ensure that land market activity is monitored and information is made easily available to the private sector.
10. Avoid over-regulation.

Success Indicators

1. There is a clear and consistent policy statement concerning the land market.
2. An inter-ministry forum for policy debate concerning land issues has been established.
3. Policies are promoted that emphasise broad sectoral issues and involve active co-operation between Ministries and land-related organisations.
4. There is awareness by the public of the legal necessity for registering dealings in land.
5. The Land Laws and associated regulations are clear and well understood.
6. Transaction costs are low.
7. There is minimal regulation consistent with necessary legal and financial safeguards.
8. There is connectivity and compatibility between the databases maintained by Ministries through the use of standardised property identifiers.
9. There is routine monitoring and publication of data on the land market activity.
10. There is strong FDI (Foreign Direct Investment) in the land market in line with legal ownership legislation.
11. There is an effective Rural Development policy that ensures the social and economic well-being of rural communities.

Potential Impediments

1. The public may not understand the need to register property transactions.
2. High transaction costs may lead to unregistered transfers that are not recognised legally.
3. The Law may not be clear as to what constitutes land and property. For example, if the law recognises different ownership of buildings and the underlying land then there can be difficulties with the security of mortgages.

4. Legislation may prevent or discriminate against certain participants in the land market who would otherwise be buyers, sellers, interest holders, or users.
5. The legal basis for ownership by different parties (e.g. private individuals, legal persons, banks, foreign physical and legal persons) may not be clear, especially in cases of foreclosure or inheritance.
6. Uncoordinated policy and institutional / technical developments within core ministries may lead to fragmentation, complication and unnecessary duplication of effort and expense.
7. Land taxation and high transaction costs may inhibit sales and the voluntary consolidation of land holdings.

<u>Recommendation No 3: EU Accession and land ownership</u>

Background

The overriding political objective within the six central and eastern European countries is EU accession and four of these (Poland, Czech Republic, Hungary and Slovenia) have already been accepted for entry under the next round of enlargement. The EU has opened negotiations with all 11 applicant countries. The basic principles for enlargement were laid out at the 1993 Copenhagen European Council and the *acquis communautaire* is accepted as the definitive guide to the collective legislation that must be adopted in order to harmonise and be able to assume the obligations of membership. The Commission published its Opinion on the applicants ability to adopt the *acquis* in July 1997 and the basic assessment is that the countries are moving towards compliance.

From a land administration perspective, there is a fundamental difficulty in that land is not specifically addressed in the *acquis*. In order to enter the Union, the applicant country must have a functioning market economy, a prerequisite for which is the possession of an accepted method of registering private property. In all previous enlargements the applicant countries already possessed such institutions. Land received no special attention, other than in the creation of an awareness of the need to address the broader objectives of the single market and to open up the land market to competitive forces from anywhere in the Union.

Unlike many other traded goods, the supply of land is strictly limited. The effect of an open land market policy on the transition states is potentially damaging as most of the transition countries have significantly lower agricultural land prices (one tenth, on average) than EU member states. As a result, large parts of the countryside could very quickly become foreign owned. This would be politically destabilising and socially disruptive and would outweigh any gains in productivity that the new investment would bring.

<u>Recommendation 3 - EU Accession and land ownership</u> It should be a policy objective of the applicant government to negotiate a transition period for the full liberalisation of the agricultural land market. Given the start of the accession negotiations in 1998 and the planned accession in the next few years, these issues are of extreme importance at the present time. The urban land markets should be fully liberalised immediately.

Actions Required

1. Ensure that the urban land market is fully liberalised in line with the *acquis*. This may require changes in the law to allow any eligible EU national to have full ownership rights at the same level as a physical or legal entity of the applicant state for all land not designated as agricultural.
2. Identify ways to protect the interests of rural communities especially in the transition period, for instance by encouraging the use of medium- and longer-term leasehold tenure for foreign users of agricultural land.
3. Negotiate a period of grace for full liberalisation of the agricultural land market
4. Ensure that the state ownership of land is minimised and only land needed for public use is held.

Success Indicators

1. There is full liberalisation of the urban land market with no discrimination against foreign investors and that EU legal and private persons are able to hold urban land with the same rights and privileges as state citizens.
2. There is clear access to information with transparency in dealings and open competition.
3. There is agreement on a transition period for the liberalisation of the agricultural land market.

Potential Impediments

1. The liberalisation of rural land markets may be socially unacceptable, as it may create large areas of foreign controlled rural land.
2. The state may be slow to dispose of its agricultural land stock, or may wish to continue as a large scale landowner, and support certain special interest groups, e.g. the former co-operatives.
3. The government may find it difficult to build the necessary institutions to implement EU directives.

Recommendation No 4: Land Administration – Institution Building

Background

The state is responsible for the legal and regulatory framework within which the land markets operate. The state also needs an efficient land administration capability in order to meet other national policy objectives, including justice and home affairs, revenue generation through tax policies, environmental controls, rural development, cross border issues and municipal administration. The impending EU membership places additional demands upon the land administration, especially in the adoption of the Common Agricultural Policy (CAP) and the implementation measures that include the Integrated Agricultural Control System (IACS). The socialist legacy of incomplete land records and uncertainty in title (including technical defects) need to be corrected.

The land administration functions established in the transition economies have concentrated on the re-establishment of the necessary legal framework, the establishment of a services network and the registration of title to land and property, as well as the support for the property restitution and compensation (and similar) programmes. In some cases it is recognised that the institutional arrangements may not be optimal for efficient land administration and in other areas it is clear that the institutions face significant problems in introducing modern technology (and especially large-scale national information systems).

Additional demands will be imposed by the IACS. It is recognised that the information flows are currently weak and the processing time for transfers is too long in all of the capital cities. There are known difficulties in the legal definition of land and buildings and in the trading of use rights including leases. Most countries have inadequate valuation systems, while the financial sectors of some countries need legal support in dealing with mortgages, bankruptcy and foreclosures. These matters are all concerned with strengthening the legal framework and the regulatory authorities, and improving the performance of the relevant institutions. Private sector involvement is almost completely restricted to contracts for routine technical activities (such as mapping).

Recommendation 4 – Land Administration – Institution Building There needs to be institutional strengthening of the land administration sector, which includes the three pillars of the regulatory authorities (registration, valuation, real estate financing) and the underlying legal framework. There is also a need to establish the technical systems needed to implement and provide a national level of service within a reasonable time and with a high level of security and confidence.

Actions Required

1. Strengthen the regulatory institutions that provide the pillars of land registration, land valuation and the regulation of financial services.
2. Modernise the land registry / cadastre ensuring that it is primarily responsible to the judiciary rather than the state administration. This may involve legal changes, technical modernisation, human resource development and possible institutional change.
3. Modernise the valuation service based on the market value of properties.
4. Establish valuation records for all properties.
5. Ensure that the law adequately supports mortgages, foreclosure, and bankruptcy, that it protects both mortgagor and mortgagee, and that it encourages private sector financing.
6. Create performance indicators to monitor the effectiveness of each of the three pillars.
7. Encourage private sector involvement in all aspects of land administration.

Success Indicators

1. A working land registration system is established that uses a computerised title register and processes applications accurately, quickly and efficiently.
2. All backlogs in data processing are eliminated.
3. There is a digital cadastre system that records real property boundaries to the required spatial accuracy, it is up to date, and is linked to the title register.
4. The valuation methodology links a description of the property to the market value.
5. Institutional weaknesses are identified and corrective programmes established.
6. Excessive bureaucracy is identified and removed and there are no purely institutional or administrative barriers to simple and effective land transfer.
7. The public perceives that the process of buying., selling, valuation and financing is transparent and fair.
8. There is connectivity between the land administration databases and other central and local government databases.
9. There is significant involvement of the private sector in providing contractual services.

Potential Impediments

1. The cost of public sector reforms needed to support the infrastructure development can be very large, and cannot be financed from the basic fee income.
2. It is a necessary to convert all existing title information and cadastral maps to digital form. The time duration and complexity of this task are usually underestimated.
3. There may be disagreement on the content and compatibility of the land registration, valuation and mortgage registers.
4. It is not possible to complete the technical modernisation if the transition process is not complete and all land units have not been regularised.
5. The introduction of computer based methods requires significant management by the government institutions themselves, and this can lead to some restructuring for which agreement may be difficult to achieve.
6. Computer expertise in the public sector is limited owing to more attractive salaries and working conditions in the private sector.
7. The management of large scale technical infrastructure projects is challenging and most projects do not meet the original expectations.
8. Technical specifications for cadastral mapping may involve very high spatial accuracy. It is not clear that these very high accuracies are actually necessary.
9. Land registration may be regarded as a purely administrative action, and placed under the control of local offices of state administration.

<u>Recommendation No 5: Land Market Support Measures</u>

Background

The land markets in central and eastern Europe operate under many disincentives including punitive transfer taxes and notarial fees, the lack of credit financing, inadequate valuation methods and a poor risk assessment of the market. Other disincentives arise as a result of the restitution of land parcels that were created more than 50 years ago, resulting is fields whose size, shape and location are incompatible with modern agricultural practice. There is weakness in the availability of market based information including real valuations and market prices while the mechanism for connecting buyers and sellers is underdeveloped. Agricultural support is an important aspect of rural development, yet it is not prioritised in some countries. Urban land markets are seen as subject to severe technical and legal delays in effecting transfers and there are serious weaknesses in the mortgage laws of some countries.

The emergence of significant private investments driving insurance funds, building societies, savings and loan organisations or mortgage banks has not yet happened. Institutional investors are still noticeably absent compared to EU countries and property (especially agricultural) is not perceived as a safe long-term investment.

There are severe weaknesses in the land market that can be addressed through support measures aimed at creating the right environment for bottom up processes to be initiated by individual owners or groups of owners. This needs to be addressed not through direct state intervention, but by the identification and removal of obstacles that discourage the formation of viable agricultural units or act as a disincentive to the urban property market.

This includes the removal of high transaction costs (notarial fees and some of the higher registration fees), the removal of entry barriers (parcels without adequate documentation) and establishing incentives for voluntary consolidation (waiver of transfer tax, etc.) and increasing the access to credit. Support can include measures aimed at improving the quality and availability of the goods (i.e. the land units) and also supporting the entry of a wider range of participants into the market.

<u>Recommendation 5 - Land Market Support Measures</u>
There needs to be a declared policy objective of liberalising the agricultural and urban land markets through creating more open competition, providing support for information flows and removing entry barriers and disincentives. In addition it is necessary to provide incentives for voluntary land consolidation.

Actions Required

1. Ensure that there is an adequate mechanism in place for monitoring land market activity, including sales prices, and real estate characteristics that will serve to increase transparency and information flows.
2. Review the transaction costs, including the total costs of contract preparation, notarial fees, registration and valuation fees and government duties, with the aim of reducing the overall transaction costs.
3. Consider waiving transaction duties in certain cases, such as the exchange of land in support of consolidation.
4. Encourage owners to ensure that their land records are fully regularised.
5. Prepare a programme to encourage voluntary land consolidation, including support measures and an information campaign.
6. Ensure that all real estate agents have received appropriate professional training.

Success Indicators

1. The establishment of transparency and openness in land dealings.
2. There is professionalism amongst land valuers, estate agents and land surveyors.
3. There are low transaction costs.
4. Land consolidation occurs on a voluntary basis.
5. There is increased formal land market activity both in volume and value.
6. There are greater information flows and more transparency in the land market.

Potential Impediments

1. Notarial fees can be very high, being related to a percentage of contract value, and not to the actual work undertaken.
2. Potential sellers or lessors may have no convenient way of bringing their land to the attention of potential bidders because the market information is not available.
3. An existing owner may not be able to sell his or her plot owing to loss of boundary data and uncertainty in the position of boundaries.
4. Low land values may mean that many people have little interest in using / developing their agricultural land holdings.
5. Leasing of land may provide an alternative way for land to be used, but only the local co-operative may be interested in leasing the land, hence returns are kept low.
6. Areas where there are still potential land restitution claims may lack investment owing to uncertainty about the future.
7. There may be little encouragement for owners to carry out land consolidation on a voluntary basis.

§5. Conclusions

A number of key policy issues were identified as part of the study, especially relating to:

- Land markets and the completion of the transition to the Market Economy
- The Accession to the European Union
- The establishment of Regulatory Authorities – Institution Building

- The modernisation of the technical infrastructure
- Resolving who pays and what is the role of the state.

Traditionally, the approach has been to put in place the legal framework, then identify the necessary technical matters to carry out the mandated tasks. Given the close connection between the performance of this state sector and the impact on declared cabinet level policy, land administration authorities cannot adopt a purely technical viewpoint and must consider the wider costs and benefits. Cabinet level policy needs to address the market transition, open and transparent markets, EU membership, the creation of a viable agricultural sector, efficiency in the administration and the promotion of the private sector.

A number of policy level recommendations are put forward in section 4 which are aimed at assisting with the development of effective and efficient land markets. The recommendations are not aimed at a particular study country, but identify and address common problem areas that were identified during the study.

There are specific issues that need further study

1. The economic objectives of land reform and the development of land markets.
2. The funding of land administration activities and the extent to which government agencies should seek full cost recovery.
3. The levels of co-operation between different government agencies, especially with regard to
   Land ownership;
   Valuation and taxation of land and construction;
   Control and management of land use ;
   Development control;
   Land related information;
   Agricultural policy.
4. The optimum duration of leaseholds and the creation of a market in leasehold land for foreign investors, especially for those wishing to invest in agriculture.
5. The linkages between urban and rural land management.
6. The management and exploitation of land and property related information.
7. The balance between public sector and private sector activities.
8. The shortage of skilled managers in land administration.

In conclusion, this paper wishes to emphasise *land policy*. The land policy needs to be a response to the declared government aims. It should involve active participation and discussion with all operators in the land sector including other government agencies, the regulating forces and the market participants. The introduction of the financing and valuation sectors that underpin the trade in goods and services heralds the transition to the market economy and completes the three regulatory pillars. Achieving a balance between the regulatory structures and the market forces will allow controlled growth and will be perceived as of general economic and social well being to the populace.

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APPENDIX A: Acknowledgements and List of Contributors

This study was carried out with the financial support of the ACE programme. The study could not have been possible without the help, advice, encouragement and participation of a large number of people who have all kindly invested time and effort in the project. The principal list of contributors is contained below, however it does not include all the people who have taken part in the meetings, interviews, review stages or have been a source of much needed encouragement. The group would like to particularly thank Ruzenka Zimova, Jaroslav Vigner, Vaclav Slaboch and President J. Sima (Czech Republic), President I. Hornansky (Slovak Republic), Maria Toth, and Laszlo Niklasz (Hungary), Lars Lauridsen and Stig Enemark (Denmark), Elfriede Fendel (Netherlands) and Robin McLaren (Scotland).

This study was undertaken by a group of consultants and academics who are actively working in the land market sector of transition countries. The multidisciplinary approach involved professionals from the fields of land registration, economics and agriculture drawn from both the EU member states and the countries in transition. The principal collaborators included:

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Appendix B - Land Policy Framework Indicators by Country

The following tables show the results of the study as identified during 1997. Each of the case studies is documented fully within the ACE report (Project P2128R: The development of land markets in central and eastern Europe, ACE programme, final report 1998). The following summaries, together with Tables B1 - B6, provide a very brief assessment of the main findings.

The Czech Republic is hampered in its development by four main factors. Firstly, there are the potential claims of the exiled Sudetenland Germans. Secondly, the agricultural land market faces high transaction costs creating effective barriers through the lack of effective land units and the loss of the boundary data. Thirdly, the national agricultural policy is not conducive to investment in this sector. Lastly, the lack of financial regulation has resulted in various banking and investment funding scandals that have significantly reduced investment into the country. The institutional reforms have proceeded well in the land registration and cadastral sector but land valuation remains to be sorted out and an institutional framework with accurate and complete valuation information must be created. The financial pillar is handicapped by the poor financial regulation, but this is a priority problem for the government; significant progress should be expected over the next 2 or 3 years. The land market is still not yet robust.

Hungary has virtually completed all of the land related transition activities and by passing through the compensation programme, it has satisfied all outstanding land claims and there is no substantial group pressing for further land claims. It is also at the end of the three-year moratorium on land sales, following the compensation programme and it is reported that agricultural land has increased in average sale price by 500% in the last year. Land Consolidation is now proceeding and is taking place both through a government-backed programme and through voluntary sale and exchange. The compensation programme created a large number of players who now have a chance to share in the increase of the capital value of the property. The agriculture produce sector has also been largely restructured and there is a willingness to invest in this sector. Hungary seems to have managed this process with relatively little institutional reform in the land registration and cadastral sector. It could be that some reform would become necessary as the market increases and the demand for services widens, especially concerned with valuation. The financial pillar can be expected to grow significantly in the next 2 or 3 year period. The conclusion is that the land market is beginning to work in Hungary and the country is firmly in a market driven phase.

The Latvian land market is developing in and around Riga but elsewhere, especially in the rural areas, the market price for land is still very low. Agricultural land that has been restituted is, in many cases, reverting to scrub or forest because the owners are unwilling to sell until the prices rise. Sensitivities over the status of long-term residents of Russian origin inhibit a more open debate about land related issues. Awareness of land values is growing, partly as a result of the mass appraisal that has placed a market price on the land. When property-based taxes are introduced in the year 2000 this awareness will increase further.

The Polish land market is likewise hampered by the potential claims of groups who were expelled and who wish to recover their families property. Consequently there has been no formal restitution or compensation law enacted. Large amounts of land (more than 4 million hectares) are still held by the state through its holding company and this is a significant damper on the market and can potentially overshadow private sector activity. This is having a depressing influence on land prices. The institutional structures in Poland are still confused and there is no single national land administration authority as the responsibilities are split between different ministries and there has been interminable discussion about the future of the institutional structure. The administration is through the Voivods and consequently there is a structural weakness that affects further progress. The valuation system in Poland appears to be more advanced than in any of the other study countries but the land market is not yet working effectively.

Slovakia is handicapped in its land market by the difficulties arising from the lack of updating during the socialist years, resulting in large numbers of unknown owners as well as the loss of boundary information (as in the Czech Republic). There is still a significant amount of land held by the state land fund and the restitution is still only two thirds completed. It therefore suffers from structural problems arising directly from the socialist legacy. A further complication (as in the Czech Republic) is the potential claims of evicted landholders who were expelled after the end of the Second World War. The regulatory authorities are also weak in that the land registration and cadastre sector is operated as part of the overall state administration and consequently there is a loss of executive control. Valuation and Financial services are still underdeveloped and there are weak information flows. In order for the land market to begin to function, the owners and parcel data must be completed as a priority to complete the first stage transition. The institutional position of the regulating authorities also needs to be considered and the technical infrastructure is not yet in place.

The Slovenian land market is noticeably less active then the other case study countries. It is too early to assess the impact of the liberalisation of the market (it was supposedly opened to EU nationals in 1997) and this will only become clear over the next year or two. At the present time, the market suffers from a lack of technical infrastructure within the land registry. There is no large restitution programme and there are no significant potential outstanding claims. The same families have been settled on the land for generations in small plots and these are not often offered for sale. While people like to be associated with the land, they are not so interested in the active use. The second and third pillars follow the same pattern as the other countries, though financial services have been even slower to develop in Slovenia, as the general economy has remained more closed to outside companies. The chief impediments are considered to be the lack of technical infrastructure and lack of reliable information services from the Land Registry.

The overall assessment shows that in general, the reforms and institution building within the land registration sector (pillar one) have been more effective than the reforms in the valuation and financial services sector. There is a recognised weakness in policy formulation and coordinated institutional activities and a weakness in the establishment of a sufficient number and variety of participants in the land market itself, though Hungary has been noticeably successful in this area.

LAND POLICY FRAMEWORK MATRIX for Czech Republic							
COMMAND ECONOMY -------->I←-----------TRANSITION ECONOMY----------------->I←-----MARKET ECONOMY------> |----- EU------							
LMI score	<1.5	1.5-1.90	2.0-2.4	2.5-2.9	3.0-3.4	3.5-3.9	>4.0
Policy Level Framework	Government does not support land market development or individual property rights	Weak political support for objectives of land market. No broad political consensus.	Inconsistent or inadequate policies leading to fragmented land management.	Individual policies sound. Some policy difficulties with coordination & information exchange.	Policies are coherent and preparations have started for EU accession.	All reforms are complete and negotiations for accession are under way.	Clearly defined and integrated land policies that comply with EU regulations.
Market Assessment – Participants	Relationship between land and people is weak with focus on use rights and occupancy, not ownership. Strong informal sector. Poor information	Participation severely restricted with unclear ownership rights and outstanding legal claims. Identification of owners and parcels difficult	Participation starting but interest limited due to structural problems and lack of market confidence. Data flows are weak.	Relationship between land and people becoming clear. Growing interest in land as a market commodity. Data flows improving.	Strong connection between land and people with a range of participants and types of land for sale. Information flows are working.	Institutional investors and investment funds are active in the market. Risks in real estate investment seen as low. Information is transparent	Large range of participants, goods and services. Real estate seen as a good, safe long-term investment.
Pillar One – Land Registration and Cadastre	Registration not legally required. Insecure laws with respect to ownership, inheritance and disposal of rights. Weak regulating authorities.	Registration is legally required but there are inconsistent laws and confusion over administrative responsibility between agencies.	Compilation of registers and land reform under way. Institutional arrangements and land law need to be strengthened. Poor title information.	Requirements for land title registration are basically satisfactory but delays in transactions occur due to technical and organisation problems.	Land Registration System is basically working Problems with titling are mainly in large cities and in areas under land reform.	Records near completion. System working efficiently (except in capital cities). Titles are secure. Land reform is complete.	System is efficient and supports secondary market services, significant private sector involvement & cost recovery.
Pillar Two - Valuation	Absence of any accepted methodology for market based valuations. No body tasked with valuation.	There is a valuation methodology but little up to date or reliable data. Valuation may not be connected to market price.	Valuations tied to market price but results are unreliable due to poor data, low level of transactions, and poor reporting.	Systematic valuation records being compiled. Valuation seen as necessary to support the land market. Real Estate prices volatile.	Valuation system able to support market based property tax. Regulatory procedures are in place to monitor data quality .	Secure, reliable system supporting land transactions and fair and efficient property tax collection.	Complete valuation data sets available that can link to other land administration records. Significant private sector involvement.
Pillar Three - Financial Services	Almost complete absence of financing mechanisms.	Cash sales take place but the market is volatile with few transactions and potential speculation.	Mortgage support being introduced but foreign investment into real estate may be restricted.	Mortgages have become more accepted, and development financing is emerging.	Mortgages more widely available, interest rates near to EU/G7 norm .	Macro-economic stability helps real estate investment, encouraging institutional investors.	Pension funds, investment funds, life assurance and major investors are in place and safe
General Assessment	Land market operates through informal sector outside government authority.	Severe strategic impediments to land market activity with reforms progressing very slowly.	Major impediments to a formal land market. Reforms in progress but there are major policy weaknesses.	Reforms are being implemented but with unresolved difficulties that inhibit development.	System is basically working and land rights are seen as secure and transferable.	A mature market is beginning to appear with transparent land dealings.	Stable and secure real estate market, secondary market services developed.

TABLE B1: Land Policy Framework Matrix Czech Republic

LAND POLICY FRAMEWORK MATRIX for Hungary

COMMAND ECONOMY -------->I<---------------TRANSITION ECONOMY--------------->I←-----MARKET ECONOMY----> |----- EU------

LMI score	<1.5	1.5-1.90	2.0-2.4	2.5-2.9	3.0-3.4	3.5-3.9	>4.0
Policy Level Framework	Government does not support land market development or individual property rights	Weak political support for objectives of land market. No broad political consensus.	Inconsistent or inadequate policies leading to fragmented land management.	Individual policies sound. Some policy difficulties with coordination & information exchange.	Policies are coherent and preparations have started for EU accession.	All reforms are complete and negotiations for accession are under way.	Clearly defined and integrated land policies that comply with EU regulations.
Market Assessment – Participants	Relationship between land and people is weak with Focus on use rights and occupancy, not ownership. Strong informal sector. Poor information	Participation severely restricted with unclear ownership rights and outstanding legal claims. Identification of owners and parcels difficult	Participation starting but interest limited due to structural problems and lack of market confidence. Data flows are weak.	Relationship between land and people becoming clear. Growing interest in land as a market commodity. Data flows improving.	Strong connection between land and people with a range of participants and types of land for sale. Information flows are working.	Institutional investors and investment funds are active in the market. Risks in real estate investment seen as low. Information is transparent	Large range of participants, goods and services. Real estate seen as a good, safe long-term investment.
Pillar One – Land Registration and Cadastre	Registration not legally required. Insecure laws with respect to ownership, inheritance and disposal of rights. Weak regulating authorities.	Registration is legally required but there are inconsistent laws and confusion over administrative responsibility between agencies.	Compilation of registers and land reform under way. Institutional arrangements and land law need to be strengthened. Poor title information.	Requirements for land title registration are basically satisfactory but delays in transactions occur due to technical and organisation problems.	Land Registration System is basically working Problems with titling are mainly in large cities and in areas under land reform.	Records near completion. System working efficiently (except in capital cities). Titles are secure. Land reform is complete.	System is efficient and supports secondary market services, significant private sector involvement & cost recovery.
Pillar Two - Valuation	Absence of any accepted methodology for market based valuations. No body tasked with valuation.	There is a valuation methodology but little up to date or reliable data. Valuation may not be connected to market price.	Valuations tied to market price but results are unreliable due to poor data, low level of transactions, and poor reporting.	Systematic valuation records being compiled. Valuation seen as necessary to support the land market. Real Estate prices volatile.	Valuation system able to support market based property tax. Regulatory procedures are in place to monitor data quality .	Secure, reliable system supporting land transactions and fair and efficient property tax collection.	Complete valuation data sets available that can link to other land administration records. Significant private sector involvement.
Pillar Three - Financial Services	Almost complete absence of financing mechanisms.	Cash sales take place but the market is volatile with few transactions and potential speculation.	Mortgage support being introduced but foreign investment into real estate may be restricted.	Mortgages have become more accepted, and development financing is emerging.	Mortgages more widely available, interest rates near to EU/G7 norm .	Macro-economic stability helps real estate investment, encouraging institutional investors.	Pension funds, investment funds, life assurance and major investors are in place and safe
General Assessment	Land market operates through informal sector outside government authority.	Severe strategic impediments to land market activity with reforms progressing very slowly.	Major impediments to a formal land market. Reforms in progress but there are major policy weaknesses.	Reforms are being implemented but with unresolved difficulties that inhibit development.	System is basically working and land rights are seen as secure and transferable.	A mature market is beginning to appear with transparent land dealings.	Stable and secure real estate market, secondary market services developed.

TABLE B2: Land Policy Framework Matrix for Hungary

LAND POLICY FRAMEWORK MATRIX for Latvia							
COMMAND ECONOMY -------->I←------------TRANSITION ECONOMY--------------->I←-----MARKET ECONOMY-------> |----- EU------							
LMI score	<1.5	1.5-1.90	2.0-2.4	2.5-2.9	3.0-3.4	3.5-3.9	>4.0
Policy Level Framework	Government does not support land market development or individual property rights	Weak political support for objectives of land market. No broad political consensus.	Inconsistent or inadequate policies leading to fragmented land management.	Individual policies sound. Some policy difficulties with coordination & information exchange.	Policies are coherent and preparations have started for EU accession.	All reforms are complete and negotiations for accession are under way.	Clearly defined and integrated land policies that comply with EU regulations.
Market Assessment – Participants	Relationship between land and people is weak with focus on use rights and occupancy, not ownership. Strong informal sector. Poor information	Participation severely restricted with unclear ownership rights and outstanding legal claims. Identification of owners and parcels difficult	Participation starting but interest limited due to structural problems and lack of market confidence. Data flows are weak.	Relationship between land and people becoming clear. Growing interest in land as a market commodity. Data flows improving.	Strong connection between land and people with a range of participants and types of land for sale. Information flows are working.	Institutional investors and investment funds are active in the market. Risks in real estate investment seen as low. Information is transparent	Large range of participants, goods and services. Real estate seen as a good, safe long-term investment.
Pillar One – Land Registration and Cadastre	Registration not legally required. Insecure laws with respect to ownership, inheritance and disposal of rights. Weak regulating authorities.	Registration is legally required but there are inconsistent laws and confusion over administrative responsibility between agencies.	Compilation of registers and land reform under way. Institutional arrangements and land law need to be strengthened. Poor title information.	Requirements for land title registration are basically satisfactory but delays in transactions occur due to technical and organisation problems.	Land Registration System is basically working Problems with titling are mainly in large cities and in areas under land reform.	Records near completion. System working efficiently (except in capital cities). Titles are secure. Land reform is complete.	System is efficient and supports secondary market services, significant private sector involvement & cost recovery.
Pillar Two - Valuation	Absence of any accepted methodology for market based valuations. No body tasked with valuation.	There is a valuation methodology but little up to date or reliable data. Valuation may not be connected to market price.	Valuations tied to market price but results are unreliable due to poor data, low level of transactions, and poor reporting.	Systematic valuation records being compiled. Valuation seen as necessary to support the land market. Real Estate prices volatile.	Valuation system able to support market based property tax. Regulatory procedures are in place to monitor data quality .	Secure, reliable system supporting land transactions and fair and efficient property tax collection.	Complete valuation data sets available that can link to other land administration records. Significant private sector involvement.
Pillar Three - Financial Services	Almost complete absence of financing mechanisms.	Cash sales take place but the market is volatile with few transactions and potential speculation.	Mortgage support being introduced but foreign investment into real estate may be restricted.	Mortgages have become more accepted, and development financing is emerging.	Mortgages more widely available, interest rates near to EU/G7 norm .	Macro-economic stability helps real estate investment, encouraging institutional investors.	Pension funds, investment funds, life assurance and major investors are in place and safe
General Assessment	Land market operates through informal sector outside government authority.	Severe strategic impediments to land market activity with reforms progressing very slowly.	Major impediments to a formal land market. Reforms in progress but there are major policy weaknesses.	Reforms are being implemented but with unresolved difficulties that inhibit development.	System is basically working and land rights are seen as secure and transferable.	A mature market is beginning to appear with transparent land dealings.	Stable and secure real estate market, secondary market services developed.

TABLE B3: Land Policy Framework Matrix for Latvia

LAND POLICY FRAMEWORK MATRIX for Poland

COMMAND ECONOMY -------->I<---------------TRANSITION ECONOMY-------------->I←------MARKET ECONOMY-----> |----- EU------

LMI score	<1.5	1.5-1.90	2.0-2.4	2.5-2.9	3.0-3.4	3.5-3.9	>4.0
Policy Level Framework	Government does not support land market development or individual property rights	Weak political support for objectives of land market. No broad political consensus.	Inconsistent or inadequate policies leading to fragmented land management.	Individual policies sound. Some policy difficulties with coordination & information exchange.	Policies are coherent and preparations have started for EU accession.	All reforms are complete and negotiations for accession are under way.	Clearly defined and integrated land policies that comply with EU regulations.
Market Assessment – Participants	Relationship between land and people is weak with focus on use rights and occupancy, not ownership. Strong informal sector. Poor information	Participation severely restricted with unclear ownership rights and outstanding legal claims. Identification of owners and parcels difficult	Participation starting but interest limited due to structural problems and lack of market confidence. Data flows are weak.	Relationship between land and people becoming clear. Growing interest in land as a market commodity. Data flows improving.	Strong connection between land and people with a range of participants and types of land for sale. Information flows are working.	Institutional investors and investment funds are active in the market. Risks in real estate investment seen as low. Information is transparent	Large range of participants, goods and services. Real estate seen as a good, safe long-term investment.
Pillar One – Land Registration and Cadastre	Registration not legally required. Insecure laws with respect to ownership, inheritance and disposal of rights. Weak regulating authorities.	Registration is legally required but there are inconsistent laws and confusion over administrative responsibility between agencies.	Compilation of registers and land reform under way. Institutional arrangements and land law need to be strengthened. Poor title information.	Requirements for land title registration are basically satisfactory but delays in transactions occur due to technical and organisation problems.	Land Registration System is basically working Problems with titling are mainly in large cities and in areas under land reform.	Records near completion. System working efficiently (except in capital cities). Titles are secure. Land reform is complete.	System is efficient and supports secondary market services, significant private sector involvement & cost recovery.
Pillar Two - Valuation	Absence of any accepted methodology for market based valuations. No body tasked with valuation.	There is a valuation methodology but little up to date or reliable data. Valuation may not be connected to market price.	Valuations tied to market price but results are unreliable due to poor data, low level of transactions, and poor reporting.	Systematic valuation records being compiled. Valuation seen as necessary to support the land market. Real Estate prices volatile.	Valuation system able to support market based property tax. Regulatory procedures are in place to monitor data quality .	Secure, reliable system supporting land transactions and fair and efficient property tax collection.	Complete valuation data sets available that can link to other land administration records. Significant private sector involvement.
Pillar Three - Financial Services	Almost complete absence of financing mechanisms.	Cash sales take place but the market is volatile with few transactions and potential speculation.	Mortgage support being introduced but foreign investment into real estate may be restricted.	Mortgages have become more accepted, and development financing is emerging.	Mortgages more widely available, interest rates near to EU/G7 norm .	Macro-economic stability helps real estate investment, encouraging institutional investors.	Pension funds, investment funds, life assurance and major investors are in place and safe
General Assessment	Land market operates through informal sector outside government authority.	Severe strategic impediments to land market activity with reforms progressing very slowly.	Major impediments to a formal land market. Reforms in progress but there are major policy weaknesses.	Reforms are being implemented but with unresolved difficulties that inhibit development.	System is basically working and land rights are seen as secure and transferable.	A mature market is beginning to appear with transparent land dealings.	Stable and secure real estate market, secondary market services developed.

TABLE B4: Land Policy Framework Matrix for Poland

LAND POLICY FRAMEWORK MATRIX for Slovakia							
COMMAND ECONOMY -------->I<--------------TRANSITION ECONOMY--------------->I<------MARKET ECONOMY-----> |----- EU------							
LMI score	<1.5	1.5-1.90	2.0-2.4	2.5-2.9	3.0-3.4	3.5-3.9	>4.0
Policy Level Framework	Government does not support land market development or individual property rights	Weak political support for objectives of land market. No broad political consensus.	Inconsistent or inadequate policies leading to fragmented land management.	Individual policies sound. Some policy difficulties with coordination & information exchange.	Policies are coherent and preparations have started for EU accession.	All reforms are complete and negotiations for accession are under way.	Clearly defined and integrated land policies that comply with EU regulations.
Market Assessment – Participants	Relationship between land and people is weak with focus on use rights and occupancy, not ownership. Strong informal sector. Poor information	Participation severely restricted with unclear ownership rights and outstanding legal claims. Identification of owners and parcels difficult	Participation starting but interest limited due to structural problems and lack of market confidence. Data flows are weak.	Relationship between land and people becoming clear. Growing interest in land as a market commodity. Data flows improving.	Strong connection between land and people with a range of participants and types of land for sale. Information flows are working.	Institutional investors and investment funds are active in the market. Risks in real estate investment seen as low. Information is transparent	Large range of participants, goods and services. Real estate seen as a good, safe long-term investment.
Pillar One – Land Registration and Cadastre	Registration not legally required. Insecure laws with respect to ownership, inheritance and disposal of rights. Weak regulating authorities.	Registration is legally required but there are inconsistent laws and confusion over administrative responsibility between agencies.	Compilation of registers and land reform under way. Institutional arrangements and land law need to be strengthened. Poor title information.	Requirements for land title registration are basically satisfactory but delays in transactions occur due to technical and organisation problems.	Land Registration System is basically working Problems with titling are mainly in large cities and in areas under land reform.	Records near completion. System working efficiently (except in capital cities). Titles are secure. Land reform is complete.	System is efficient and supports secondary market services, significant private sector involvement & cost recovery.
Pillar Two - Valuation	Absence of any accepted methodology for market based valuations. No body tasked with valuation.	There is a valuation methodology but little up to date or reliable data. Valuation may not be connected to market price.	Valuations tied to market price but results are unreliable due to poor data, low level of transactions, and poor reporting.	Systematic valuation records being compiled. Valuation seen as necessary to support the land market. Real Estate prices volatile.	Valuation system able to support market based property tax. Regulatory procedures are in place to monitor data quality .	Secure, reliable system supporting land transactions and fair and efficient property tax collection.	Complete valuation data sets available that can link to other land administration records. Significant private sector involvement.
Pillar Three - Financial Services	Almost complete absence of financing mechanisms.	Cash sales take place but the market is volatile with few transactions and potential speculation.	Mortgage support being introduced but foreign investment into real estate may be restricted.	Mortgages have become more accepted, and development financing is emerging.	Mortgages more widely available, interest rates near to EU/G7 norm .	Macro-economic stability helps real estate investment, encouraging institutional investors.	Pension funds, investment funds, life assurance and major investors are in place and safe
General Assessment	Land market operates through informal sector outside government authority.	Severe strategic impediments to land market activity with reforms progressing very slowly.	Major impediments to a formal land market. Reforms in progress but there are major policy weaknesses.	Reforms are being implemented but with unresolved difficulties that inhibit development.	System is basically working and land rights are seen as secure and transferable.	A mature market is beginning to appear with transparent land dealings.	Stable and secure real estate market, secondary market services developed.

TABLE B5: Land Policy Framework Matrix for Slovakia

LAND POLICY FRAMEWORK MATRIX for Slovenia							
- COMMAND ECONOMY -------->I<---------------TRANSITION ECONOMY--------------->I<------MARKET ECONOMY-----> |----- EU------							
LMI score	<1.5	1.5-1.90	2.0-2.4	2.5-2.9	3.0-3.4	3.5-3.9	>4.0
Policy Level Framework	Government does not support land market development or individual property rights	Weak political support for objectives of land market. No broad political consensus.	Inconsistent or inadequate policies leading to fragmented land management.	Individual policies sound. Some policy difficulties with coordination & information exchange.	Policies are coherent and preparations have started for EU accession.	All reforms are complete and negotiations for accession are under way.	Clearly defined and integrated land policies that comply with EU regulations.
Market Assessment – Participants	Relationship between land and people is weak with focus on use rights and occupancy, not ownership. Strong informal sector. Poor information	Participation severely restricted with unclear ownership rights and outstanding legal claims. Identification of owners and parcels difficult	Participation starting but interest limited due to structural problems and lack of market confidence. Data flows are weak.	Relationship between land and people becoming clear. Growing interest in land as a market commodity. Data flows improving.	Strong connection between land and people with a range of participants and types of land for sale. Information flows are working.	Institutional investors and investment funds are active in the market. Risks in real estate investment seen as low. Information is transparent	Large range of participants, goods and services. Real estate seen as a good, safe long-term investment.
Pillar One – Land Registration and Cadastre	Registration not legally required. Insecure laws with respect to ownership, inheritance and disposal of rights. Weak regulating authorities.	Registration is legally required but there are inconsistent laws and confusion over administrative responsibility between agencies.	Compilation of registers and land reform under way. Institutional arrangements and land law need to be strengthened. Poor title information.	Requirements for land title registration are basically satisfactory but delays in transactions occur due to technical and organisation problems.	Land Registration System is basically working Problems with titling are mainly in large cities and in areas under land reform.	Records near completion. System working efficiently (except in capital cities). Titles are secure. Land reform is complete.	System is efficient and supports secondary market services, significant private sector involvement & cost recovery.
Pillar Two - Valuation	Absence of any accepted methodology for market based valuations. No body tasked with valuation.	There is a valuation methodology but little up to date or reliable data. Valuation may not be connected to market price.	Valuations tied to market price but results are unreliable due to poor data, low level of transactions, and poor reporting.	Systematic valuation records being compiled. Valuation seen as necessary to support the land market. Real Estate prices volatile.	Valuation system able to support market based property tax. Regulatory procedures are in place to monitor data quality .	Secure, reliable system supporting land transactions and fair and efficient property tax collection.	Complete valuation data sets available that can link to other land administration records. Significant private sector involvement.
Pillar Three - Financial Services	Almost complete absence of financing mechanisms.	Cash sales take place but the market is volatile with few transactions and potential speculation.	Mortgage support being introduced but foreign investment into real estate may be restricted.	Mortgages have become more accepted, and development financing is emerging.	Mortgages more widely available, interest rates near to EU/G7 norm .	Macro-economic stability helps real estate investment, encouraging institutional investors.	Pension funds, investment funds, life assurance and major investors are in place and safe
General Assessment	Land market operates through informal sector outside government authority.	Severe strategic impediments to land market activity with reforms progressing very slowly.	Major impediments to a formal land market. Reforms in progress but there are major policy weaknesses.	Reforms are being implemented but with unresolved difficulties that inhibit development.	System is basically working and land rights are seen as secure and transferable.	A mature market is beginning to appear with transparent land dealings.	Stable and secure real estate market, secondary market services developed.

TABLE B6: Land Policy Framework Matrix for Slovenia