The Management of State and Public Sector Land in Transition Economies: An Overview of Issues and Ways Forward

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Key words: transition countries, state land management, property markets

SUMMARY

The transition from centrally planned to market economies has been underway since the opening of the Berlin Wall in 1989. This is often seen as being purely an economic change from one way of running an economy to another. There are also important political elements to the change since markets require particular political circumstances if they are to be efficient. Efficient markets are competitive with the absence of monopoly and the position of businesses being open to challenge by new entrants. This is difficult to reconcile with authoritarian governments who position is not contestable since this is likely to be linked to businesses whose market position is politically protected. Efficient markets need freedom of information, dissemination and assembly if they are to function. The transition process should therefore been seen as both an economic and a political process.

The transition process can be said to have finished when it is impossible to distinguish between those economies who have been through the transition process and those who have always been market economies. If a distinction can be identified, then the history of the transition economies can be said to continue to exert an influence on their current situation. This suggests that specific policies may be needed for transition countries. There is evidence that the property markets in transition economies are less efficient than those in non-transition countries, which suggests that policies to improve the management of state land may need to address how to make their wider property markets more efficient. There is also evidence that the public sector in the transition countries differs in performance from that in non-transition countries, particularly over the issues of corruption and public trust. Policies to improve the management of state land in transition economies need to tackle fundamental issues with the public sector as a whole.

Almost universally there are issues of the efficiency with which the public sector real estate is managed and the transition countries are no exception. Evidence from a limited number of the leading transition countries shows that they have made significant progress in the management of state land, particularly in registration, establishing a legal basis for management, compulsory purchase and the disposal of surplus property. In areas like accounting policies, private sector involvement in managing state land and the provision of public assets, and the development of strategic approaches to management, the leading transition countries would appear to be some way behind the world leaders.

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1. INTRODUCTION

To someone who was a schoolboy in London at the time of the 1962 Cuban Missile Crisis wondering whether it was worthwhile finishing his homework and a student during the Prague Spring of 1968, the events of 1989 leading to the tearing down of the Berlin Wall, the ending of Communist rule in Eastern Europe, and the break-up of the Soviet Union were quite remarkable. The disappearance of the Iron Curtain (Winston Churchill's famous 1946 phrase) between Stettin in the Baltic and Trieste in the Adriatic, the reunification of Germany, and the admission of ten former Communist countries to the European Union in 2004 and 2007 has fundamentally changed the political geography of Europe. It has brought increasingly close economic relations between Western Europe and Central and Eastern Europe and Central Asia and a realignment of political allegiances.

The events of 1989 brought great changes in the lives of those living in the transition countries. In many of the countries the citizens have come to enjoy a greater degree of participation in their government and the security provided by the rule of law, though a number of the transition countries remain under authoritarian regimes. Those who have come to adulthood since 1989 often have no understanding of what life was like before. Many of those living in the transition countries enjoy a standard of living much greater than before, with opportunities that were unimaginable in the past. There have also been many losers in the transition process, including those who used to work in industries that were not competitive once trade barriers were removed. Many of those working in the public sector and pensioners have seen their living standards fall as wages and pensions failed to keep pace with inflation, and others have experienced a loss of quality of life as public services have come under pressure (World Bank, 2002; Mitra et al, 2010).

The focus of attention in this seminar is on one limited aspect of transition, namely the management of state and public sector land. In market economies the allocation of land is not primarily by government, though government do use taxes and incentives to influence land use., Land allocation result from private interests bidding for the land they require. In principle, land is allocated to the use that is able to utilise it most efficiently, namely the use that is able to pay the highest price. The role of government in land allocation tends to be limited to providing land for public goods and services and to prevent land from being used in ways that society deems unsuitable, for example by protecting heritage buildings and landscapes and by regulating externalities. A feature of the transition process in most of the countries has been the creation of a land market in which private interests in land are traded. The state no longer directs land use and which enterprises and households have access to land and buildings in the way in which it did in the centrally planned economy. Rather market forces play an important role in these decisions with the state having important regulatory functions in the market. Many of the activities that were once the preserve of the state or state bodies and corporations, such as the supply of utilities, are now undertaken by private companies, so the state itself has shrunk in size and functions.

The seminar is concerned with the changes that have resulted in the management of state land, including how the state manages the land it needs for operational purposes as well as the land that has not been privatised and is used by enterprises. A universal feature of the public sector throughout the world is that it is not that efficient a manager of its real estate assets when compared with the private sector (Kaganova, McKellar & Peterson, 2006; Zimmermann, 2007; NAO, 2007). There are therefore important questions as to how the management of state land could be improved in all types of economy and not just transition ones. Central to the discussion in this seminar is the question of whether the transition countries still retain a legacy from their days as centrally planned economies and whether this makes them different from other types of economy, requiring different or additional policies to improve the management of state land than are being pursued in the market economies. The seminar looks at some of the success stories in the management of state land in transition countries and at some of the issues that still have to be resolved.

2. TERMINOLOGY AND DEFINITIONS

2.1 Transition countries

The term “transition countries” reflects the enormous political and economic changes that have taken place in Central and Eastern Europe and Central Asia since 1989. Economically the change is from being a centrally planned economy to one that allocates resources primarily through markets. The changes began more than twenty years ago, which raises the question of whether one can still talk about many of the countries in the region as still being “transition countries”? Whilst one could argue that Belarus and many of the Central Asian republics in the CIS are still in transition, can the same be said to be true of countries like Poland, Czech Republic or Hungary, which have been members of the EU since 2004? To answer this, one needs to define what the transition process is and when it can be said to be complete, particularly in relation to land markets in genera and the management of state land in particular.

There is no universal agreement as to when the transition process is over. For the EU, it is when countries have satisfied the requirements of the Copenhagen Council (1993) and have adopted the *acquis communitaire* (the body of EU statute and case law), and so can become member states. The three requirements set out in the Copenhagen Council are:

- Stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities (the *political* criterion);
- The existence of a functioning market economy and the ability to cope with competitive pressures within the EU (the *economic* criterion); and
- The ability to take on the obligations of membership, including political, economic, and monetary union (the criterion concerning adoption of the *acquis*).

Transition in context has economic, political, humanitarian, and capacity elements.

The current process of EU membership (as distinct from that was applied to Greece, Portugal and Spain when they joined) is that countries should not become members until they have adopted the *acquis communitaire* rather than joining first and then having a transition period of membership in which it was gradually introduced. Only limited transitional arrangements have been granted to the new members in areas such as the ownership of agricultural land and second homes (Grover, 2006). In practice, applicants enjoy many of the benefits of EU membership, particularly access to the EU market on a non-reciprocal basis, during the period in which they are adopting the *acquis communitaire.* The decision to admit a new member state is essentially a political one, although based on objective evidence gathered by the Commission as to how well it has performed against the membership criteria. The process does raise the question as to whether all the members fully met the criteria at the time of their membership or whether political considerations have led, in some cases, to premature entry.

The World Bank, by contrast, defines the transition process as ending at the point at which the differences between the old centrally planned parts of the economy and the new ones that have grown up under a market economy have been eroded away. In other words, one can no longer talk about enterprises being classified according to historically determined categories - old, restructured, and new.

> "At that point, the economic issues and problems policymakers must deal with are no longer specific to transition" (The World Bank 2002, p xix).

The implication is that once the transition process is complete, it should not be possible to distinguish between countries based on knowledge of their recent histories alone. If a visitor from Alpha Centauri can distinguish between transition and non-transition countries on an objective basis, the transition could be argued to be incomplete. As a number of the market economies have a higher income per capita than the transition countries, the differences should reflect ones in institutions, structures, values and systems between countries at a similar level of economic development. Specific to our interest in the management of state and public sector land is whether there are differences between transition and non-transition countries in the size, structure or workings of the public sector or in the functioning of property markets. The transition countries could be argued to form a distinct group if such differences can be demonstrated to be the result of their heritage as former centrally planned economies or past adherence to Marxist ideology.

But which are the transition countries? Clearly the countries of the Former Soviet Union and the European full members of Comecon fall into this category. So too do the European Communist countries which were not full Comecon members or withdrew from it, Albania and the countries of the Former Yugoslavia. In Europe transition has not just been an economic process of replacing central planning by a market economy. It has also been a political process in which the Communist Party has lost its monopoly on power, though in some parts of the Former Soviet Union one might argue that one form of authoritarian rule has been replaced by another.

There are also the Asian Communist countries, which have been going through a process of opening up their economies to market forces, such as the Peoples' Republic of China, Vietnam, and Cambodia. Over the last two years since President Raul Castro took over from his brother Fidel, there has been some liberalisation of the Cuban economy. Barber's shops, hairdressers and beauticians have been privatised; the totemic cars are now often owned by self-employed taxi drivers; there are private stalls, small shops, and pizza parlours operating in space rented out of houses now owned by their residents; tourists stay in hotels run by French and Spanish management companies; and private farms produce most of the country's tobacco crop. Can Cuba be regarded as a transition economy even though its government adheres to Marxist ideology? Arguably the changes are a pragmatic response to the effects of the American blockade no longer being mitigated by Soviet aid. The liberalisation policy could be argued to have more in common with the Soviet Union's New Economic Policy (1921-8), itself a response to crisis, than being a step towards transition. In Cuba, and to some extent in the Asian countries, economic transition has not been accompanied by political change.

Marxist-Leninism and the ideology of central planning were spread to the decolonised countries of Africa and elsewhere between the 1960s and 1980s. The USSR offered scholarships and training for cadres in its universities and those of its Eastern European satellites, as well as technical assistance. Many countries in Africa nationalised the land and, in some cases, attempted to create collective farming. The ending of Communist rule and the break-up of the USSR have also led to changes in many African countries. Should one regard those countries that have moved away from the command models they once embraced, such as Angola, Mozambique and Ethiopia, also as being transition economies? Should we also recognise any country which has had a Marxist government as being a transition economy?

The potential range of transition countries suggests that there is not a single path of transition. It is likely that the path is influenced by whether a country retained a memory of markets in the past for transition to build upon. Whether a country had undertaken reforms leading to liberalisation under Communism, as Hungary, Czechoslovakia and Poland did, may also play a role. The concept of transition is one of political change as well as economic. The pluralism, competition and contestability that are essential features of market economies need to be matched by political pluralism and contestability of power for transition to take place. Otherwise there is likely to be just a change from state-owned monopolies to private ones supported by the government or enjoying political patronage Efficient markets depend on freedom of information, since prices should reflect all that is known about goods and services. Without there being freedom of information, dissemination and association, it is difficult to see how efficient markets can develop. Human rights and the development of markets are therefore intimately related. Transition may be as much a political process as an economic one with political change being necessary to secure the efficient functioning of markets.

2.2 State land

State land comes in a number of different forms. It would be a mistake to regard state land as land owned and used by the state. The state may own land that is used by others or gain access to others' land as Figure 1 illustrates. The state is not a monolithic body but, rather, comprises a number of public sector bodies, including central, regional and local government, nationalised industries and state-sponsored non-governmental and non-departmental bodies. It can be quite difficult to determine which bodies form part of the state and which do not, particularly when the state contracts out some of its functions and services to private bodies, provides state guarantees to non-governmental bodies, or when it uses public-private partnerships to provide buildings, infrastructure or equipment. Where a government has adopted *Whole of Government Accounts*, in which the state is treated as a holding company with many subsidiary bodies, it is obliged to define which bodies form part of the government and which do not. Otherwise, the pragmatic approach adopted by Eurostat when dealing with public-private partnerships of looking at who bears the risks in construction and availability seems appropriate.

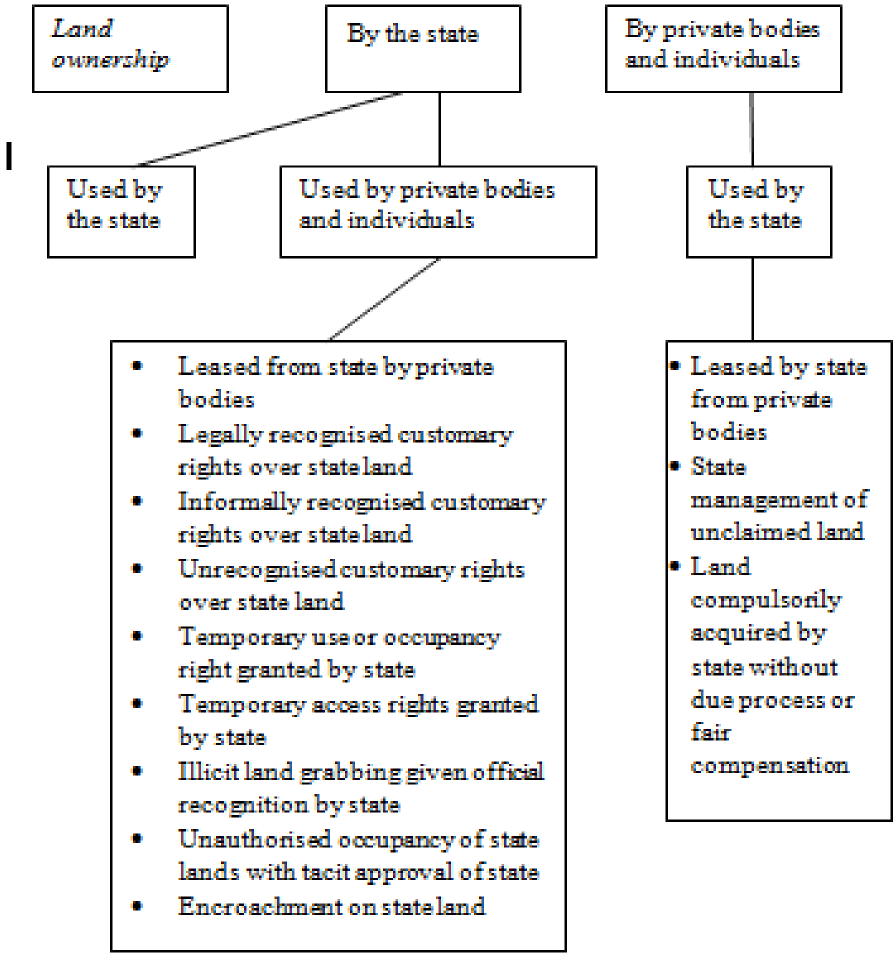


Figure 1 Aspects of state land

The state needs land for different purposes. Land is used for operational purposes to supply goods and services to its citizens, such as education, health care and defence. Such land could be rented or leased from private owners and this can be a useful strategy if the land has no long term potential as an investment or for the delivery of services. For example, the British government has sold a number of poor quality office blocks in unfavourable locations which have been used in the administration of taxation and social security payments. These are services in which substantial changes have been taking place in their delivery as a result of use of the internet to pay taxes and to assess social security entitlement (NAO, 2004; NAO, 2005). The long-term operational need for these offices is in doubt and their locations offer poor investment potential.

State land can be used to generate income from rents, royalties and premiums when it is let out to others. This can be a significant source of revenue and provide an alternative to raising additional incomes from taxes. For example, in the financial year 2011-12, the Crown Estate, which manages the monarch's land on behalf of the government, delivered a surplus of £240 million to the Treasury. This principally came from properties in London's West End and offshore developments, like wind-farms. The state can also play an important role in protecting land which has important cultural, heritage or environmental functions. Such land can be protected by other bodies, such as charities, so the role of the state in this respect is not inevitable. Market economies have land that the state uses for operational reasons and often generate income from state land for the national exchequer. In addition, the state usually owns some land that is regarded as an integral part of the patrimony of society for heritage or environmental reasons and is deemed to be essential for national security. Governments often use state land for what are considered socially desirable purposes, for example for social housing (UK), to support private persons permanently living in forest areas (Sweden), and to resettle internally displaced persons after invasion (Cyprus). The idea of what it is appropriate for the state to own in a market economy can be best summarised by the Australian government's policy on state land ownership:

> In addressing the government's objectives (how the project meets the strategic aims and stated outputs of government) a case for ownership or divestment must be made on the basis of one or more of the following criteria:
>
> - ownership is necessary because of national symbolic status;
> - ownership is necessary because of national heritage status;
> - ownership is necessary to meet environmental requirements;
> - ownership is necessary because of the highly specialised nature of property;
> - ownership is necessary to comply with stated national security requirements;
> - ownership is necessary to meet other strategic interests of the government; or
> - ownership is appropriate because it delivers best value for money for the Australian Government on a whole-of-life basis when compared to leasing and taking into account the particular characteristics and long term risks of property ownership.

Source: Australian Government Ownership Framework, 2005

The key difference between market economies and the centrally planned ones is in terms of the extent and ways in which the government directs the use of land and not the proportion of land that the state owns. In market economies, the state does not generally direct land use although it does influence it through taxes and subsidies and restricts land uses through spatial planning consents. Examples can be found of market economies in which the state owns all or most of the land, such as Hong Kong SAR. Land use is allocated through market forces through a competitive bidding process rather than by directive. Leases give tenants security of tenure and their length is sufficient to allow tenants to recoup their investment in buildings and infrastructure. The state can only resume control over the land ahead of the end of the lease by following due process and the payment of fair compensation for the tenant's loss, including loss of rental income during the remainder of the term. The state is constrained in its actions by the rights of its tenant, the need to respect contracts, and being subject to the rule of law. The transition to a market economy is therefore partly economic, whether land use is determined by state direction or market forces, and partly political, whether the state respects the rights of individuals and non-state bodies.

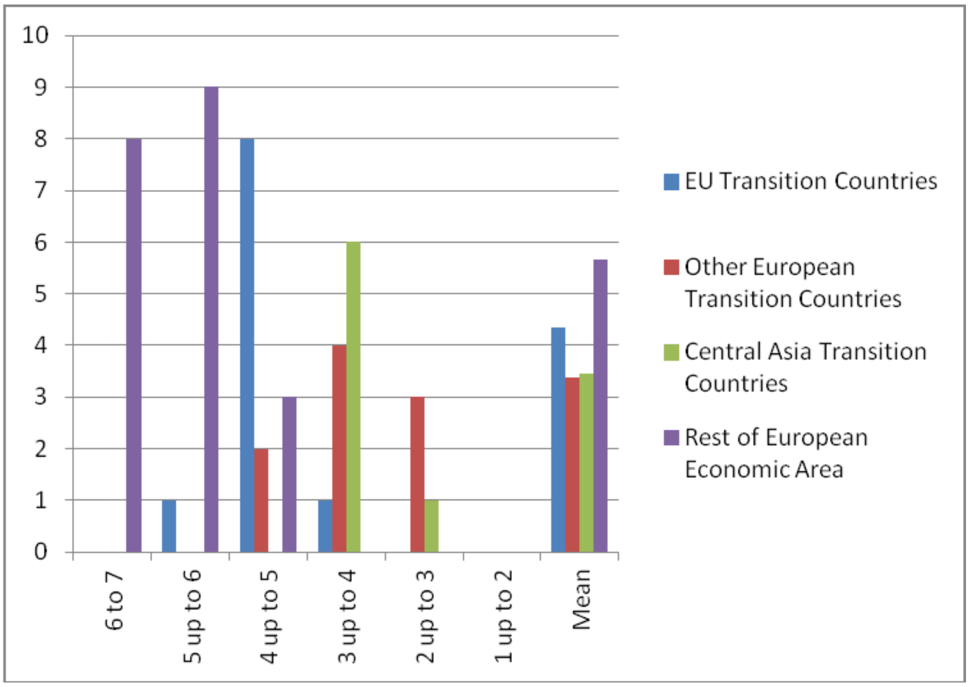
3. PROPERTY MARKETS IN TRANSITION COUNTRIES

A defining feature of the transition economies when they were under Communist rule was the absence of significant private rights over real estate. The Second All-Russian Congress of Soviets in 1917 issued a decree on land which made all land in the Soviet Union the property of the State. The 1936 Federal Constitution of the USSR placed an absolute prohibition on civil transactions relating to land. Tenure rights permitted tillage of the land and the erection of buildings (Vondracek, 1975). State bodies had rights of operational management but private ownership of land, other than of small rural plots and some residential property, did not exist. This system was exported to the countries in Central and Eastern Europe that fell within the Soviet sphere. For example, the 1936 Soviet constitution was extended to Estonia, Latvia, Lithuania, and Eastern Poland after their annexation in 1940, the Hungarian constitution of 1949 was modelled on the 1936 Soviet one, and the Polish constitution of 22 July 1952 had 50 of the 91 articles translated from the basic law of the USSR (Wagner, 1953).

The new constitutions adopted after the ending of Communist rule permit and protect private interests in property. For example, the 1993 Constitution of the Russian Federation starts from the basis that private property should be protected, Article 17 of the 1991 Bulgarian Constitution guarantees the inviolability of private property, and Article 64 of the 1997 Polish Constitution guarantees everyone the right of ownership. Do these fundament legal changes mean that the property markets in transition economies now function in the same way as non-transition ones? It would not be surprising if there were differences. It takes time to develop the infrastructure and regulatory framework for property markets to function efficiently.

The transition economies inherited a land use pattern that was significantly different from that found in market economies in a number of important respects. Urbanisation was driven by a forced industrialisation policy in which housing and social infrastructure was subordinated to industrial requirements. The economies were over-industrialised and under-provided with services leading to underinvestment in offices and retailing. In the absence of price signals, resources like space, energy and water were wasted. Development densities were often high at the edges of urban areas with high rise residential complexes in areas in which space was readily available. The classic distance decay relationship by which urban density declines with distance from the city centre was ignored in land use planning. City centres often had large areas of prime land given over to low productivity industrial activities and their support functions (Bertaud & Renaud, 1997; Buckley & Mini, 2000). These trends tended to be more pronounced in the Soviet Union than in Eastern Europe. Such land use patterns take time to change. Factors such as the level of municipal ownership of land in urban areas, businesses not having long-term rights over the land they occupy or being incentivised to improve the productivity of their land, and subsidies to housing and utilities slow down change.

Figure 2 Security of Property Rights in Transition and Non-transition countries

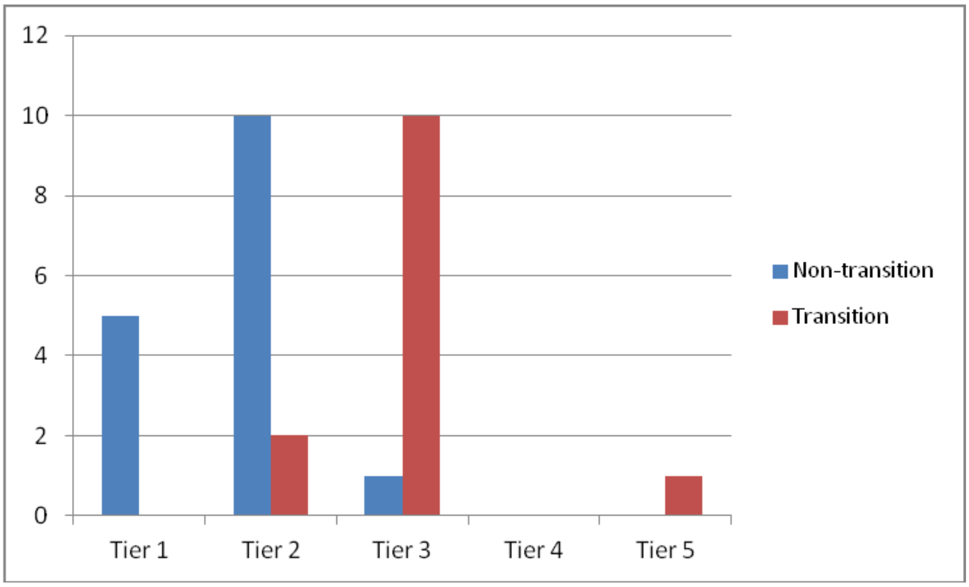


Source: WEF (2010)

Figure 2 examines whether there are differences in the strength of property rights between transition and non-transition countries using data extracted from the World Economic Forum's 2010 survey. This was a survey of 15,000 executives from 139 countries undertaken between January and May 2010, resulting in 13,607 usable responses and a median response of 87 respondents per country. Respondents rated their country on a scale of 1 (poor performance) to 7 (excellent) and so the data reflects their perceptions. The weakness with this approach is the extent to which respondents are able to calibrate the performance of their country in comparison with others. The countries are divided into four groups: the transition countries that have joined the European Union, the other European transition countries, the Central Asian transition countries, and those countries from the European Economic Area which are not transition countries. The data indicates that property rights in the non-transition countries are perceived to be stronger than those in the transition countries. The EU transition countries are viewed as having more secure property rights than other transition countries. EU membership would appear to have narrowed, but not eliminated, the gap with Europe's non-transition countries.

One way of comparing the property markets in the transition economies with those of other countries is to use a measure of market transparency. The more transparent a market, the greater its efficiency and fairness to all participants, as information is widely available and the transactions processes do not consistently favour any group of buyers or sellers. Jones Lang LaSalle has developed a Global Real Estate Transparency Index (GRETI). The 2010 Index covers 78 countries (Jones Lang LaSalle 2010). The countries are those that tend to be of interest to western property investors so, for example, there are no countries from sub-Saharan Africa. The Index is the product of a survey of business leaders and researchers across the company, who produce an answer for their respective countries. It is concerned with commercial property markets and not residential ones. Countries are ranked on the basis of 20 major questions which are concerned with performance measurement, market fundamentals, the regulatory and legal environment, and the transaction process. Scores in each area are amalgamated to produce a composite score. A low score means that a market has a high level of transparency, whereas a high score means that the market is more opaque. Countries are classified into tiers: Tier 1 highly transparent, Tier 2 Transparent, Tier 3 Semi-Transparent, Tier 4 Low Transparency, and Tier 5 Opaque.

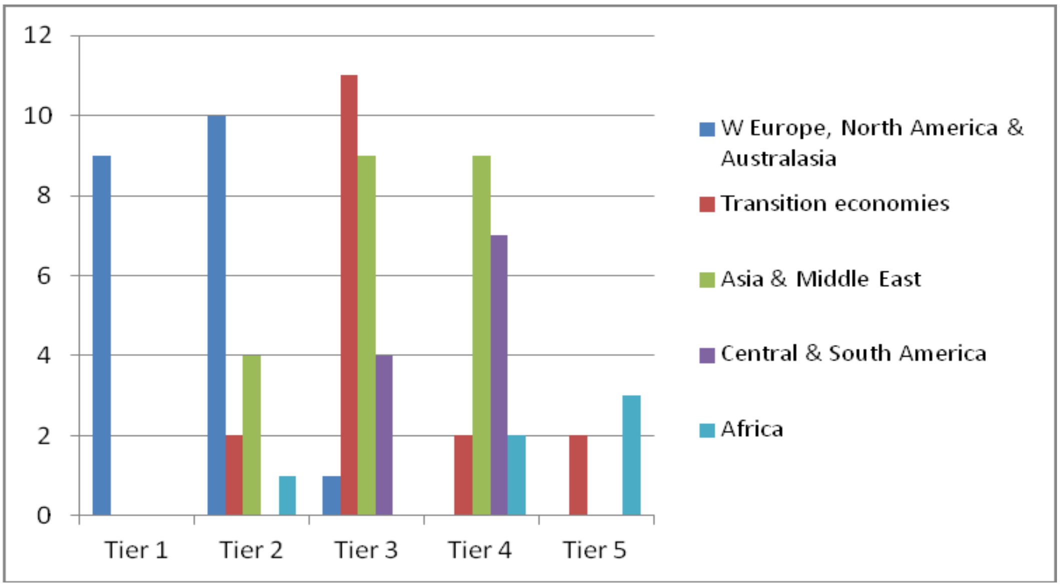
Figure 3 Market transparency of transition and non-transition countries in Europe



Source: Jones Lang LaSalle (2010)

Figure 3 compares the market transparency of the European transition countries (excluding those in Central Asia) with that of the non-transition countries. Figure 4 produces similar data on a worldwide basis. The transition countries in this case include Asian ones, such as China, Cambodia, Kazakhstan and Vietnam. The property markets in transition countries are significantly less transparent than those for Western Europe and North America. The distribution of transition economies is broadly comparable with that of the countries from Asia and the Middle East and better than that found in Central and South America and Africa. The evidence suggests that market transparency tends to vary with the level of development rather than there being a specific transition factor. Development should be interpreted more broadly than just income level. The GRETI elements correlate strongly with the World Bank's Voice and Accountability indicator of governance, suggesting that property market transparency is linked to freedom of expression and association. A transparent property market requires the ability of traders to transmit and receive data and analysis. Market transparency, as measured by GRETI, is also associated with reliable public services, high standards of corporate governance, the quality of infrastructure and education, effective anti-monopoly policies, and the availability of financial services (Grover R & C, 2012). It is associated with pluralist economies. Transition economies are not alone in having a history of markets being dominated by the state and state-sponsored or protected businesses. Distinguishing the legacy the transition economies have from central planning from other types of command economy may be difficult.

Figure 4 Market transparency of transition and non-transition countries worldwide

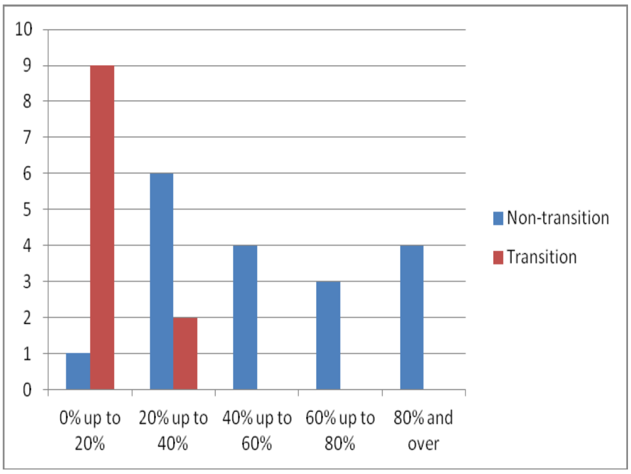


Source: Jones Lang LaSalle (2010)

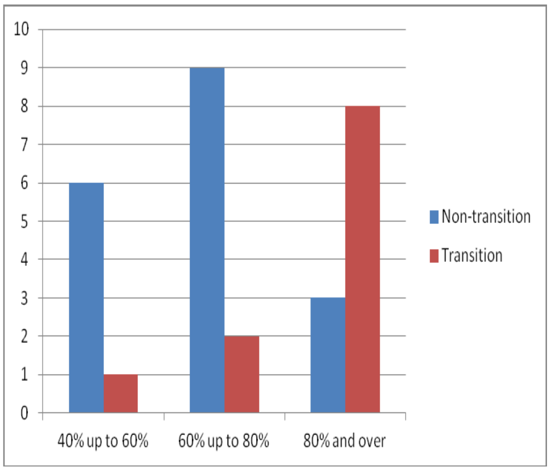
The workings of the residential mortgage market suggest that there is a clear distinction between transition and non-transition countries. Figure 5 compares the ratio of mortgage debt to Gross Domestic Product for Europe's transition and non-transition countries. 2008 was chosen as the basis for comparison so that the figures would not be distorted by the subsequent financial crisis. The transition countries have much lower ratios of mortgage debt than the non-transition countries even though the level of owner occupation is generally higher. This is likely to reflect two factors. The first is that many of the current generation of owner occupiers in the transition countries did not acquire their properties through purchase from another owner occupier but instead received them through privatisation, restitution or their permanent occupancy being recognised as ownership. The second factor is likely to be legal inefficiencies and uncertainties in the mortgage process (EBRD, 2007). Underlying this is the relative underdevelopment of financial services in transition countries, a legacy of the absence in the central planning system of the need to allocate savings to investment using a pricing mechanism rather than by plan (Gros & Suhrcke, 2000). However, as Figure 6 shows, the risk premium for transition countries before the financial crisis fell in both absolute and relative terms, with representative mortgage interest rates coming together.

Figure 5 The European Mortgage Market in 2008

Mortgage debt to GDP (%)



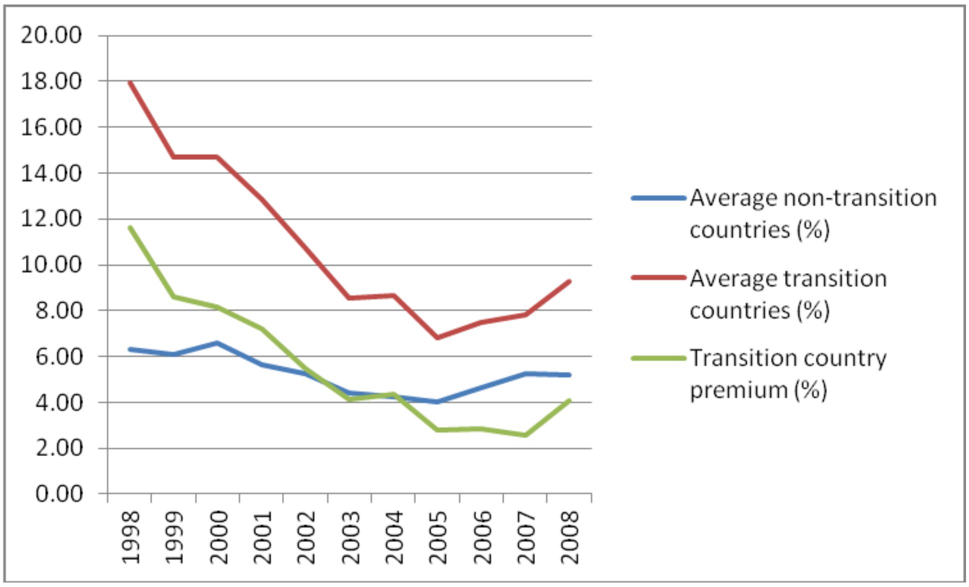
Owner occupation rate (%)



Source: European Mortgage Federation (2010)

The analysis indicates that there is a gap in the strength of property rights and the performance of property markets between transition and developed non-transition countries. This may in part reflect differences in the level of economic development as well as the histories of the transition economies. In property finance there appears to be a transition factor associated with the limit role of the financial sector in allocating investment funds in centrally planned economies. The management of state and public sector land in transition economies takes place within the context of less developed property market institutions and financial arrangements than exist in the developed non-transition countries. The analysis suggests that policies to improve the quality of management of state and public sector land may need to be pursued in association with policies designed to improve the efficiency with which property markets in general function.

Figure 6 Representative European Interest Rates on New Mortgages (%)



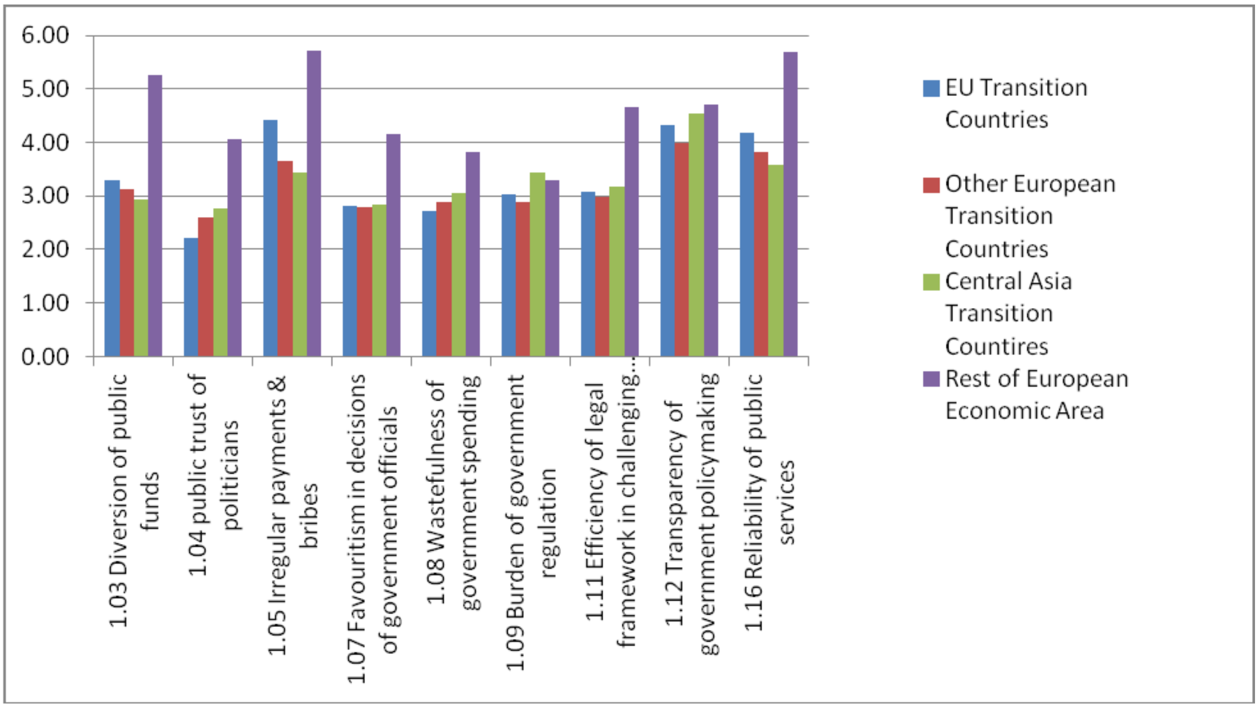
Source: European Mortgage Federation (2010)

Note: the number of transition countries for which there is data increases during the time period

4. THE PUBLIC SECTOR IN TRANSITION ECONOMIES

To what extent are there differences in the behaviour of the public sector between transition and non-transition economies? These potentially could be in terms of efficiency, capacity or values, for example, whether the level of corruption is higher. Some aspects of these questions can be explored using World Economic Forum data (WEF, 2010) as is done in Figure 7. The scores awarded by respondents are compared for the same groups of countries as was used in Figure 2. With the exceptions of the burden of government regulation and the transparency of government policymaking, respondents rated the non-transition countries more highly than the transition ones. Respondents rated public services in transition countries to be less reliable than in non-transition ones, government expenditure to be more wasteful, public funds as being more likely to be diverted, bribes more likely to be paid, and it being more likely that government officials will show favouritism in decisions. In essence, the data suggests that a culture of public service is less developed in the transition countries than the non-transition ones. The perception of respondents is that transition countries in the EU as a whole are not significantly better than other transition countries.

Figure 7 Average ratings of the public sector in transition and non-transition countries

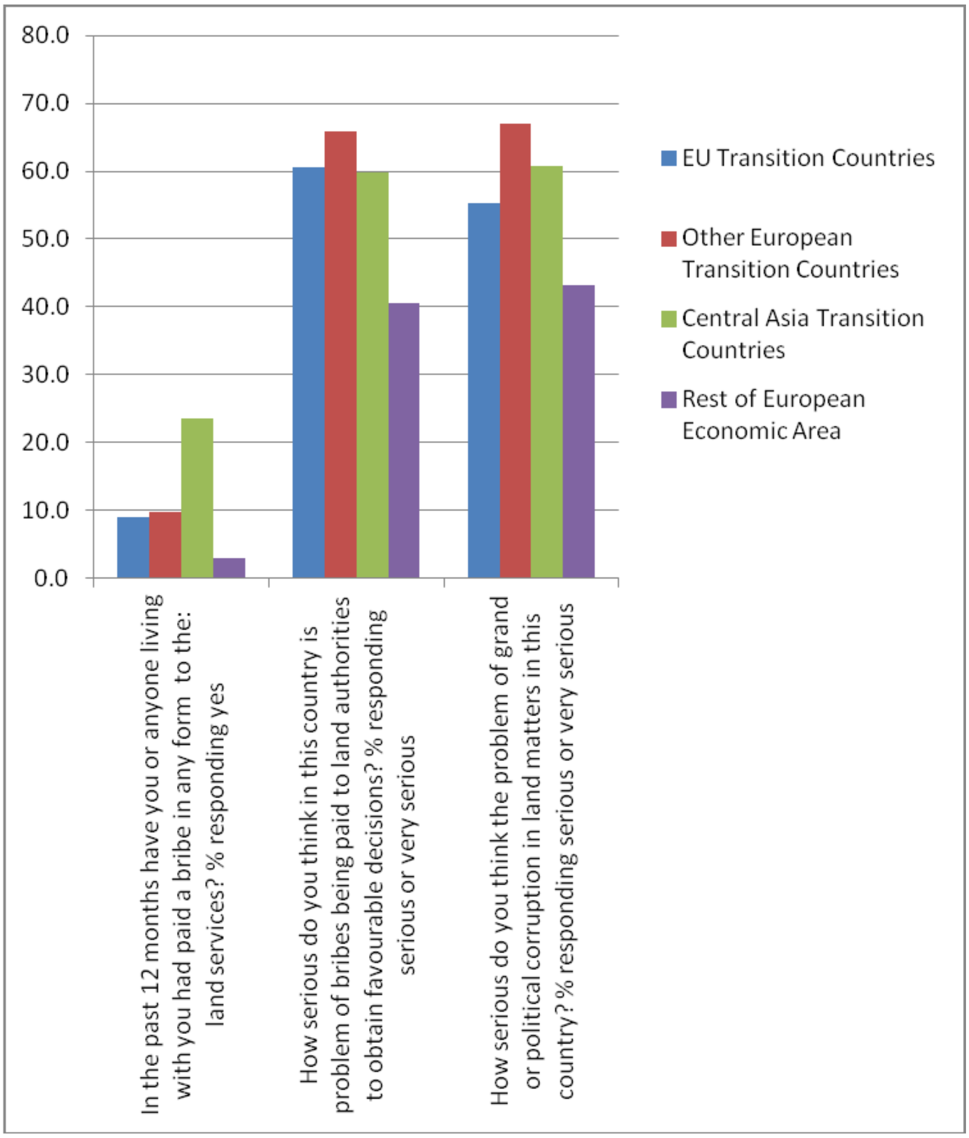


Source: WEF (2010)

Transparency International (2010) has collected data on perceptions of corruption in land services. The number of countries for which there is data is limited to those with an active chapter and, like all perceptions of criminality, the views of respondents may be different from the reality. There are significant correlations between the Transparency International data and that from the World Economic Forum on the diversion of public funds, irregular payments and bribes, favouritism in the decisions of government officials, and public trust of politicians (Grover R & C, 2011)

Figure 8 examines the differences in perceptions of bribery between transition countries and the non-transition countries in Europe. The data suggests that transition countries have a higher level of bribery in land services than the non-transition countries in the European Economic Area. More respondents in transition countries thought that their country had a serious problem of bribers being paid to land authorities in order to secure a favourable decision or that there was a serious problem of grand or political corruption in land matters than in non-transition countries. The gap would be greater but for the non-transition countries falling into two distinct groups. Respondents from the countries in Southern Europe had perceptions of the seriousness of bribery to secure favourable decisions and grand or political corruption which were only slightly below those in transition countries whereas those from Northern Europe were much lower.

Figure 8 Bribery and corruption in land services

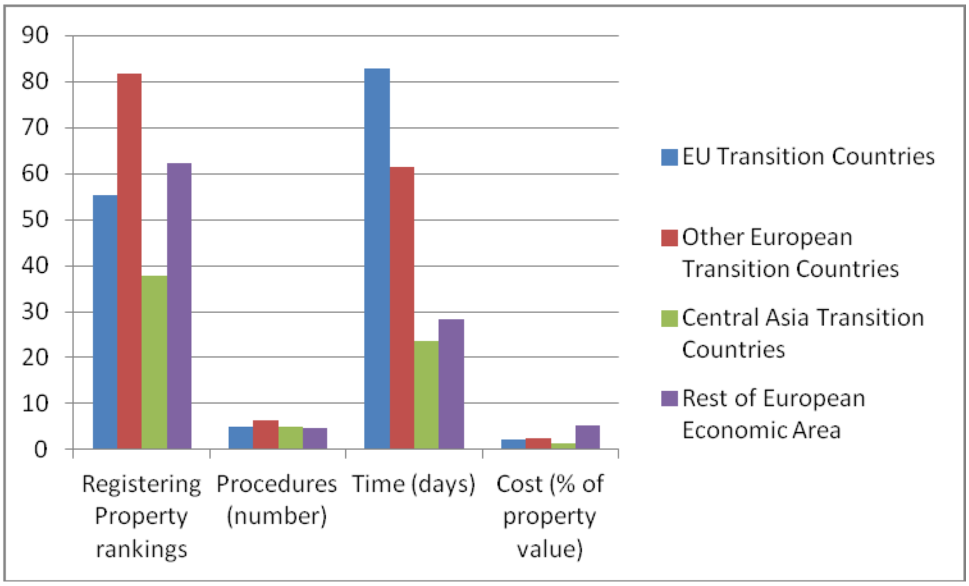


Source: Transparency International (2010)

The issue of corruption in land services cannot be divorced from general attitudes towards corruption in a country. There is a high level of correlation between the proportion of respondents who reported that they or a member of their household had paid a bribe in the previous 12 months for land services and those reporting bribes paid to the education system, judiciary, medical services, police, utilities, tax revenues, and registry and permit services. There was also a correlation with the certainty of outcomes, indicating that bribes are paid where these are expected to effective. The analysis also suggests that those paying and receiving bribes do not share the condemnation of this behaviour by the population at large and have a different view of behaviours such as the use of tipping boxes and the giving of gifts to public officials (Grover R & C, 2011).

The World Bank's Doing Business data (World Bank, 2009) allows comparison to be made in terms of the procedures, time taken and cost of registering property between transition and non-transition countries. The scenario used is for a ten year old two-storey warehouse in good condition of 10,000 square feet (929 square metres) on a land area of 6,000 square feet (557.4 square metres) in a peri-urban commercial zone. The property is sold between two limited liability companies that are domestically and privately owned and is already registered. There is no mortgage and the property is assumed to have a value of 50 times the per capita income. Figure 9 shows that there is little difference between transition and non-transition countries in terms of the number of procedures used to register properties. The cost of registering property in the non-transition countries in the European Economic Area tends to be higher than in the transition countries but time taken for registration tends to be lower. The Central Asian transition countries tend to be ranked more highly by the World Bank than the other groups. These figures may reflect the investment that the World Bank and other donors have made in land registration projects in transition countries.

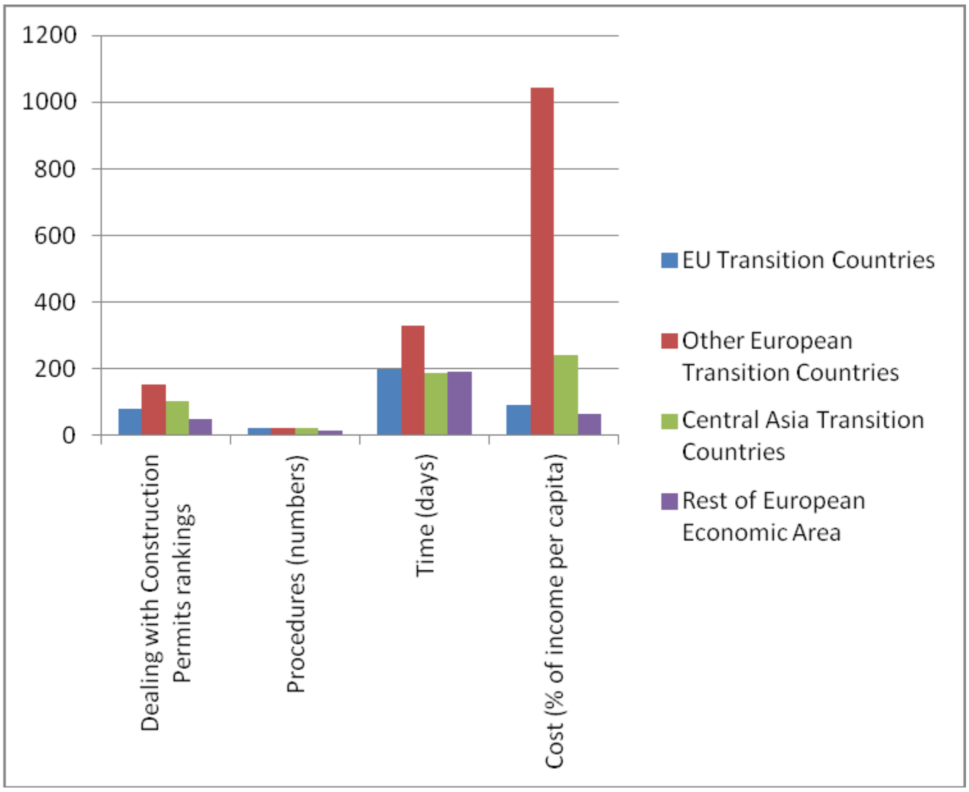
Figure 9 Property registration in transition and non-transition countries



Source: World Bank (2009)

The Doing Business survey also examines the procedures, time and cost of obtaining a construction permit. The scenario involves the building of a warehouse for general storage in a peri-urban area of the economy's biggest business city. The warehouse has two storeys with a surface area of 14,000 square feet (1,300.6 square metres) and a 3-metre floor height. It is on a land area of 10,000 square feet (929 square metres). The procedures include those for obtaining standardised electricity, water, sewerage and fixed line connections and the registration of the property. The building company is a limited liability one which owns the land. It employs a licensed architect and the necessary qualified technical staff. The procedures include submitting the relevant project-specific documents, obtaining the permits, clearances and certificates, completing required notifications, and receiving the necessary inspections. Figure 10 shows that fewer procedures were required to obtain a construction permit and the costs to be paid were lower in the non-transition countries.

Figure 10 Construction permits in transition and non-transition countries



Source: World Bank (2009)

The data on public sector performance suggests that there is a gap between the transition and non-transition economies. This is least in the area of property registrations, though the data collected by the World Bank does not cover residential property or the quality of registration. It is most noticeable in areas such as the reliability of public services, the ability to challenge the legal basis for public sector actions, and the extent to which the public sector is regarded as being corrupt. These findings indicate that the gap is primarily one of the values and attitudes of those working in the public sector rather than capacity. It suggests that policies to improve the management of state and public sector land need to address issues like ethics and the notion of what constitutes public service rather than just addressing technical capacity and facilities.

5. CHANGES IN THE MANAGEMENT OF STATE AND PUBLIC SECTOR LAND

5.1 State Land Management in Developed Countries

The management of state and public sector land in non-transition countries has changed in some important respects during the transition period. The standards of management that transition countries are expected to achieve have therefore changed during this period as developed countries have sought to address chronic inefficiencies in the way in which they manage state land. Governments have often sought to improve the quality of land management through advice and training for public officials responsible for the management of real estate assets. For example in the UK the RICS in 2008 produced with the support of the government guidance on asset management for public bodies (RICS, 2012). It is difficult to summarise the ways in which the management of state land has changed in the developed countries during the past decade, particularly as often there are isolated examples of good practice, which have not been rolled out more widely. However, three main changes stand out:

- The privatisation of what had been publicly supplied goods and services;
- The adoption of the *New Public Management*;
- The adoption of accruals accounting.

Privatisation has been actively pursued in the developed economies since the 1980s and takes a number of different forms. In some cases governments have sold state- or municipally-owned enterprises to private investors through the public offerings of shares or trade sales to companies. This has particularly occurred in the utility and transport industries and has resulted in the state withdrawing from certain areas of the economy which it once dominated. The real estate assets in the sector also pass into private hands. Consumers generally have a choice of private supplier rather than receiving the goods or services from a state monopoly. The justification has been that consumers get better value for money from a private supplier in a competitive market than from a government monopoly, though doubts have been expressed as to how genuinely competitive markets can be where a product has to be supplied through a network that results in a natural monopoly.

Privatisation has also taken the form of a public service being provided by a contractor employed by the state or municipality. Citizens receive the service from a public body, usually without payment, but it is actually delivered by a private company or charitable body under contract. This initially occurred in a wide variety of support services in healthcare and government, such as cleaning, accounts and social care, and municipal services such as refuse collection, construction and maintenance, and grounds maintenance. It now extends to private companies running schools, hospitals and prisons on behalf of the government and to a wide range of ancillary services, for example, the protection of embassies. The argument has been that introducing contestability into supply through the renewal of contracts and the enforcement of contract terms produces better value for money and efficiency than can be obtained from a government or municipal body, whose position is unchallenged. The real estate assets used may remain with the public body, though they are used by a private one.

Public private partnerships enable public bodies to access investments in facilities made by private investors. These can include the public sector renting assets such as new or refurbished schools or hospitals, student accommodation, prisons, computer equipment, and roads. Since governments can generally borrow more cheaply than private investors, there is a cost penalty in private investors providing the assets rather than the public sector constructing them using borrowed finance. The argument put forward in their favour is that private contractors are more efficient than public bodies and the risk of obsolescence and management can be passed on to the private sector. Experience suggests public bodies can run into financial difficulties with such contracts if the costs of using the facilities are not properly budgeted for as often the true cost of the public sector using the assets has been hidden in the past and now rental payments have to be made. The assets may be privately owned or transferred to a public body at the end of the contract.

The *New Public Management* refers to a series of measures rather than a single coherent philosophy as to how public services should be managed. The main elements according to Hood (1991), who was one of the originators of the term, are:

- Hands on professional management
- Explicit standards and measures of performance
- Greater emphasis on output controls
- Shift to disaggregation of units in the public sector
- Shift to greater competition in the public sector
- Stress on private sector styles of management
- Stress on greater discipline and parsimony in resource use.

An important aspect has been the transfer of responsibility for the delivery of services, and also for the management of real estate assets, from central management in the public sector to those actually responsible for delivering the services (Grover, 2009). The centre retains control over budgets and the specification of services. The services can be produced by public sector agencies or private bodies under contract. In education, for example, power over the delivery of services has shifted from ministries and municipalities to schools with the role of government being one of funding and setting performance targets. Schools have the power to determine how much to spend on buildings maintenance or building extensions compared with staff or equipment.

Accruals accounting is a system under which income and costs are matched so that the income earned in an accounting period is recorded together with the costs incurred in earning it. The revolution in the public sector is that the costs of using real estate assets have to be accounted for and balance sheets showing their depreciation compiled (Grover, 2009). Real estsate assets can no longer be treated as ”free” goods but public bodies must produce a return on the capital employed in them. Whether real estate assets are owned or rented becomes an important choice. The UK, Australia, New Zealand and Canada are amongst the countries to have adopted this approach. The UK government now produces Whole of Government Accounts as if it were a holding company with all the government departments, agencies, local authorities, and other public bodies as its subsidiaries.

5.2 State Land Management in Transition Countries

A comprehensive survey of state land management in all the transition countries is not possible but FIG Commission 7 undertook a survey of state land management in a number of countries in 2010 (Grover & Elia, 2011). The survey included responses from Bulgaria, the Czech Republic, Lithuania, FYR Macedonia, Poland, Russia, and Slovenia[1]. Whilst these could not be regarded as a random sample of transition countries, the respondents were self-selecting, the results do provide an indication of what might be regarded as the best practice in transition countries. The survey also included responses from Canada, Cyprus, Hong Kong SAR, the Netherland, New Zealand, Norway, Sweden, and the UK so comparisons can be made with non-transition countries.

Few countries have a clear statement of their policies for state land in the way that the Australian government has and six of the transition countries are no exception. Slovenia in 2009 adopted a *Strategy for the Management of Publicly Owned Real Estate in Slovenia.* The absence of a strategy can result in concentration on detailed operational policies and issues that affect individual properties rather than on overall direction. The transition countries have tended to put in place a legislative framework in which state land management takes place, such as Poland’s Real Estate Management Act (1997), Bulgaria’s State Property and Municipal Property Acts, and Lithuania’s Law on the Possession, Use and Disposal of State and Municipal Property. This legislative framework represents an important break with the past. The framework has been adopted through the democratic process and the actions of public bodies are subject to the rule of law. Law is no longer subservient to economic policy.

[1] The contributors to the survey were Rossen Kostov (Bulgaria), Libor Tomandl (Czech Republic), Kiril Georgievski (FYR Macedonia), Pranas Aleknavicius, Romualdas Kasperavicius, Bronislovas Mikûta & Ausra Rackauskaite (Lithuania), Marta Gross & Ryszard Źróbek (Poland), Alexei Efimov & Mikhail Soloviev (Russian Federation), and Tomaz Petek (Slovenia). They are not responsible for any errors in this paper.

Transition countries have some institutional forms not found in the non-transition economies, particularly state property funds to manage land that has still to be privatised or to be restored to claimants under restitution programmes. All of the transition countries, except Poland and Russia, have restitution policies to restore land expropriated during the Communist period to its owners or their heirs or to pay compensation. The Western European countries do not have such policies though Australia, Canada and New Zealand have policies to settle claims for the loss of land rights by their indigenous peoples. Apart from Bulgaria, which has a concept of public and private state and municipal land, state land does not form a separate tenure.

The transition countries have established land registers and cadastres and state and public sector property is recorded in these alongside private property. In this respect, the transition countries put some of the non-transition countries to shame. The UK has no cadastre and, although land registration is compulsory, registration is on a sporadic basis triggered by certain events, such as sales and the death of the owner. Much public sector land is unregistered because it has not experienced one of the trigger events that would make registration mandatory.

Steps have been taken towards accruals accounting in a number of the transition countries. Public bodies produce balance sheets in Bulgaria, the Czech Republic, Lithuania and Poland. Apart from Bulgaria, the accounts in these countries are independently audited and published. However, only in Lithuania and Poland is there a charge for using the land other than when land is acquired from another public body. There has been almost no use of outsourcing for the management of state land, other than for residential properties in the Czech Republic. In the Czech Republic, Poland and Slovenia there has been limited use of public private partnerships.

The general rule for the disposal of state property is that it should be done through auction and for the market price. Where the state needs to acquire land for a public purpose, it can do so through compulsory purchase. In marked contrast to the Communist era, compensation at market value is paid when land is acquired compulsorily – it is not expropriated.

6. CONCLUSIONS

The transition countries are a very diverse group in terms of levels of development. Those that have joined the EU have been obliged by the process to bring about major changes in their economies and also in the political sphere as a condition of membership. For transition to continue to be of relevance, there must be differences between the transition countries and non-transition ones which are explicable in terms of their histories. The evidence on the functioning of property markets and the performance of the public sector suggests that there remain significant differences between the transition and non-transition countries. They suggest that policies to improve the management of state land in transition countries need to be accompanied by policies to improve the efficiency of property markets and the management of public services in general. Examination of the state land management policies pursued by some leading transition countries suggests that they have or are in the process of adopting many of the policies that are recommended for managing state land but these countries represent best practice in transition countries. Others may have much more to do. In areas like establishing the legal basis for managing state land, disposal of surplus land, compulsory purchase, and the registration of state land significant progress has been made by the leading transition countries. In areas like accounting policies, private sector involvement in the management of land and the provision of real estate assets, and the development of strategic approaches to management, there is still some way to go.

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BIOGRAPHICAL NOTES

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