

# Land Market Development and Small Farms' Access to Land in the Pre-accession Countries (LMSF-AC)

## Interim Meeting

Country surveyed: REPUBLIC OF SERBIA

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## GENERAL INFORMATION

- According to data of the Statistical Office of the Republic of Serbia (SORS), Census of Agriculture 2012, Serbia has 3,861,477 ha of agricultural land, or 3,437,423 ha of utilized agricultural area (UAA).
- Good quality of agricultural land per capita (0.48 ha of UAA) and favourable ratio between arable land and permanent plantations, on one hand, and permanent grassland, on the other hand, indicate that Serbia belongs to European countries with favourable land resources.
- The highest percentage of UAA (82.2%) belongs to family farms, which share is 99.5% in total number of agricultural holdings (631,522).
- Average size of UAA per agricultural holding is 5.4 ha, and lower value of this indicator is recorded for all regions in Serbia, except Vojvodina, where the average size of agricultural holding is 10.9 ha UAA.
- According to the data of the Republic Geodetic Authority, 62% of arable agricultural land belongs to I to IV cadastral class, while 38% belongs to V to VIII cadastral class. The first four cadastral classes can be used without any restriction, while arable agricultural land from V to VIII cadastral class has a smaller or limited production potential.

## GENERAL INFORMATION

- Rented for money or in kind: 875,242 ha;
- Among European countries, Serbia has a *medium (moderately) developed sale agricultural land market*. Every year, 1-3% of the total UAA is sold and purchased, and in the following period this market is expected to be even more dynamic, given the following: (a) part of the state agricultural land will be subject to purchase, (b) sale of land by elderly households, and (c) change of tax policy (a shift from taxation by cadastral income to taxation of agricultural land at market value) will contribute to the transition of land from inefficient to efficient farmers.



## GENERAL INFORMATION

### **Share of uncultivated land**

- According to data of the Census of Agriculture 2012, the size of unutilized agricultural area is 424,054 ha, which accounts to 11% in relation to agricultural area.
- Unutilized area is land that lies fallow or is uncultivated. Besides the areas left for fallow land, a significant part of the area under meadows and pastures is not used due to inaccessibility, weed infestation or economic inefficiency.

## GENERAL INFORMATION

The biggest obstacles to the development of the effective agricultural land market are:

- Insufficiently effective implementation of laws in practice;
- Inadequate tax policy;
- Data on unique real estate records are not updated;
- High fees for certification of purchase and rent agreements with public notaries;
- Lack of own funds and inadequate creditworthiness of small farm households for the purchase of agricultural land;
- Social insecurity of landowners (landowners do not have a safe job, they have low salaries, and they pay a small tax on agricultural land, and therefore they do not want to sell it);
- Relatively long-lasting probate proceedings;
- Fragmentation of property (on average, land consists of 6 individual parcels);
- Insufficient interest of farmers for land consolidation, expensive and long-lasting land consolidation procedure;
- Unfinished restitution procedure;
- Geographical information system on agricultural land exists only for state agricultural land, not for all types of agricultural land (LPIS - Land Parcel Identification System is planned to be introduced).

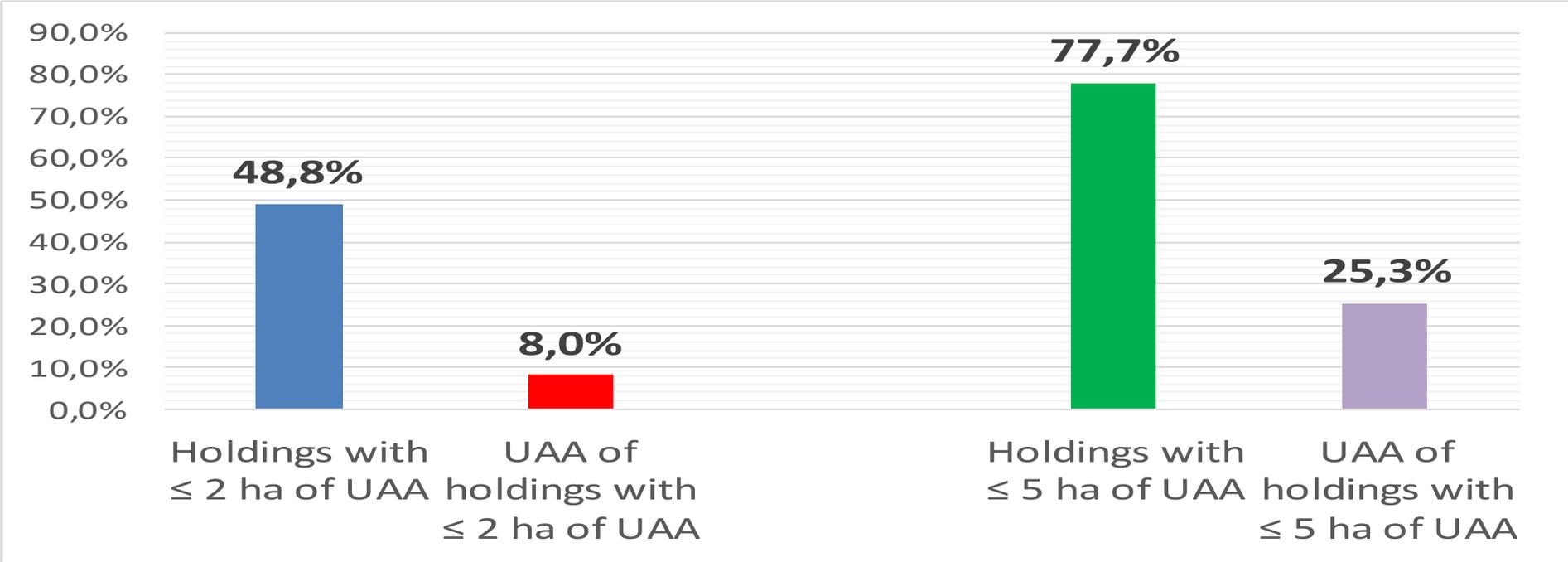
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# GENERAL INFORMATION

*Graph 1. Share of small agricultural farms with  $\leq 2$  ha and  $\leq 5$  ha of UAA and their share in total UAA in Serbia, 2012*



## Rental market

	<b>No. of transactions, 2012</b>	<b>Transacted area (ha), 2012</b>
State-owned agricultural land/ <sup>1</sup>	7,693	261,315
Privately-owned agricultural land	35,000/ <sup>2</sup>	613,927/ <sup>3</sup>
<b>Total of rented UAA</b>	<b>42,693</b>	<b>875,242/<sup>4</sup></b>



## Rental market

- **“grey” market** - 5-10% (experts estimate).
- Notary public, who confirmed (solemnized) a real estate trade contract, is obliged to immediately send the certified copy of the contract to the court that is competent for keeping a special record of the real estate trade contract.
- Notary public, who confirmed (solemnized) a real estate trade contract, is obliged to submit a certified copy of the contract to the body responsible for determining and collecting public revenues, within ten days from the date of conclusion of the contract.

## Rental market

### **How are the rental prices of agricultural land formed?**

- The rental prices of agricultural land are formed on the market and depend on supply and demand.
- The owner of *privately agricultural land* forms the rental price in agreement with the tenant.
- *State-owned agricultural land* is rented by a local self-government unit (local self-government units carry out the procedure, while the Ministry of Agriculture, Forestry and Water Management concludes the contract), and the initial price shall be determined on the basis of the rents paid for the agricultural land in the previous year (in the first round, the starting rental price is 80% of the market price, and in the second round it is 60% of the market price for the rent of agricultural land last year).

## Rental market

- *State owned agricultural land* (year 2016): 197 EUR/ha for arable land medium or average quality (Ministry of Agriculture, Forestry and Water Management), with constant growth of rental prices. Prices are very different in the regions, and especially in the units of local self-government. In Vojvodina, rental prices are approximately 35% higher than in central Serbia.
- *Privately owned agricultural land* (year 2016): 180 EUR/ha for arable land medium or average quality (experts estimate).



## RENTAL MARKET

### Conditions for renting agricultural

There are no restrictions for renting *privately owned agricultural land*.

The tenant of *state owned agricultural land* can be a natural and legal person that fulfils certain conditions. There are several conditions for renting state owned agricultural land depending on whether this land is rented under: (a) *the right of priority lease*, (b) *the right of first refusal*, or (c) *in the first or second round of public bid*.

(a) *the right of priority lease* may be exercised by *legal entities* (registered agricultural holdings in active status), which will invest at least EUR 500,000 in processing capacities (minimum 500 EUR/ha), except in units of local self-government that have less than 1,000 hectares of state-owned agricultural land, where the total investment amount may be less than EUR 500,000;

## SALE MARKET

	No. of transactions, 2015	Transacted area, 2015, ha
State owned agricultural land/ <sup>1</sup>	0	0
Privately owned agricultural land	41,115/ <sup>2</sup>	35,000-50,000/ <sup>3</sup>
<b>Total</b>	<b>41,115</b>	<b>35,000-50,000</b>

Prices are determined by the market, primarily by supply and demand.

## SALE MARKET

**7,700 EUR/ha is the average sales price of agricultural land (average for arable and non-cultivated agricultural land) for 2015.**

The price of arable agricultural land of higher quality in Vojvodina and in the south of Serbia ranges from 10,000 EUR/ha to 15,000EUR/ha and on the other hand, the price of arable land of lower quality and that which is not suitable for irrigation is around 3,000 EUR/ha to 5,000 EUR/ha. The price of arable agricultural land of average quality in Šumadija region is around 2,000 to 5,000 EUR/ha. The **non-cultivated** agricultural land has a significantly lower price, and that land is traded in a very small (symbolic) percentage.

**Big differences in prices can be found for agricultural land in Serbia.** They are especially noticeable for arable and non-cultivated agricultural land, and especially for the agricultural land located in the mountainous area. **The price of arable agricultural land is up to ten times higher than the price of uncultivated land.**



## LEGISLATION

### **Legislation which prohibits the division of land parcels by sale, inheritance, gift or other land transfers**

The division of agricultural land is not possible into cadastral plots smaller than 0.5 ha, or 1 ha if the agricultural land is consolidated (this applies for inheritance, gift, purchase and other).

### **Taxes are associated with land sales and ownership of agricultural land:**

- Land transaction taxes (capital gains tax for sales and registration tax for purchases)?  
Usage (real estate) tax – 0.1-0.4% of market value of agricultural land.
- Tax on the transfer of absolute rights 2.5% of the market value of agricultural land (paid by the seller);

## AGRI-POLICY MEASURES RELATED TO LAND MARKET

- There is no longer a budgetary support at the national level directed to the purchase of agricultural land (it was active during the period 2002-2005.).
- On the other side, there is public support for land consolidation, drainage, irrigation, organization of field roads, improvement of agricultural land quality, etc.
- Throughout the public procurements, Development Fund of the Autonomous Province of Vojvodina is approving the long-term loans with favorable interest rates for registered agricultural holdings in Vojvodina region for the purchase of agricultural land.
- Currently, agrarian policy limits the sum of direct payments (for crop production - 2,000 RSD/ha and subsidy for fertilizers - 2,000 RSD/ha ) just on the area of *up to 20 ha*, while mentioned support measure *does not cover rented state owned agricultural land*

# AGRICULTURAL CREDIT MARKET

- Financial organizations specialized for credit support to agricultural holdings have not been established (there is no development bank for lending to farmers, no farmers' cooperative banks), warehouse receipts market (system of public warehouses and warehouse receipts as collateral) is extremely underdeveloped, as well as a system of pre-harvest financing.
- In Vojvodina region, in addition to commercial banks, two development funds and one guarantee fund play an important role in lending to farmers. These funds, through their favourable credit policy (interest rates of 1-3% per annum; relatively favourable repayment periods; support to farmers in securing loans), provide farmers of this region with more favourable conditions of lending in relation to market conditions and in relation to the conditions offered to farmers in the other 3 regions of Serbia (Belgrade region, region of Šumadija and Western Serbia and the region of South and East Serbia).
- However, the agricultural lending market in Serbia has been significantly improved over the years. Today, there is no impediment to the development of the agricultural sector, and the portfolio of agricultural loans is steadily growing.



## AGRICULTURAL CREDIT MARKET

**Credit subsidies.** Ministry of Agriculture, Forestry and Water Management provides credit support to registered agricultural holdings, in cooperation with commercial banks that grant loans, through subsidizing part of the cost of interest rates. In 2017, the Ministry allocated RSD 800 million on this basis and there is a noticeable growth of these allocations (compared to 2015, allocations in 2017 are higher by 60%), as well as the increase in the number of approved applications (5,710 approved applications in 2017).

Subsidized loans are expressed in dinars, they are approved at a fixed interest rate of 3% per annum, or 1% for natural persons residing in the area of LSG with difficult working conditions in agriculture, persons up to 40 years old and women. Repayment period is from 1 to 3 years (except for the purchase of agricultural machinery for plant production, where loan repayment is possible up to 5 years).

# AGRICULTURAL CREDIT MARKET

Main providers of credit to agricultural holdings; number of loan operations, total lending volume, last available year

Year 2017	Number of loan operations	Lending volume (national currency)	Share of lending volume (%)	Included area (in ha)
Commercial banks/ <sup>1</sup>	-/ <sup>2</sup>	RSD 37,085.3 mil. EUR 305.7 mil.	97.2	3,437,423 UAA, Republic of Serbia
Farmers' cooperative banks/ <sup>3</sup>	-	-	-	-
Governmental credit institutions/ <sup>3</sup>	-	-	-	-
Mortgage institutions/ <sup>3</sup>	-	-	-	-
Others – Funds/ <sup>4</sup>				
✓ Development Fund of the AP of Vojvodina;	124	RSD 470.4 mil. EUR 3.9 mil.	1.2	1,608,896 UAA, Vojvodina region
✓ Provincial Fund for Agricultural Development of Vojvodina Province;	258	RSD 591.6 mil. EUR 4.9 mil.	1.6	
<b>Total</b>		<b>RSD 38,147.3 mil.</b> <b>EUR 314.5 mil.</b>	<b>100</b>	-

# AGRICULTURAL CREDIT MARKET

Typical reasons why agricultural credit applications by farmers are rejected:

- Insufficient farm business income. Many clients cannot provide the necessary evidence of production and sales they claim to realize, which is reflected in the display of negative profitability, unfavourable creditworthiness of the borrower and insufficient liquidity for new borrowings.
- Poor credit history of the applicant. It usually shows a potential problem in repayment, which is directly related to the habits of clients.
- Lack of collateral. It is one of the reasons for refusing or changing the conditions of the requested loan, since many clients do not have adequate assets that would serve as collateral for credit applications (when loans are secured by mortgage on UAA), or have a problem to provide guarantors required for such loans;

