

The Farmer and the Land Market. Case Study Orikum Area

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Abstract

This study focuses on the relationship and mutual interactions between farmer and land market transactions. This relationship is analyzed with the purpose to highlight the existing problems in order to define as clearly as possible the most fruitful alternative ways to benefit the farm as the basic unit of production in agriculture. The farmer is the central economic figure for the organization, operation, and administration of the farm. As such a figure, he must perform his duties in a timely manner and with the highest quality. These duties relate to his self-formation with the concepts of the agricultural market economy. The farmer's work also determines the progress of the farm in the entire range of problems that are evident towards development. Based on the SSBU indicators, compared to EU countries, we can say that our agricultural farms fall quite short. This evaluation is made based on the performance of farm managers. The study was carried out through surveys conducted in the area. By analyzing the surveys, we conclude that the characteristics of the farmer (age, level of education, background) affect the land market. Young, non-native farmers are more inclined to sell their land rather than to utilize it for agricultural production. In addition, direct contact between the two parties, the buyer, and the seller, involved in a land market transaction are more preferred than negotiations through a third party: realtor or sales office.

Keywords: farmer; education; origin; land market; buyer; seller.

JEL Classification: A11; C83; J43; R15.

Introduction

The incentive for this paper was motivated by the changes that happened in the Albanian society after the 90s, which have permanently transformed the economic, political, and social life of the country. The liberalization reforms undertaken in Albania during this period were radical and influenced the creation of a private sector. During this period the agricultural land was fragmented and quickly distributed. All the economic development increased the demand coming from the big cities, trade and coastal areas, thus more supply was expected from the agricultural sector. These lands were no longer solely and exclusively used for agricultural purposes, making the competition for their use between different economic sectors more tangible. Moreover, agriculture is one of the main sectors of our economy, contributing about 18.3% in the country's GDP (in 2012). Rural families continue to dominate over 50% of the

population and agriculture is the main alternative for employment of people in rural areas. Average real growth in agriculture over the last five years has been estimated to be around 3-4%/year (SNZHRB, 2014).

The agricultural land market has been and continues to be a subject of discussions in theoretical and practical aspects. This is because the market in most cases alters the use of the land. Frank Ellis (1992) based on several criteria and elements presents the following concept: “*country dwellers are agricultural families that make their living off of the agricultural land, using mainly family labor in agricultural production, always located in a larger economic system, but characterized by partial engagement in markets, which tend to function with a high degree of perfection*”. This definition shows the logical connection between the operation of the farm as part of an economic system, agricultural policies for the transition of country dwellers to commercial family farmers, the internal logic used by the farm family to find alternative ways to produce surpluses for other social groups, and the role of the state in the sustainability of farm production.

Literature Review

The farmer and the land market have been the subject of many studies conducted over the years. In their studies (Adato & Meinzen-Dick, 2007; Doss, 2006; Feder et al, 1985; Jack, 2013; Lipton, 1989), have emphasized several factors related to the farm and its farmer. Some of these factors are also the characteristics of the farmer’s family: i) Level of education of the member who is the head of the family is closely related to the treatment and development of the farm. ii) Younger families tend to invest in new technology for farm development. iii) The size of the farm affects the way it is perceived as a future investment. In large and medium-sized farms, the use of agricultural tools is more favorable than in small farms. This is also one of the reasons why small farms are used mainly for cultivation of enough goods necessary to meet the needs of the farming family or are otherwise not worked at all.

The law 7501 “On land” of 1991 was the most significant initiative of the transition to the market economy in the agricultural sector in Albania. The land reform aimed to allot the land previously used by the cooperatives and state-owned farms by uniformly distributing it to the population living in those areas, regardless of previous land ownership. In most of our study area in Orikum, they adopted a mixed approach, distributing land per capita, but at the same time respecting traditional boundaries that existed before collectivization.

Lack of land registration and certificates are two main factors, which withhold the completion of the land reform after 30 years since it was approved. Thus, the right over the land is not clear. According to Platteau (1996) even though land tenure might be considered imperative, nonetheless it is still not enough of a motivator to partake in land transactions. Unofficial community rules (North, 1990), which are closely connected to area conditions for purchasing land, analyzed together with two main factors like education and age of farmers (Grubbström and Eriksson, 2018) as well as what Howley et al (2015) call “*emotional ties to the land*”, are all components related to the geographic origin of farmers. In the land market, the location, size, fragmentation, and orientation of the farm are also important (Lerman and Shagaida, 2007, Rahman, 2010). Focusing on these factors, this study treats the socio-economic factors that affect farmers' decision-making on whether to use the agricultural land or sell it.

According to statistics released by INSTAT (2010), the land reform in Albania created approximately “*380,000 individual farms, with an average farm size of about 1 hectare distributed in different areas of the village territory*”. (Cungu and Swinnen, 1999) According to the 2012 Census of Agricultural Economies there is a decrease of the overall number of farms, while FAO (2020) argues for an increase in the average size of the farms by 15%, specifically “*from 1.04 ha/farm in 2002 to 1.20 ha/farm in 2012*”. (FAO, 2020) Research indicates that

starting from 1991, for a period of 16 years, the percentage of the rural households who sold in the formal market was 2%, while 3.6% only rented. (Chan-Halbrendt and Fantle-Lepczyk, 2013). In their study, Qineti et al. (2015) conclude that with the end of the land reform, consequently, “*less than 3% of total agricultural land was sold within families*”. The small size of the farm and the high fragmentation of the land make the farmers rely mainly on sustenance with little investments. (Jojiç et al., 2009, Ciaian et al., 2018) However, a large part of this land is not agricultural, due to the large number of illegal constructions. (Cross-sectorial strategy 2012-2020)

The Albanian government has attempted to favor the transfer of ownership of agricultural lands and limit the transfer of land for alteration of destination purposes. Important to mention are the changes related to the tax on transfer of ownership, where it is specified that whoever sells their agricultural land, which they have acquired from the state based on law no. 7501/91, will be exempt from income tax. (Law. No. 39/2018) The only existing condition to benefit from this tax exemption is the fact that this land must remain agricultural and not be used as a site for construction. Also, no income tax will be paid even when the property title is transferred within the family.

The transition to a non-agricultural economy significantly reduces the agricultural land utilization because of lack of capital and labor invested in it. Nevertheless, the development of the urban areas increases the demand for agricultural products, thus causing a state of disequilibrium in the market. Various governmental schemes and policies have proven successful in many countries, but in Albania there is still much work to be done in this direction.

One of the fundamental problems of any system is land ownership; therefore the recognition of agrarian reforms and the legal regime of land is the first and fundamental step for its solution. The agricultural sector is currently characterized by: small and fragmented farms; a very large number of farms; a large agricultural population; a young generation not sufficiently passionate about agriculture, which can create problems of the inheritance of the tradition; high diversification of farm production; significant lack of direct state financial support.

Earth is a special and delicate natural resource. It has multiple uses (means of production, capital, store of wealth) and is administered in markets that are built on several axes of analysis. It is precisely the interplay between use and reception, between agriculture and other sectors, and between private and social efficiency, that creates a result that represents the strategies of actors in the administration of this resource. As Cungu and Swinnen (1999) points out, the issue of land is inextricably linked to the issue of the state.

The organization of land relations is one of the main explanations for organizing society throughout human history. Land can be considered as capital, as a marketable good that itself encompasses a high level of capital and can serve as an individual stock of wealth. So the land can be thought of as the main conceptual organization of human society, which reaches its characteristics to administer life.

Von Thünen is the economist who opened a new field in economic research and the development of spatial economics. The author shows that the factor that distinguishes lands from one another is not the level of fertility, or the yield of rent, but the position of this surface in space.

Loch supports the same concepts as Von Thünen, regarding the rent of localization, but he shows that the localization of crops according to him is not the fruit of chance, but is carried out according to precise rules, according to a decreasing function of rent, with distance.

Data and Methodology

This article aims to highlight the relationship that exists between the qualities of the farmer and the land market in the municipality of Orikum, as well as address the interdependence expressed between them to achieve objective fulfillment in the agricultural sector. Literature defines the agricultural farm as a production, consumer, and social unit of agricultural production. The objectives that the farm must fulfill as part of agriculture are not adequately met due to its economic figure, the farmer, who presents issues in terms of gender, age, background, and level of education. These features of the farmer often become a hindrance to the normal operation of the farm. Under these conditions, the farm unit becomes an obstacle to the agricultural development of the country according to the objectives of the SSBU and the perspective of being part of the big EU family.

Thus, the research was constructed taking into account 4 features of the farmer: level of education, background, age and gender.

A structured survey with a sample of 250 individuals located in Orikum, including intellectuals and farmers is used for the analysis of this research. The interviewing method used is direct interviewing. The questionnaires contained the necessary information to answer the following hypothesis:

H₀: “Young farmers are more inclined to sell the land rather than use it for agricultural production.”

And the following research questions:

1. Does the educational level of the farmer affect the land market?
2. Does the origin of the farmer affect the land market?

To process the questionnaire, the SPSS and MegaStat programs were used.

Orikum was chosen as the area of study for the simple reason that the land in this area presents different socio-economic categories such as: agricultural land, horticultural land (olive trees), tourism development, and urbanization.

Results

Based on agrarian theories and practices, we can say that: the farm is defined by the farmer. If the farmer changes, then the farm itself changes. The agrarian economic literature and production practices prove that the administration and management of the farm is reliant upon making decisions based on economic analysis and evaluations. Decision making requires the farmer to have preparation and knowledge on many concepts of the market economy and its operation.

Education level is an important element in farmers' decision-making (Figure 1).

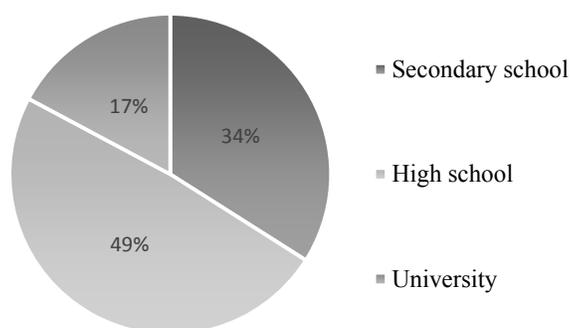


Fig. 1. Education level of farmers in the area

Source: made by author based on questionnaire results.

Based on the results, in our study area, only 17% of the respondents have a university degree, and these individuals do not work in the agricultural sector. Most of them live in the city of Orikum. Young people claim that, after finishing university, they do not prefer to return to the village, except for the summer season when they can manage the family business, if they have one. Part of the young population has the tendency to emigrate.

In addition, people with a higher level of education are more inclined to engage in the sector of tourism than in agriculture.

$$Y = 90.87 - 56.203X \quad (1)$$

Where:

$Y \rightarrow$ Land surface used for agriculture (%);

$X \rightarrow$ Area (0 = non-coastal, 1 = coastal);

$Adj. R^2 = 0.359$ and $\sigma = 0.001$.

Buyer's features

Surveys organized with farmers also provide information about buyers, the reasons that push them to make the purchase, and the main features of this group such as age, education, employment, etc. The development of the land market in rural areas is to improve the land structure and the distribution of agricultural plots. This logic is even more true in the case of Albanian agricultural farms which have a structure of very fragmented plots. Therefore, it is more than natural that the development of this market directly involves the farmers of the area who seek to fix the weaknesses of the farm through this market. Surveys have shown that buyers of land in our study area come from different areas of Albania and only 5.62% are farmers in the area, of which only 0.6% are farmers who are neighbours to the farmer who sold the land. These data are very significant to understand where the demand for agricultural land comes from in the study area. It does not come from the agricultural sector, but the non-agricultural sector. It is more than natural that the use of the land after the transaction will not be agricultural. In these conditions, only considering the origin of the buyers, we can say that agricultural lands eventually leave the agricultural sector to return to lands that will be used for construction. Only 4.1% of respondents admit that the land sold is used for agricultural reasons.

Seller's features

Other important actors in the transaction are the sellers and the features that the latter have as an essential element in determining the general features of the transaction. The farmers who are the

sellers of the land act as economic agents whose objectives are not only the maximization of the value of the plot of land but the maximization of the utility of the family, elements which do not necessarily coincide in time and space. The average age of the majority of the surveyed farmers is 40-65 years (73%). Most of the families have 4-6 members and they make up 70% of the total surveyed sample. Big families with more than six members constitute about 10% of the sample.

$$Y = 5.739 - 1.472X \quad (2)$$

Where:

Y → Number of family members;

X → Area (0 = non-coastal, 1 = coastal);

*Adj. R*² = 0.116 and σ = 0.021.

Based on the data collected from the questionnaire, it is clear from that origin (from the area or not) influences the tradition of land inheritance.

$$Y = 0.5 - 0.5X \quad (3)$$

Where:

Y → has the inheritance tradition changed?

X → origin (1 = from the area; 0 = from outside the area);

*Adj. R*² = 0.471 and σ = 0.001.

Another element of the study is the land market, which is still a work in progress, so the information about this market is not complete and reliable. Studying transaction features in the land market gives us information about buyers as well as information about how information spreads in the market, whether it is complete or partial, whether it passes through institutionalized channels or not; how the negotiation process takes place between sellers and buyers, whether it is direct or goes through intermediaries; who has the power to set the price between these actors participating in the transaction etc. All these questions enable us to understand the institutional and organizational framework of the market's function.

As seen from the results of the questionnaires, in most cases the buyer presents himself to the seller. Direct contacts between actors are several times higher than those that go through a specialized office. This way of passing information shows that the land market is not yet a stabilized market and has not yet created all the necessary infrastructure. Information passes through word-of-mouth channels between common acquaintances of sellers and buyers. Only 1.7% of the respondents have reached out to specialized sales offices. This happens because: i) The areas that are traded are small and contacting specialized offices would increase the final price of the land, therefore the buyers prefer to contact the sellers personally; ii) The connection between sellers and buyers goes through several acquaintance networks (Figure 2).

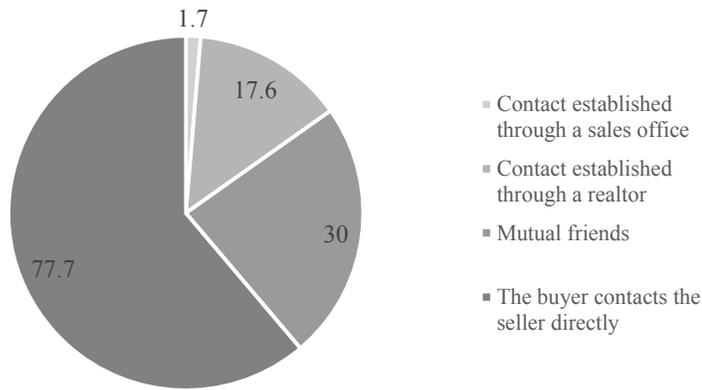


Fig. 2. Buyer and seller contact methods

Source: made by author based on questionnaire results.

According to the surveys, the realtor plays another important role. About 17.6% of respondents confirm that the transaction was carried out with the help of a realtor. This is generally a well-known person in the area, who knows the well the offer of the farmers. On the other hand, he/she has the necessary connections with the buyers to carry out the negotiation between the parties. In this case also, the connections are more personal and involve more familiarity with the individuals. The transaction is carried out with the help of third parties only in cases where the buyer comes from a distant area, but never when the buyer comes from a closer area. This mode of action lowers the level of market effectiveness and competition as a result of the lack of complete information.

T-test was used to analyze whether the land market in the area is dependent on the age of the farmer.

Hypothesis: $\begin{cases} H_0: \mu_1 \geq \mu_2 \\ H_1: \mu_1 < \mu_2 \end{cases}$ where, μ_1 is the average of surface land areas traded by farmers aged less than or equal to 40 years; μ_2 is the average of land areas traded by farmers older than 40 years.

Table 1. Mega Stat results for questionnaire data

Group 1	Group 2	
0.607	2.004	mean
0.896	1.639	std. dev.
248	245	n

26	df
-1.401	difference (Group 1 - Group 2)
1.6815	pooled variance
1.3576	pooled std. dev.
0.4365	standard error of difference
0	hypothesized difference
-1.73	t
0.0112	p-value

Source: made by author based on questionnaire results.

Based on the t-test it is evident that our hypothesis is true. Young farmers are more inclined to sell the land than to use it for agricultural production (Table 1).

Conclusions

From the study conducted in the area, the following conclusions are reached:

- In our study area, the highest level of land transactions were carried out between farmers and people who invest in other businesses (construction, tourism), who also come from areas that are outside the study area. The drive for immediate benefits has led farmers to alter the land. We also want to emphasize that the surfaces that are subject to transaction are small and cannot be used for agricultural activity.
- Direct contact between actors of the transactions themselves is several times higher compared to those who go through a specialized office. This way of passing on the information shows that the land market is still unstable and has not yet created all the necessary infrastructure for facilitating these transactions. Information passes through acquaintances between sellers and buyers.
- The land market organized in the area is still far from being an economically stable market despite the development it has undergone. Based on its features, this market causes an increase in the level of land surface fragmentation in coastal areas.
- People who did not work in the agricultural field in the collective farm period complain about the lack of labor and are more inclined to sell or donate their land.
- Younger people are more inclined to sell their land.
- Land purchase is influenced not only by the level of education, but also by the origin of the buyer (people who are not from the area are more inclined to buy land).
- In the Orikum area, over 70% of the land is under the possession of the previous owners, which has a positive effect on its conservation and on the decision not to sell the land.

Recommendations

The research identifies issues between the connection the farmers and the land market in the Orikum area. To solve such issues, we can contribute with some recommendations.

Agriculture is a completely private sector; our country has an old and valuable agricultural tradition; has a relatively well-educated agricultural population that promises satisfactory effectiveness and levels of productivity in agriculture. This requires inciting interest in the young generation to work in agriculture, which can be achieved through direct state financial support for new businesses in agriculture.

Effective land management policies are necessary. This requires state institutions to adopt incentive mechanisms to increase the interest of land owners to achieve their profit from agricultural activity. Such a goal can be reached by a package of legal and by-laws that regulate relations between family members, between them and third parties, as well as between them and the state. Although there is a reference price for land, it should be revised and the control mechanisms for its implementation should be strengthened.

Law no. 9244, dated 17.06.2004, regulates the relationship between the right of private ownership of land and the obligation to protect it as a national asset, but in order to prevent the physical alteration of the land, adequate land use policies must be further defined.

It is the duty of the municipal offices to determine which areas are to be protected and which are intended to be built. It is most important that the zoning to be efficient and to be respected for a long term and furthermore apply, because the history of the Albanian transition has shown that this method is observed or very difficult, or more often not respected at all.

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