

ANALYSIS OF LATVIAN LAND FUND TRANSACTIONS WITH AGRICULTURAL LAND

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Abstract

In order to promote the preservation of agricultural land and the sustainable use of its areas for the needs of agricultural production, on 1 July 2015, the Latvian Land Fund established by the state started operating in Latvia. The Land Fund was established to promote the preservation and use of agricultural land for agricultural purposes in Latvia in the amount of not less than 2 million hectares, involving approximately 0.4 million hectares of agricultural land not previously actively used in active agricultural production.

The operation of the Land Fund is regulated by the Law on Privatization of Land in Rural Areas and the regulations of the Cabinet of Ministers on transactions with agricultural land. Development Finance Institution ALTUM has been approved as the land fund manager.

The Latvian land fund consists of accumulated agricultural land, which is further leased, sold or changed. The main activities of the Land Fund are the purchase of agricultural land, the lease of agricultural land and the sale or exchange of land. The Land Fund buys property from existing owners who are no longer able or for any other reason unable or unwilling to continue to use agricultural land for agricultural activities themselves. The Land Fund is looking for a buyer or manager for the purchased property. For unleased and unsold properties, the fund organizes management - mowing, and bush removal with the aim of keeping agricultural land in good condition, cleaning up agricultural land and returning it to agricultural circulation.

The aim of the study is to analyze the Latvian Land Fund's transactions with agricultural land since the establishment of the Land Fund.

Key words: Latvia, Land fund, land banking, agricultural land, transactions with the land.

Introduction

More than 30 years have passed since the beginning of the land reform (1990), however, this process in Latvia, as in other Central and Eastern European countries, has not been fully completed (Land reform: from ..., 2021). One of the most important tasks of land reform was to ensure the economic use and protection of natural and other resources by reorganizing the legal relations of land use and ownership (Law On Land ..., 1990). This applies in particular to land, especially in agriculture, where it is a major natural resource. Due to the large scale of the land reform and various objective and subjective factors, not all new landowners were able to formalize the land allocated to them. Although in Latvia there was a principle of "privatization through use" in land privatization, which was generally a positive factor, as it ensured a gradual, more reasonable redistribution of land, not all those who wanted land could join the process, as many lacked financial resources, technical skills and experiences (Parsova, Jankava, 2021). Consequently, many areas of agricultural land were set aside, which in turn caused them to remain uncultivated and gradually overgrown with shrubs and low-value trees. According to a study conducted by the Ministry of Agriculture of the Republic of Latvia in 2015 (Šā gada 1.jūlijā..., 2015), in Latvia from approximately 2.3 mln. Only 1.56 million hectares of agricultural land were cultivated. hectares. More than 700 thousand hectares of agricultural land were uncultivated. The study concludes that about half of this uncultivated agricultural land could be returned to agriculture under favorable economic conditions.

Many Western European countries have a long tradition of using land banking services in such cases. The traditional purpose of land banks has been to support agriculture and rural development by reducing land fragmentation and promoting farm expansion. In Western Europe, the goals of land banks have evolved over the past decades and are now used in a multifunctional approach with land consolidation in several countries. In addition to the continuous development of agriculture, land banks in most countries are also widely used in land consolidation projects in connection with the development of various development projects. For example, when expropriating agricultural land from private landowners in connection with infrastructure projects, such as the construction of roads and railways, as well as for nature-related projects, afforestation, land banks are used as a source for compensation for these expropriated areas. In some Western European countries, the land

bank is also applied to land use rights, where farmers who want to manage abandoned, uncultivated land are attracted on preferential terms (FAO, 2022).

On July 1, 2015, the Latvian Land Fund established by the state also started operating in Latvia. It aims to promote the protection of agricultural land, ensure its availability and preservation, as well as its efficient and sustainable use at a national level. The establishment of the Land Fund was presented as one of the state instruments to promote the preservation of agricultural land and the sustainable preservation of these areas, stipulating that not less than 2 million hectares of agricultural land should be preserved in Latvia in the number of hectares, involving about 0.4 million hectares in active agricultural production of previously unused agricultural land (Šā gada 1.jūlijā..., 2015).

Methodology of research and materials

The operation of the Land Fund is regulated by the Law “On Privatization of Land in Rural Areas” and the Regulations of the Cabinet of Ministers on the Procedure for Carrying Out Transactions with Agricultural Land (Regulations Regarding Transactions..., 2014). Development Finance Institution ALTUM has been approved as the Land Fund Manager. The Latvian land fund consists of accumulated agricultural land, which is further leased, sold or changed. The main activities of the Land Fund are the purchase of agricultural land, the lease of agricultural land and the sale or exchange of land. Section 30² “Right of Pre-emption to Agricultural Land” of the Law “On Privatization of Land in Rural Areas” stipulates that the land fund is one of the pre-emption persons if real estate is sold, the land area of which is the dominant land use category (On Land Privatization..., 1992). The Land Fund buys property from landowners who are no longer able or for any other reason unable or unwilling to continue to use agricultural land for agricultural activities themselves, and whom themselves express a wish to sell the property to the Land Fund. The Land Fund is looking for a buyer or manager for the purchased property. In turn, the unleased and unsold properties were to be purchased for management services - including mowing, and bush removal with the aim of keeping the agricultural land in good condition, cleaning up the agricultural land and returning it to agricultural circulation.

The Land Fund buys real estate throughout the territory of Latvia that meets certain criteria:

- it can be recovered or maintained for agricultural production;
- agricultural land is more than 50% of the total area of the property;
- the real estate is registered in the Land Register;
- the property has good condition access to the road of national, municipal or local significance;
- there are no restrictions on economic activity for the property;
- there are no buildings and structures on the real estate not registered in the Land Register, the cadastral value of which exceeds 30% of the cadastral value of the property, or which belong to another owner, or cultural monuments;
- the real estate is not in dispute or is not otherwise encumbered with obligations of a material nature;
- all real estate is sold (Šā gada 1.jūlijā..., 2015).

The Land Fund buys property at prices that do not exceed the average market price for equivalent agricultural land in the relevant county or parish.

Without competing with private market participants, the Land Fund enters into economically justified transactions with both natural and legal persons. Any landowner can sell agricultural land to the Land Fund, while natural and legal persons can buy it if they meet the criteria defined in the Law on Privatization of Land in Rural Areas, i.e. the main criterion is the buyer's occupation in agricultural production. Information on land available for sale is available on the fund's website www.altum.lv/zemesfonds. It is determined that if several potential buyers apply, preference is given to the purchase of land in the following order - the last tenant of the land, the bordering neighbour, and the young farmer, while in other cases it is planned to hold an auction among potential buyers.

Both natural and legal persons can lease property from the Land Fund. Lease prices correspond to the average lease prices for agricultural land of a quality corresponding to the market prices in the county and parish of the respective transaction. Properties available for rent are also available on the fund's website.

The Latvian Land Fund also offers reverse lease - sells land with lease and repurchase rights to secure financial resources. In this case, the landowner, when selling his property to the Land Fund, receives a fixed market value estimate for the transaction and 90% of the market value of the transaction, but if he continues to manage the property, he pays a rent of 5% of the transaction amount received. In the case of a reverse lease, the lessee

must repurchase the land at any time within 5 years of the contract is entered into at the market value of the transaction.

Land swaps are also possible. By filling in the exchange application form on the Fund's website, the owner of agricultural land may offer to exchange the agricultural land he owns for one of the properties offered for sale or exchange by the Land Fund, if it is geographically more advantageous for the owner than the existing property. In this case, the Land Fund intends to evaluate the property offered for exchange similarly to the acquisition transactions, determining their compliance with the purpose of the Land Fund, evaluating the usefulness, efficiency, and comparing the prices of both properties.

Pursuant to the above-mentioned regulatory enactments (Regulations Regarding Transactions ..., 2014), the Latvian Land Fund Manager must submit a report on real estate transactions to the Ministry of Agriculture by the 25th day of the first month of the current quarter, indicating the purchase and sale of agricultural land in the previous quarter, the number of exchanges and leases and the area of agricultural land. The Ministry of Agriculture publishes this report on a quarterly basis on the Ministry of Agriculture's website www.zm.gov.lv. At the time of writing, reports on the Latvian Land Fund's transactions with agricultural land for the first five years of its existence were available on this website: from 2016 to 2020.

The aim of the research is to evaluate the Latvian Land Fund's transactions with agricultural land since its establishment in order to find out their impact on the involvement of agricultural land in production.

Discussions and results

In five years, the Latvian Land Fund has carried out a total of 1984 transactions with agricultural land (Table 1). The fund has acquired almost 20 thousand hectares of agricultural land, most of which has been leased. In addition, it should be noted that farmers are happy to use the reverse lease terms, as evidenced by the fact that one third of landowners who have sold land to the Fund retains the lease on their former land but can develop production to acquire necessary funds to redeem later the land from the Fund again. Although this does not indicate the return of unused agricultural land to agriculture, the Land Fund is thus used as a tool for optimizing the farm's cash flow.

In five years, there have been only four cases of land purchases from the Land Fund and only one use of the land exchange situation.

Table 1

Summary of Latvian Land Fund transactions with agricultural land
for the period 2016-2020

No.	Type of transactions	Number of transactions	Agricultural land area, ha	%	
				of the number	from the area
1.	Acquired property	983	19203.00	49.5	51.0
	<i>Including reverse leases</i>	285	4953.89	29.0	25.8
2.	Sold	4	65.84	0.2	0.2
3.	Swaps	1	13.20	0.1	0.0
4.	Leased	996	18398.43	50.2	48.8
Total		1984	37680.47	100.0	100.0
	<i>Including reverse leases</i>	285	4953.89	14.4	13.1

Source: compiled by the authors from *Latvian land fund reports (2016-2020)*

The total number of transactions and the volumes of land involved in them in the first five years of the Fund's existence are not very satisfactory, as the analysis of the Fund's reports on agricultural land is still far from the expected 0.4 million hectares of unused land in active agricultural production. Despite the fact that the Latvian Land Fund has purchased almost 20 thousand hectares of agricultural land with the aim to involve it in agricultural production, the amount of the reverse lease and the fact that there is no data on how often and in which areas unused agricultural land has purchased the success of this process cannot yet be called. In this

context, the question remains whether the creation of a Land Fund has really been a successful idea or whether it has been given too few resources to have the intended impact.

Assessing the number and volume of transactions by year, it should be noted that their growth is gradual (table 2 and table 3). As can be seen in Table 2, in the first year of its existence (2016) the Fund purchased land in 76 cases, twice a year more such transactions took place, but after four years the number of purchase transactions increased by 4.5 times. A similar trend is observed in transactions with the land areas included in them - every year more and more land areas are included in the Latvian Land Fund, most of which are also actively leased. However, it should be noted that the opportunity to purchase land from the Land Fund or to change land has been used very little. In this regard, more detailed research would be needed as to why this is the case - whether these plots of land are not so promising that tenants do not want to buy them, or for some other reason.

Table 2

Latvian Land Fund transactions with agricultural land
for the period 2016-2020

No.	Type of transactions	Number of transactions by year				
		2016	2017	2018	2019	2020
1.	Acquired property	76	142	174	243	348
	<i>Including reverse leases</i>	-	7	34	16	228
2.	Sold	1	-	-	3	-
3.	Swaps	-	-	-	1	-
4.	Leased	90	143	162	250	351
	Total	167	285	336	497	699
	<i>Including reverse leases</i>	-	7	34	16	228

Source: compiled by the authors from *Latvian land fund reports (2016-2020)*

Table 3

Volumes of Latvian Land Fund transactions with agricultural land
for the period 2016-2020

No.	Type of transactions	Transaction volumes by years, ha				
		2016	2017	2018	2019	2020
1.	Acquired property	1501.94	2166.40	3605.48	4924.60	7004.58
	<i>Including reverse leases</i>	-	125.76	716.90	243.85	3867.38
2.	Sold	28.24	-	-	37.60	-
3.	Swaps	-	-	-	13.20	-
4.	Leased	1783.64	2143.65	3206.01	5031.74	6333.57
	Total	3313.64	4310.05	6711.49	10007.14	13338.15
	<i>Including reverse leases</i>	-	125.76	716.90	243.85	3867.38

Source: compiled by the authors from *Latvian land fund reports (2016-2020)*

As can be seen from the data in Tables 2 and 3, the volumes of the reverse lease are also increasing every year. It should be noted that such reverse lease is a new activity in Latvia, which could also explain the situation that in the first year there were no such transactions at all, in the second - there were only 7 cases, but after three years both the number of transactions and the areas included 30 times.

Although, after five years of operation, the total volume of transactions of the Latvian Land Fund is not very significant, a significant acceleration in these activities may indicate the growing popularity of the Land Fund among farmers. Unfortunately, at the time of writing, no more recent data were available for 2021, so no further activities of the Foundation can be concluded. However, taking into account the figures presented in the previous analysis and foreign experience in the establishment and operation of such state land banks, it should be assumed that this process will continue in Latvia as well, as well as create an appropriate application.

In Western Europe, land banking as a process has been known for a long time since the beginning of the last century. Land banks are defined as a set of systematic activities implemented by an institution with a public purpose, performing the intermediate purchase, sale, exchange or lease of land in rural areas in order to increase land mobility, facilitate the development of agricultural land markets, and to pursue public policy objectives related to agricultural and rural development, sustainable land use and implementation of public projects related to nature restoration, environmental protection, climate change and construction of large-scale infrastructure (FAO, 2022). Such activities are guided by the need to increase land mobility, facilitate rural land market development, reduce land abandonment and attain other public objectives. In many Western European countries, land banking is well-known and enjoys a long tradition. For example, in Denmark, France, Germany and Spain, land banks are closely linked to land consolidation projects, especially those related to the construction of large infrastructure structures (roads, railways) and expropriated land. Similarly, in land consolidation solutions, both for agricultural purposes to expand agricultural land and in projects to improve various natural conditions, land banks act as an ecological tool for areas expropriated for reserves and other environmentally important areas. In these cases, the land accumulated in the land banks is used as compensation to the landowners to whom the land is expropriated for such purposes. Land banks have also been established and operate in Lithuania, Poland, the Czech Republic, Croatia and other Eastern European countries.

In Latvia, unfortunately, the Land Bank or the Latvian Land Fund is not linked to land consolidation, as a land consolidation system has not yet been established in Latvia. At the same time, it should be noted that with the increase in production and agricultural land in Latvia, the fragmentation of land holdings is increasing, which farmers are currently tackling on their own - by combining land either through mutual land lease or by purchasing adjacent land as far as possible. The Latvian Land Fund, expanding its activities, could be an important tool for the further arrangement of agricultural land in accordance with the conditions of agricultural production.

Conclusions and proposals

1. As in other Western and Eastern European countries, the Latvian Land Fund established in Latvia has started its operation, which already has five years of experience. In total, the Latvian Land Fund carried out transactions with agricultural land in 1984, acquired almost 20 thousand hectares of agricultural land, most of which was leased.
2. Although the total number of transactions and the volume of land involved in them in the first five years of the Fund's existence is not as large as expected, the number and volume of transactions in agricultural land are increasing every year.
3. Reverse leases are also becoming increasingly popular. However, this situation does not indicate the return of unused agricultural land to agriculture, as the Land Fund is thus mainly used as a tool to optimize the farm's cash flow.
4. There have been very few land purchase and exchange transactions from the Latvian Land Fund. This could be explained by the still small amounts of land in the Latvian Land Fund, which may not always provide farmers with land plots that are advantageous to them.
5. It must be concluded that the goals set at the beginning of the establishment of the Latvian Land Fund - to involve approximately 0.4 million hectares of unused agricultural land in active agricultural production have been too ambitious. In the first five years of the Land Fund's operation, this target has been met by only 5%. In addition, a large part of the Land's real estate transactions cannot be said to involve previously unused agricultural land. This situation requires a broader and more detailed analysis of the involvement of hitherto unused agricultural land in agricultural production, as well as the resources and efficiency of the Land Fund.
6. With the increase in the number of transactions and the volume of land in them, the Latvian Land Fund, similar to Western Europe, could be a good tool for ensuring sustainable rural development and successful agricultural production.

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