

## Chapter 2. Real estate markets

### A. COMPLETION OF THE REAL PROPERTY REGISTER (FINALIZATION OF THE FIRST REGISTRATION)

One of the key issues for the development of a real estate market is clear and unambiguous ownership rights supported by a reliable and effective system of registration<sup>93</sup>. The real estate cadastre is an open system as stated in the cadastre law<sup>94</sup>. The 1998 Law on Real Estate Cadastre was a major boost to the land market.

The first real property registration encompasses 85% of Moldova's 5.7 million titles. The unregistered real properties (15%) concern mainly those in rural areas that are considered to be of low value. The bottleneck for finalizing the first registration seems to be limited financial resources, not human ones. It is foreseen that the first registration of real properties will be completed by 2022. For each property registration, EUR 3 is paid from the State budget.

The first registration requires municipalities to have all the relevant documentation of the objects to be registered and the number of them. Therefore, sound cooperation between Cadastru and communes is important. Once the volume of the first registration is known by the municipality, the Ministry of Finance decides on the allocation of funds necessary to speed up its completion. The ALRC coordinates and monitors activities in the field of surveying, financed by State funds. The actual surveying is executed by private firms. However, since prices for surveying have fallen, the interest of these firms in surveying has decreased.

The State has a direct interest in real property being registered and, consequently, a direct interest in acting as a catalyst to accelerate the completion of the first registration.

### B. TAXATION OF REAL PROPERTY

In the Republic of Moldova, a property and the land on which it stands are taxed separately. According to legislation, Cadastru is responsible for property valuation for taxation purposes. The World Bank reports that, in practice, LPAs also appraise values of real properties.<sup>95</sup> Between 2004 and 2011, Cadastru assessed the values of 796,000 various property types for taxation (Table 17). In principle, this valuation is based on market prices.

**Table 17. Number of real estate objects that have been assessed for tax purposes**

Property assessed for tax		
Object types	Quantity	Mass valuation date
Apartments	356,000	1 June 2004
Individual houses in cities	170,000	1 June 2005
Commercial and industrial objects	92,000	1 June 2009

<sup>93</sup> *UNECE Country Profiles on the Housing Sector: Republic of Moldova* (UN publication ECE/HBP/125). Available from <http://www.unece.org/index.php?id=36288>

<sup>94</sup> Mireia Ciobanu, *The Real Estate Cadastre in the Republic of Moldova: 10 years* (Chisinau, I.E.P. Stiinta, 2009).

<sup>95</sup> *Ibid.*, footnote 22.

Garages in building cooperatives	51,000	1 June 2007
Fruit-growing associations' lots with/without construction placed on them	75,000	1 June 2007
Agricultural lands with buildings placed on them	22,000	1 June 2010
Individual residential houses in Chisinau and Balti	30,000	1 June 2011

Source: Cadastru.

Overall, the Republic of Moldova has a functional real estate taxation system which will soon be up-to-date and in full operational use.

### Mass valuation procedures – updates, methods

The system of mass valuation is based on three methods of market costs estimation established by Moldovan legislation<sup>96</sup>: the comparative sales method, the income method and the expense method. Property valuation is carried out separately for the various categories of real estate (Table 18). Based on this data, one can see that real estate objects of the highest economic value were valued first. Objects, like agricultural lands, that have low values were valued much later. The first registration of agricultural lands is still incomplete and so are their valuations because an object not yet delineated cannot be valued.

**Table 18. Implementation of real estate mass valuation (thousands of units)**

Real estate object type	2004	2005	2006	2007	2008	2009	2010	2011
Apartments	104	221						
Urban residential buildings		137	33					
Commercial buildings, garages			40	75				
Agricultural plots, horticultural partnerships			4	476	2200	550	400	300
Rural residential buildings, gardens						300	300	310

Source: Cadastru.

A dedicated software application called ValueCad was developed<sup>97</sup>, consisting of:

- Collection of data concerning the technical properties of the unit
- Introduction of value coefficients, and
- Calculation of market value for taxation

The location of the property, which is one of the most influential factors in real estate valuation, is found on real estate maps that are made separately for each category.

Assessment of property tax for buildings in urban areas is based on their estimated market value. A methodology for the valuation of agricultural properties is lacking. The legislation specifically mentions Computer-Assisted Mass Appraisal (CAMA) which was first applied in municipalities in urban areas, but it was never extended to the whole territory because of lack of available data.

SIDA supported the technical assistance project “First Cadastral Project in Moldova for the period 2006-2009”, and a valuation methodology for agricultural lands was developed.<sup>98</sup> The

<sup>96</sup> Ibid., footnote 93.

<sup>97</sup> Ibid.

project proposed using sales transactions per region as the basis for valuation in the absence of statistical data. Stakeholders were also involved in the development of the methodology. However, it was concluded that the costs involved in the valuation of agricultural properties in relation to the revenues from taxes was too high.

When real estate objects are valued, the need for their revaluation emerges. According to current legislation, the latter is carried out every three years for local taxes purposes. In the SIDA-funded cadastre project, a methodology for this was developed and tested. This methodology follows the valuation one but includes lessons learned to enhance its quality and avoid redundant actions, thus increasing efficiency. Obtaining market data and property characteristics should be a joint effort by the stakeholders, the main one being the municipality because they receive the property taxes. In return, the municipalities should provide the ALRC with information on new constructions and changes in land use on a continuing basis, and assist in maintaining the quality of the characteristics of a property and checking the reliability of collected market data.

### **Real estate, property and land tax**

The real estate tax is a local tax based on the value of the real estate. It is a mandatory payment that goes to the budget of the corresponding administrative territorial unit. For tax purposes the term “real estate” means land plot and/or improvements to it, i.e., buildings, structures, apartments and other isolated premises that could not be moved without causing direct damage. Real estate properties are subject to tax, as well as improvements that are 80% or more completed or have been under construction for more than five years. The base of the tax is 50% of the assessed value of the real estate. In appraising properties, a single methodology is used for all types, and it is carried out in accordance with procedures and terms stipulated in relevant legislation. The maximum tax rate is equivalent to 0.5% of the tax base. Specific real estate tax rates are established each year by LPAs and may not be less than 50% of the maximum real estate tax rate.

The following are subject to real estate tax:

- Owners of real estate located in the Republic of Moldova; and
- Holders of property rights to public real estate property located in the Republic of Moldova, including lessees who have been renting for more than three years, unless the lease contract states otherwise

Property tax is levied on the estimated value of properties in rural communities and the estimated market value of properties in urban municipalities. The tax rates are set annually by the local authorities. The applicable rate for properties located in rural communities is up to 0.10% of the property value, and in urban municipalities it may vary between 0.02 and 0.25%. A specified value of the property is tax exempt (in Chisinau, this is MDL 380,000 (approximately USD 29,921)). For a property exceeding 100 m<sup>2</sup> in size, the established specific tax rate (0.02% in Chisinau) is increased by a multiplier for the excess of the property size.

Land tax is also levied annually by local authorities. Landowners are liable for this, and the amount depends on the property’s location, area and fertility potential. The tax is assessed by multiplying the specific land tax rate by the size of the land plot (measured in point hectares, hectares, or land parcel area). It is calculated and paid according to the procedures stipulated

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<sup>98</sup> Ulf Kihlbom and Mike Cheremshynsky, “First Cadastre Project in Moldova: Training Technical Assistance Project”, SIDA Evaluation No. 06/54 (Stockholm, SIDA, 2006). Available from [http://www.sida.se/contentassets/0dcd9fc39c9f4bb781745518e54bef85/0654-first-cadastre-project-in-moldova\\_2012.pdf](http://www.sida.se/contentassets/0dcd9fc39c9f4bb781745518e54bef85/0654-first-cadastre-project-in-moldova_2012.pdf)

in Article 4 of Law No. 1056-XIV on the implementation of Section VI of the Tax Code of 16 June 2000. The specific land tax rates are established yearly by LPAs upon approval of their respective local budgets. The rates should be within the limits (including the maximum rates) stipulated in Annexes 1 and 2 to this Law (Annex III). The land tax was supposed to be merged with the real estate tax in 2006, so that it would no longer be collected separately. However, to date, this merger has not taken place.

Twice a year, Cadastru sends information to the State Fiscal Authority on the subjects and objects of taxation that is needed for the appraisal of a property. The appraisals should conform to the procedures and rates specified in Section VI of the Tax Code. Pursuant to Article 161 of this Code, the tax authorities are responsible for assigning fiscal codes to taxpayers, and maintaining the tax registry. A fiscal code is assigned only once and, without it, a person may not be registered as a taxpayer. The State Tax Registry (hereinafter, Registry) is a public registry, which is created and maintained by the tax authorities, and contains information on fiscal codes assigned in accordance with tax regulations. The Registry is updated by means of the assignment and/or the cancellation of fiscal codes, as well as the modification of the data on the registered taxpayers. The recording of the taxpayer's fiscal code in the Registry confirms his tax registration. According to the World Bank, over 95% of owners liable for land and/or property tax are listed on the tax roll.<sup>99</sup>

The 2002 Moldova CP stated that *“though Article VI of the Fiscal Code made provision for the enforcement of the new taxation methods by 1 January 2001, until the Fiscal Code is enforced and related legal provisions are adopted, transitory legislation provides for real estate taxes to be fixed, up to January 2004, on an annual basis by local authorities”*. The adoption of the Law on Valuation introduced the concept of the market value of taxable goods. Consequently, comparative analysis of sales will now be feasible.

All real estate properties still use the old system of taxation, except for residential properties in urban areas. Since 1 January 2007, the market value system of taxation is being used for the latter. The separate taxes for land and buildings are set by the Parliament on a normative basis, without taking into consideration market values and changes due to inflation. A common practice is to declare a lower value for the real estate to avoid some taxes, raise excess loans on a property (high-risk lending) and acquire higher collateral in order to minimize risk.<sup>100</sup> An audit by the Court of Accounts has revealed that the assessed values were two to ten times lower than the market prices. Many property types were subjected to lower tax (e.g., real estate used by public authorities, public institutions, religious institutions and a number of special categories of individuals) or even avoided taxation altogether. In 2007, the Government initiated a reform to bring the assessed values of real properties closer to market prices, through the use of a mass appraisal system using data collected by Cadastru. To date, however, the intended results have not been achieved. The Government has until 2020 to complete the mass appraisal to cover all property types and objects.

Table 19 provides the local property tax rate in 2008 and its percentage of GDP, total public budget and total local revenues. The values are low when compared to other countries in South-East Europe<sup>101</sup>.

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<sup>99</sup> Ibid., footnote 94.

<sup>100</sup> Ibid.

<sup>101</sup> Ibid., footnote 66.

**Table 19. Local property tax, 2008**

Local property tax	(in %)
Local property tax rate in 2008:	0.25
Local property tax	
- GDP:	0.4 (OECD average of 23 European countries is 0.71%)
- Total public budget:	1.0
- Total local revenues:	4.2

Source: NALAS, 2009.

Until 2020, the Republic of Moldova will be using a taxation system that is inefficient and not completely transparent. It seems that part of the data needed for the mass appraisal is missing and is substituted by *ad hoc* appraisals in which the methodology is not always clear. Parcel-based information for tax purposes is available on the internet but this concerns only a limited number of properties. The Tax Code includes many exceptions.

According to a World Bank report<sup>102</sup>, the collection rate for land and property taxes was over 96% in 2012. However, the revenue only exceeded the cost of collection by a factor of 1.7.

### C. REAL ESTATE MARKET

Another function of the registration system is the provision of information contained in the real estate register to the participants of the real estate market. To make the findings on Moldovan housing conditions and real estate markets widely available was one of the recommendations of the 2002 Moldova CP. The Law on Real Estate Cadastre and the Civil Code indicate: “*Any person has the rights, without being obliged to motivate their interest, to study and to acknowledge the contents of the real estate registry*”. The information is given within seven days; the excerpt is provided within three days.<sup>103</sup>

Cadastru keeps the data on real estate transactions which is made available to real estate market agencies and associations. It can be provided monthly to certain neighbourhoods (for instance, Chisinau) and it can be provided by ownership or property type (examples can be found on the website of LARA at [www.lara.md](http://www.lara.md)).

The value of land increases once it is used for construction, especially for housing, and this is also true for agricultural land with change-of-destination as its use (Table 20). In general, agricultural land that is accessible to urban centres has a higher market value.

Before 2008, around 60-70 real estate companies existed. Now, the numbers are down to 7-12 companies countrywide. The National Chamber of Real Estate (hereinafter, the Chamber) coordinates their activities. Currently, their activities are not regulated, but the Chamber oversees the qualifications of personnel working in the sector. In the past, training courses were offered by the Chamber, covering legal and economic aspects as well as behaviour risks of the market and consumers, but in the last five years no training has been offered. These real estate companies can also assess properties. The charge for their services is 2% of the real estate market price. Some of these companies argue that charges should be based on the volume of work and not on the market value of the property. The declining number of real estate companies is related to the 30% decrease in transactions since 2008 and to the 50%

<sup>102</sup> Ibid., footnote 94.

<sup>103</sup> Ibid., footnote 93.

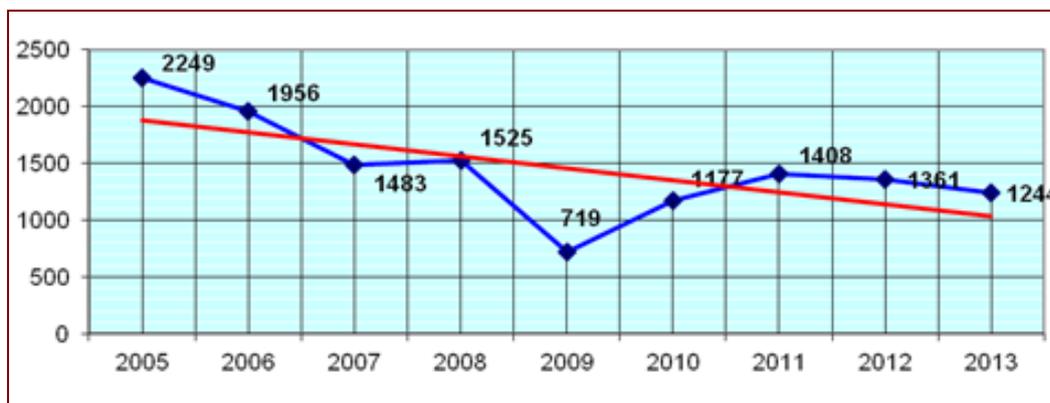
reduction in financial volume of the real estate market. Statistics on the real estate market are available every six months, and about 5,000 visitors per week consult the internet for such data.

**Table 20. General real estate data**

Type of real estate property	Market information
Primary housing	400-1,000 EUR/m <sup>2</sup>
Secondary housing	500-800 EUR/m <sup>2</sup>
Land for housing construction	7,000-50,000 EUR/0.01 ha
Land for commercial construction:	
1. Social-cultural purpose	25,000-35,000 EUR/are
2. Industrial purpose	5,000-8,000 EUR/are
3. Housing purpose (for dwelling houses with stores)	17,000-25,000 EUR/are
Commercial real estate	40-100 EUR/m <sup>2</sup> /month
Commercial centres	40 EUR/m <sup>2</sup> /month
Office real estate	9-25 EUR/m <sup>2</sup> /month
Production and storage real estate	3-6 EUR/m <sup>2</sup> /month
Agricultural land	1,200-2,000 EUR (700-5,000 EUR) per ha
Agricultural land with change-of-destination prospects	40,000-50,000 EUR (from 30,000 to 250,000 EUR) per ha

Source: <http://investinmoldova.md/>

**Figure 13. Average number of real estate transactions per year as registered by Cadastru in Chisinau**



Source: LARA 2013, <http://www.lara.md>

The downward trend in the real estate market (Figure 13) is caused by a number of factors:

1. The global financial crisis that led to a worldwide downtrend of real estate prices.
2. The gap between the price expected by the seller and that paid by the buyer. It is not yet common practice to establish the price of a real estate property based on an analysis of the real estate market.
3. The country's political and economic instability, which makes people hesitant to buy or sell a property. The decline in income usually leads to more savings in agriculture-based economies.

4. The emigration of the active labour force leads to a decrease in the number of potential buyers of real estate. People working abroad may be sending remittances but evidence suggests that, in the last three years, there has been a marked lack of demand for the acquisition of property by Moldovans working abroad.
5. The additional expenditure for owners of new apartments to make them habitable. Developers reduced the prices of new apartments, and advertising campaigns to promote this have influenced buyers. However, these new apartments are not ready to live in. It could cost the owners up to 20% of the apartment price to make these new apartments habitable.

While the downward trend continues, it is expected that the demand for smaller (e.g., 60 m<sup>2</sup>) apartments will increase. The price for existing property is slightly higher than for new. With new real estate property, the owner is responsible for finishing the apartment (e.g., inner doors, windows, electric wiring, kitchen block, sanitary facilities, etc.). Originally, the idea of having the owner finish the property was meant as an incentive to buy but, in practice, it has turned out to be more expensive.

Due to the continued global financial crisis, the downtrend of real estate prices is likely to continue, as well as the emigration of the active labour force. The same trend will likely continue for the number of real estate companies. The view of these companies on the dynamics of the market is pessimistic, and their attitude towards developing new initiatives seems limited. The licensing of real estate companies is considered important: 1) to guarantee the professionalism of real estate agents, as well as the quality of services they render, and 2) to facilitate the monitoring of the market by the Government. Moreover, licensing generates revenues for the Government. The Chamber requested a license but the Government declined because it is reducing the number of licensing companies.

The Union of Notaries sets the tariffs for their work on the transactions but these tariffs are not considered an impediment to the number of property transactions.

## D. LAND POLICY

The three pillars of a good land policy are security of tenure, land markets (see previous section on real estate markets) and socially desirable land use.<sup>104</sup> From the Government's perspective, the question is how to balance owners' rights with the necessity and capacity of the Government to regulate land use and development for the best interests of society.<sup>105</sup> The national land policy provides the answer to this. A land policy that enables diversity and change is likely to be more successful in fostering urban and rural prosperity than one based on some specific economic model.<sup>106</sup>

Land issues can be illustrated by hierarchy (vertical) and increasing complexity (horizontal) (Figure 14).<sup>107</sup> This hierarchy should be embedded in sustainable development programmes comprising four dimensions: economic (profit), environmental (planet), social (people) and

<sup>104</sup> Klaus Deininger, "Land Policies for Growth and Poverty Reduction", World Bank Policy Research Report, Vol. 1 (Oxford, Oxford University Press; Washington, D.C., World Bank, 2003). Available from [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2003/08/08/000094946\\_0307250400474/Rendered/PDF/multi0page.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2003/08/08/000094946_0307250400474/Rendered/PDF/multi0page.pdf)

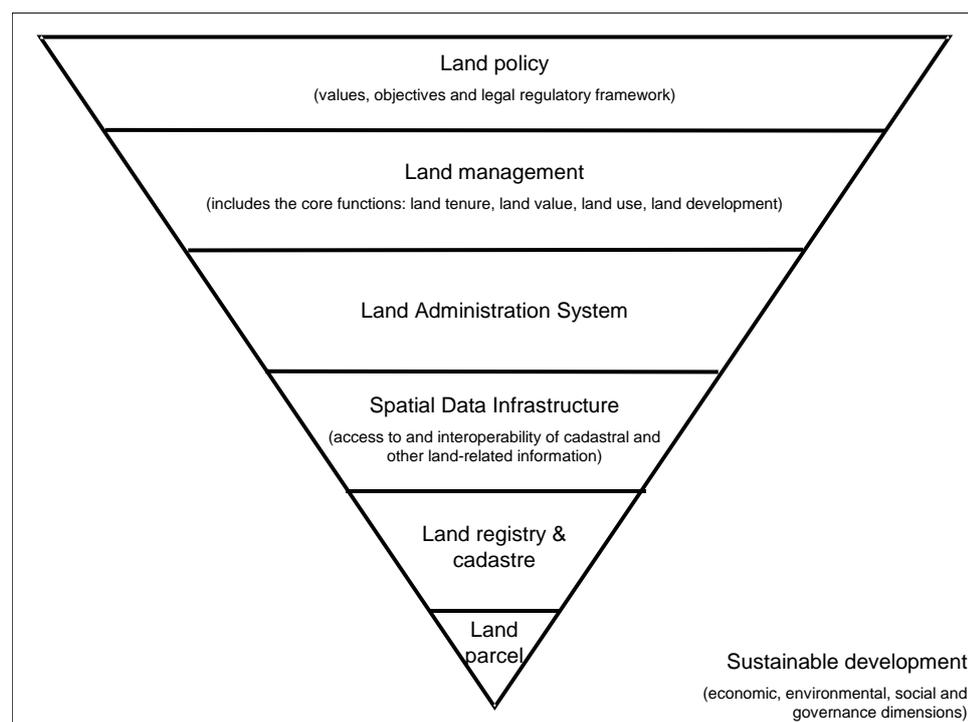
<sup>105</sup> Ian Williamson and others, *Land Administration for Sustainable Development* (California, ESRI Press Academic, 2009).

<sup>106</sup> M. Heywood, "Rural land management and agricultural restructuring in transitional economies - the case for developing a land tenure framework", *Zeitschrift für Kulturtechnik und Landentwicklung*, Vol. 41, No. 3 (2000).

<sup>107</sup> *Ibid.*, footnote 104.

good governance.<sup>108</sup> Governance is the key element in determining if and how individuals or communities can acquire rights, and associated duties, to use and control land and other natural resources. This holistic approach is in the new “Moldova Agriculture and Rural Development Strategy 2014-2020”. Land policy is the most complex land issue. This is followed by land management, which covers all activities associated with the management of land and natural resources that are required to fulfil political objectives and achieve sustainable development. Land management is a process by which a country’s resources are put to good effect.<sup>109</sup>

**Figure 14. Hierarchy of land issues embedded in sustainable development**



Source: Jansen, 2013 based on Williamson *et al.*, 2010.

## E. LAND POLICY FRAMEWORK

The Republic of Moldova has been in a complex and volatile transitional phase where the objective was to replace the formerly command-driven economy with an open-market one. The removal of socialist institutions and the privatization of resources were the initial stimulants for this massive economic shift. Of primary importance is the re-allocation of land and its related resources, which were under strict State control.<sup>110</sup> The land policy framework needed to be adjusted accordingly, no longer focusing primarily on land use and land

<sup>108</sup> Louisa J.M. Jansen, “How can land management be improved in Romania with the lessons learnt elsewhere in Europe?”, paper presented at the Séminaire du Syndicat National des Géomètres Experts Aménageurs Ruraux (GERAR) sur l'aménagement foncier, Lyon, September 2013.

<sup>109</sup> *Land Administration Guidelines with Special Reference to Countries in Transition* (UN publication, Sales No. E.96.II.E.7). Available from <http://www.unece.org/fileadmin/DAM/hlm/documents/Publications/land.administration.guidelines.e.pdf>

<sup>110</sup> Sean M. Cashin and Gerald McGrath, “Establishing a modern cadastral system within a transition country: Consequences for the Republic of Moldova”, *Land Use Policy*, Vol. 23, Issue 4 (October 2006). Available from <http://www.sciencedirect.com/science/article/pii/S0264837705000311#>

capability to facilitate large-scale centralized planning and resource allocation, but rather, focusing on switching to legal ownership. Multiple agencies were established, each assigned strict responsibilities, and administering particular land resources. The records kept in socialist times were distributed amongst these independent agencies.

A key element of privatization was the transfer of exclusive use or ownership of land from the State to individuals, families or companies. The commonly chosen mechanism for doing so was to establish land registration or cadastre programmes supported by the necessary legal and institutional frameworks. The longer-term goal is to establish functioning real estate markets and stimulate further economic development. The market in land, linked to those in capital and labour, is central to the functioning of a market economy.<sup>111</sup>

The current policy framework priorities are not directly related to land, although there is an integrated approach to policy development, as expressed in the document “Moldova 2020 - National Development Strategy: 7 Solutions for Economic Growth and Poverty Reduction”. Education, infrastructure, financing, competitive environment and energy consumption all have links to the land sector. One consolidated action plan has been developed, for which the State Chancellery is responsible. This will facilitate monitoring. The Interministerial Committee for Strategic Planning will watch over the implementation of the Strategy, and the National Participation Council (NPC), comprising of representatives of civil society, will monitor it. The Government will inform the NPC on the progress of the Strategy and discuss ways of joint involvement for its successful implementation. The State Chancellery is responsible for the compilation of reports based on the monitoring and evaluation of the contributions of public authorities involved in the process.

### **Box 3. Development priorities of the National Development Strategy**

***Development priorities formulated in the “Moldova 2020 - National Development Strategy: 7 Solutions for Economic Growth and Poverty Reduction” (2012):***

1. Aligning the education system to labour market needs in order to enhance labour productivity and increase employment in the economy
2. Increasing public investment in the national and local road infrastructures in order to reduce transportation costs and increase the speed of access
3. Reducing financing costs by increasing competition in the financial sector and developing risk management tools
4. Improving the business climate, promoting competition policies, streamlining the regulatory framework and applying information technologies in public services for businesses and citizens
5. Reducing energy consumption by increasing energy efficiency and using renewable energy sources
6. Ensuring the financial sustainability of the pension system in order to secure an appropriate rate of wage replacement
7. Increasing the quality and efficiency of justice, and fighting corruption in order to ensure equitable access to public goods for all citizens.

The ALRC and the MAFI have overlapping mandates concerning the implementation of land policy in rural areas. The mandate of the ALRC is to manage all State land policy, whereas

<sup>111</sup> World Bank, *Transition, The First Ten Years: Analysis and Lessons for Eastern Europe and the Former Soviet Union* (Washington, D.C., 2002). Available from <http://siteresources.worldbank.org/ECAEXT/Resources/complete.pdf>

the MAFI is responsible for sectoral policies. This arrangement may result in unclear implementation procedures. The mandates of the institutions involved in policy making and the management of land should be clearly defined and reflected in their arrangements and responsibilities.

Currently, the Republic of Moldova has three strategies related to agriculture: (1) the National Strategy for Agro-industrial Complex Sustainable Development; (2) the Food Safety Strategy 2011-2015; and (3) the Strategy on Development of Rural Extension Services. The first has only general aims; the second addresses the legal and institutional settings; and the third addresses services provision. None of the above addresses land and/or rural households directly. The new “Moldova Agriculture and Rural Development Strategy 2014-2020”, approved in 2013, aims at taking a more holistic approach and complies with EU requirements. Its vision is as follows:

*“A competitive agri-business sector contributing to rural areas of Moldova, equipped with the necessary infrastructure becoming an attractive place for working and living. Agriculture and rural areas will provide goods and services while maintaining the biodiversity, cultural and traditional values for future generations”* (Anonymous, 2013).

Three priorities are defined within the above Strategy that target land and rural households directly:

1. To increase the competitiveness of the agri-food sector through restructuring and modernization. The emphasis is on (1) high value-added produce, (2) meeting EU food safety and quality requirements, (3) facilitating access to capital, and input and output markets for farmers, and (4) improving education, research and development.
2. To ensure sustainable management of natural resources. National-level climate change adaptation and capacity-building are high-priority. The emphasis is on land and water management practices, environmentally-friendly production technologies and products, and support in adapting specific climatic conditions (e.g., risk management).
3. To improve the standard of living in rural areas. The emphasis is on (1) the enhancement of investment in the physical infrastructure and rural services, (2) increased non-agricultural employment and income opportunities, and (3) the stimulation of local community involvement in rural development.

The Strategy should be complemented by a monitoring and evaluation system to assess whether the implementation brings the expected results.

## F. LAND SECTOR REFORM

### **Reform measures carried out and proposed**

Since 1991, a wide range of reforms affecting the social and economic system have been carried out (e.g., regulatory framework). In 2006, the Law on Regional Development was adopted and its implementation started in 2009-2010. The first priorities are decentralization and property delineation. National development planning has improved due to re-focusing on feasible objectives and strengthened links with budget allocation.<sup>112</sup> These reforms have been aimed at the creation of political, legal and economic foundations for a market-based

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<sup>112</sup> Organisation for Economic Co-operation and Development, “Capacity development for environmental management in Moldova: drivers, links to planning and methods of assessment”, report of the OECD EAP Task Force (Paris, OECD, 2010). Available from <http://www.oecd.org/countries/moldova/45559222.pdf>

economy predominantly rooted in the private sector.<sup>113</sup> However, current legislation addressing the land sector could be better aligned.

The economy is especially vulnerable to environmental factors because of its dependence on agricultural production, though this dependence is decreasing (29.2% in 1989 and 12.3% in 2003 according to NBS). Agricultural production and the food processing industry provided around 30% of export revenues in 2009. Several strategies address the various aspects of agriculture but implementation of these has not yet led to significant improvements in the livelihoods of the people.

Currently there is a trend to shift responsibilities from central to local government levels. Policy will continue to be made at national level, whereas implementation will be executed at local level. To realize such decentralization, more capacity is needed at the local level and sufficient budget should be allocated to local governments. In economically stressful times, it is doubtful if the necessary funds can be allocated from the State budget. The alternative would be to use the local government budget which, in practice, will mean finding other sources of revenue or increasing local taxes.

Since the institutional developments in the 1990s, when popular and political support resulted in many reforms, the drivers for further reforms have mainly been external, led by global and regional processes and, in particular, in cooperation with the EU.

### **Results of land reform in urban and rural areas**

The transition from a centrally planned economy to a market-oriented one involved the privatization of land, i.e., the shift of ownership from collective and State to private persons.<sup>114</sup> This was done through the adoption of the Land Code, on 25 December 1991, which enabled an equitable distribution of land parcels. Privatization of former state-owned farms was carried out in a two-stage process: firstly, village land commissions assigned plots of land to eligible recipients, who received a title issued by the mayor's office; and secondly, based on the Law on Peasant Farms, recipients had the right to request the separation of a collective or State farm into individual land plots. The National Land Programme finished in 2001 and privatized 1,004 collective and State farms. Around 1.7 million hectares were distributed to almost 1.1 million new owners.<sup>115</sup> In rural areas, the physical change in the landscape of land-use patterns became imminent. In urban areas, State, municipal, enterprise and cooperative buildings were established, often without consideration of the historical property rights of the underlying land. In some cases, the land was expropriated and residents were given only usage rights.

Rural areas should be seen in a wider context than just being the source and supplier of material and non-material products for the society as a whole. They should also be seen as providers of a range of facilities including, among others, the provision of open space, natural resources including biodiversity, clean water, energy, and the repository of national and cultural heritage (e.g., landscapes). The community and national authorities must make the necessary initial investments for rural development. These may be followed by private-sector activities and investments. However, the public sector must continue to be responsible where *public interest* objectives and facilities are involved. Climate change conjures a growing

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<sup>113</sup> Dragos Cimpoeies, Zvi Lerman, and Anatol Racul, "The Economics of Land Consolidation in Family Farms of Moldova", a seminar paper at the 111<sup>th</sup> seminar of the European Association of Agricultural Economists, Canterbury, 2009. Available from <http://purl.umn.edu/52837>

<sup>114</sup> Terry Van Dijk, "Scenarios of Central European Land Fragmentation", *Land Use Policy*, Vol. 20, Issue 2 (April 2003). Available from <http://www.sciencedirect.com/science/article/pii/S0264837702000820?np=y>

<sup>115</sup> Morten Hartvigsen, Maxim Gorgan and David Palmer, "Experiences with land reform and land consolidation in Moldova", *Land Tenure Journal*, No. 2 (2012), p.10.

interest in the urban-rural relationship, as rural areas are seen as actual or potential suppliers of renewable energy (e.g., bio fuels, wind or hydropower). It also increases the impact on water availability, food production, habitats and biodiversity.<sup>116</sup>

In rural areas, the relationship of people with the land has profound implications for agricultural productivity, environmental sustainability, and the economic and social status of rural households.<sup>117</sup> The distribution of land parcels led to *fragmentation of land ownership*. Land remained consolidated by active farmers, while new corporate farms (e.g., partnerships, limited liability companies, agricultural cooperatives, joint stock companies, etc.) lease land from owners who sometimes had never practised farming. Thus, *fragmentation of land use* was less of an issue. Fragmentation of ownership or of use can have negative consequences for the rural economy, but at the same time it is not disadvantageous by definition.<sup>118</sup> This bi-modal agricultural structure has led to discussions among policy makers and economists concerning the efficiency and performance of corporate farms versus individual ones. The strength of a good agricultural structure is *diversity* as a result of different responses to economic signals, managerial capacities, personal choices, availability of capital, and family relationships.<sup>119</sup> Statistical data show that the gross agricultural output by households and farms under private ownership surpasses collectives under private ownership. Furthermore, the gross agricultural output under public ownership is negligible compared to private ownership (Table 21).

**Table 21. Gross agricultural output by forms of ownership, in comparable prices of 2005**

Ownership form	2004		2005		2006		2007	
	million Lei	%						
Public	140	1.1	117	0.9	107	0.9	75	0.8
Private, of which:	12162	98.9	12285	99.1	12160	99.1	9358	99.2
- Collective	3723	30.6	3508	28.6	3359	27.6	2590	27.7
- Households & farms	8439	69.4	8777	71.4	8801	72.4	6768	72.3
Ownership form	2008		2009		2010		2011	
	million Lei	%						
Public	137	1.1	62	0.5	78	0.6	66	0.5
Private, of which:	12323	98.9	11198	99.5	12068	99.4	12692	99.5
- Collective	4311	35	3373	30.1	3814	31.6	4054	31.9
- Households & farms	8012	65	7825	69.9	8255	68.4	8638	68.1

Source: NBS, 2013.

<sup>116</sup> P. Van de Molen and Louisa J.M. Jansen, "Urban and rural land management in the Netherlands: the role of the State as policymaker and landowner", key note speech at the ARGE/AdV International Land Management Symposium Land Management Strategies for Improving Urban-Rural Inter-Relationships – Best Practices and Regional Solutions, Hanover, May 2010.

<sup>117</sup> Louisa J.M. Jansen and others, "The Use of the Land-Cover Classification System in Eastern European Countries: Experiences, Lessons Learnt and the Way Forward", *Land Use and Land Cover Mapping in Europe Remote Sensing and Digital Image Processing*, Vol. 18 (2014). Available from [www.springer.com/earth+sciences+and+geography/book/978-94-007-7968-6](http://www.springer.com/earth+sciences+and+geography/book/978-94-007-7968-6)

<sup>118</sup> Terry Van Dijk, Land consolidation as Central Europe's panacea reassessed, paper presented at the Symposium on Modern Land Consolidation (Volvic, September 2004).

<sup>119</sup> Ibid., footnote 105.

The composition of the population in rural areas is changing. The older generation is staying, while younger people are leaving. This has an impact on the socio-economic situation of these areas. People living there are not active in agriculture or do not work full-time in it.

Around 58% of the population lives in rural areas, even though the rural employment rate was only 36.6%<sup>120</sup> in 2013. The urbanization annual rate of change is 0.8% (2010-2015 estimate). As discussed in the Introduction, the majority of the migrants in the Republic of Moldova come from rural areas. Emigration concerns the young and educated. Low wages and limited jobs have established stable patterns of poverty in rural areas. Gradually, remittances have gained importance in the share of total disposable income of urban households. Furthermore, the income of those working in rural areas is highly dependent on pensions and on self-employment in agriculture. Urban households experienced a threefold increase in their real subsistence level in the period 2001-2011, while that of rural households remained stable. Thus, the gap between livelihoods in urban and rural areas is widening, and measures need to be taken to mitigate this. Land reform could diminish this, but measures should also include making rural areas attractive to young people.

### **Agriculture and infrastructure in rural areas**

The Republic of Moldova is endowed with fertile soils (e.g., chernozem) and a temperate climate, furnishing ideal conditions for agriculture. However, they are currently underused. Agricultural land covers approximately 75% of the total land surface. 73% is arable and 12% is used for perennial crops. Forested areas cover approximately 12% of the total surface area. Land has remained an important productive resource in rural areas and it possesses significant symbolic and economic values. Recently, the quality of soil and water has been declining, which is detrimental to productivity. Irrigation systems have deteriorated since the 1990s and the cost of it has increased. Consequently, access to such systems has decreased. Forest resources have declined over the years because of local needs for wood fuel and construction timber. The country has been experiencing droughts (most notably in 2007), which have affected the territory, and especially the rural population that is dependent on agriculture.

The State agency Moldsilva, under the Ministry of Environment, regulates, coordinates and enforces policies concerning forested areas. Most of these are located on public lands where there is a lack of clear boundary definition (see separate discussion on public lands in the next section). The management of these areas is outsourced to private sector companies under contract with Moldsilva. The distinction between management and supervision of forested areas is an issue. Consequently, the existing institutional and operational framework hampers investments in and management of forested areas.

Recipients of land through the land reform programme received land that was physically divided into equal portions of arable land, orchards and vineyards, depending on the situation in the village (e.g., if there were more orchards in the village, a recipient may have received a higher number of parcels thereof). The average land holding comprises 1.56 hectares, distributed in three to four parcels.<sup>121</sup> This reform and these post land-reform developments have led to a bi-modal agricultural structure with, on the one hand, highly fragmented (semi-) subsistence farms and, on the other, a relatively small number of commercial farms. Family farms, so typical in Western European agriculture, are almost absent.

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<sup>120</sup> NBS, "Table 5. Population by participation in economic activity, rural, years 2009-2013", *Labour Force in the Republic of Moldova: Employment and Unemployment*, (Chisinau, 2014), p.25.

<sup>121</sup> Ibid., footnote 115.

It was reported that 99.5% of farms belong to the category of semi-subsistent farms that use 39% of the total utilized agricultural area (UAA).<sup>122</sup> Large commercial farms operate on leased land. Lease contracts with durations of less than three years are registered at the mayor's office; those of more than three years are registered with Cadastru. These contracts comprise a certain risk and may hamper investment. This situation is very similar to neighbouring Romania.<sup>123</sup> The lease market that has emerged in the Republic of Moldova, while offering a partial and short-term solution to land fragmentation, has brought further concerns that affect the long-term outlook for developing a functional property system.<sup>124</sup> Firstly, a significant portion of lessees are not within the terms stipulated in the legal framework, either by: not having a written agreement, or not having it registered if one exists. Most lease agreements are short-term, i.e., less than three years. Secondly, a pattern has emerged whereby the majority of lessees are people of greater social capital (age, education and social position) with sufficient capabilities for farming. Thus, a distinctive "rural elite" has been formed, although these are not large landowners.

The share of arable land in the UAA is 70% which is among the highest in Eastern Europe. 80% of this is used for low value crops (e.g., cereals, oilseeds, sugar beets and fodder crops), while the remainder is used for fruit and vegetables. Livestock production is hampered by strong competition from the CIS countries and the EU. The Republic of Moldova is a net importer of livestock products. Agricultural production is entirely dependent on imported agro-chemicals, seeds and fuel. International price volatility influences the competitiveness of Moldovan agri-food products compared to CIS and EU countries. The prices for world agricultural products increased by 70% in the period 2000-2010, yet in the same period the prices of agricultural inputs increased by 58%. This has led to a situation in which Moldovan farmers pay world prices for their inputs, but are unable to receive world prices for their produce. The lack of producers' organizational structures (e.g., cooperatives) and infrastructure (only 7% of the road network is in good or satisfactory condition and public infrastructure is poor) are constraints on the integration of farmers in supply chains (e.g., the joint acquisition of inputs at lower prices) and the effective use of market opportunities. This situation is further aggravated by limited access to bank loans to invest in agriculture.

The land market has developed slowly in the Republic of Moldova, with an average transaction area of about 0.10 hectare in the period 1999-2008 and an average price per hectare that slowly increased up to 2007 and started to decline after that.<sup>125</sup> Only 2% of agricultural land was sold in this period.<sup>126</sup>

### **Land consolidation: current status, future role and developments**

It is a widespread perception that consolidation of small fragmented land parcels into large farm holdings will reduce production costs and improve net income for a farm of a particular size. There is thought to be a more efficient use of technology and, accordingly, an increase in productivity and efficiency, and it is therefore preferred by farmers and landowners. However, empirical proof does not unanimously support these perceptions. Productivity and efficiency are determined by a range of factors that go beyond the farm lay-out and size (e.g., the capacities of the farmer, soil and water resources, landscape, type of farming activities, etc.). Results of several surveys from a sample comprising individual and corporate farms in the Republic of Moldova concluded that small farms are more productive and efficient than

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<sup>122</sup> Ibid.

<sup>123</sup> Ibid., footnote 107.

<sup>124</sup> Ibid., footnote 109.

<sup>125</sup> Ion Botnarenco, *Consolidarea terenurilor agricole în Moldova: (teorie, metode, practică)*, (Chisinau, Pontos, 2009).

<sup>126</sup> Ibid., footnote 113.

large ones.<sup>127</sup> When a homogeneous sample of individual and corporate farms was used, they found increasing returns to scale. Individual farms perform better than corporate ones. This is attributed to organizational form rather than farm size. This means that performance, i.e., production, of farms could be improved if the Government concentrated on improving operating conditions rather than increasing farm sizes.

The Government is aware of the land consolidation problems and has asked the World Bank for assistance. The “Moldova Land Re-parcelling Pilot Project”, as part of the “Rural Investment and Services Project II” (RISP-II), implemented *voluntary* land consolidation in six pilot villages in the period 2007-2009. This was funded by the World Bank and SIDA. It should be noted that no change to the 1991 Land Code was necessary. This is in sharp contrast with other Eastern European countries. The impact of the above project was assessed and, subsequently, the effort was scaled up to include 40 villages in the period 2009-2011 using the built capacities and without further international technical assistance. The results of the project and the outcome of the impact assessment led to the development of a “National Strategy for Land Consolidation” in 2010, supported by the Food and Agricultural Organization. In mid-2013, the “National Strategy for Land Consolidation 2012-2027” was adopted by the Government. This Strategy is part of the larger “Moldova Agriculture and Rural Development Strategy 2014-2020” and gives priority to *comprehensive* land consolidation that includes rural development measures. One should note that the implementation of land consolidation should be in line with territorial planning documents, including community area development plans. The Strategy envisages changes to the Land Code. The Government budget (State, LPAs or other sources) will support the implementation of land consolidation projects. The MAFI will remain the lead authority, and Cadastru and its territorial cadastral offices will provide the initial cadastre and land registry data free of charge to the MAFI. The interests of landowners and stakeholders participating in the project are safeguarded by the local stakeholder committee.

### Public lands

Not all land was privatized; approximately 45% of it remained public. Public lands are owned either by the State or by LPAs. They are mainly used for forestry and grazing. However, only part of them - 12% of State public lands and 15% of LPA-owned lands - are registered in the cadastre. More problematic is that an even smaller percentage of them have marked boundaries: only 34% of State public lands and 81% of LPAs. This causes disputes, and contributes to tenure insecurity for individuals conducting agricultural, grazing and forestry activities either adjacent to or on public lands.<sup>128</sup> Furthermore, due to lack of delineation and clear assignments of responsibilities, the effective and transparent management of public lands is hindered.

Co-ownership arrangements are recognized. The law allows for the subdivision and merging of these arrangements, provided the parties involved ensure compliance with limitations (e.g., restrictions on use or encumbrances). Little is known about these limitations per land parcel because they have not been systematically recorded in the cadastre.

Thus, the protection and management of land with co-ownership arrangements, communal rights or common use rights should be improved.

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<sup>127</sup> Dragos Cimpoies and Zvi Lerman, “Land policy and farm efficiency: the lessons of Moldova”, paper presented at the joint IAAE - 104th EAAE Seminar Agricultural Economics and Transition: “What was expected, what we observed, the lessons learned”. Budapest, September 2007.

<sup>128</sup> *Ibid.*, footnote 94.

### Large-scale land acquisition

Large-scale land acquisition is a phenomenon that is becoming increasingly widespread in Eastern European countries with agricultural potential. In the Republic of Moldova, there is no legal framework dedicated to this matter. Foreign investors (individuals and companies) and local companies whose equity includes foreign investments have no legal right to purchase agricultural land. However, it can be purchased by indirect methods, due to gaps in the legal framework and certain interpretations of the existing law. The Government should monitor the purchase and sale of agricultural lands for investment purposes, and make sure that the local population benefits from such investments.

Picture 7. Chisinau



Source: <http://www.mytripblog.org/pg/blog/moldova-social-manager/archive/1335830400/1338508800>