

# Economic Aspects of Land Grabbing in the Connection with Development Projects

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**Abstract.** The long-term problem in Slovakia is the seizure of agricultural land for the purpose of implementation of development projects. Factors contributing to land grabbing and occupancy of land were and are mainly due to the need for new residential, industrial and commercial sites as well as transport infrastructure. The Slovak Republic is one of the transition countries, which since 1990 has transferred to a market economy. Subsequent positive legislative changes and the development of new economic instruments in Slovakia has increased interest of foreign companies in business development activities. The consequences of uncontrolled construction boom is reflected in seizure of quality agricultural land for the construction of development projects and the subsequent formation of negative externalities.

**Keywords:** Development projects · Land grabbing · Land management

## 1 Introduction

Land is one of the most important resources in any country. Since the land is a key factor in the investment project, it significantly influences its final price. All countries have to deal with the land management. They have to deal with the four functions of land tenure, land value, land use, and land development (see Fig. 1) in some way or another [1]. The management of land is a critical and essential requirement for sustainable development. Many of the issues that affect land development and management, impact ultimately on economic, financial and environmental sustainability and on the country's social development.

Land management is an economic-technical term that characterizes the process of managing land administration; conservation of land and routing of the relevant organizations through the deployment and manipulation of land resources. It is a land-use management in economic and environmental terms. From the functional point of view it represents processes dealing with adjustments, measurements and activities related to land and territory.

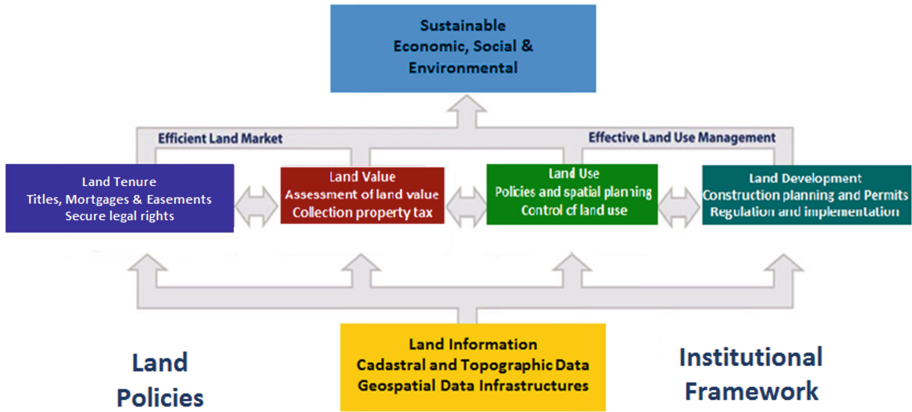


Fig. 1. A global land management perspective [1]

According to Enemark [1], land management is the process by which the resources of land are put into good effect. Land Management includes all activities associated with management of land and natural resources that are necessary to achieve sustainable development. Land Administration Systems can be considered as a institutional frameworks burdened with tasks they must be performed by means of national, cultural, political, legal environments and technologies [2]. It can be described by three components: land policy frameworks, land information infrastructures and land administrative functions in support of sustainable development [2]. This land management model is shown below in Fig. 2.

Land policy has also impact on a better use of existing land and space resources in most municipalities in the transitive countries. It is important to note that the land is not

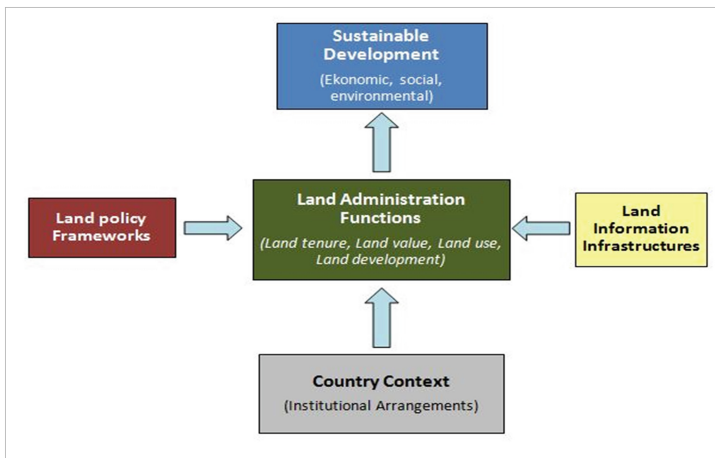


Fig. 2. Land management model [1]

one of ordinary commercial goods that can be made easily. Land is a resource that is not unlimited, and therefore the normal market rules should be not applied. Market with an agricultural land in the EU Member States is very differently regulated. While in some countries there are restrictions, in other countries are those restrictions are missing which gives rise to inequalities between Member States. In average on earth is 2,000 meters of farmland per one person. To the land grabbing contribute following factors:

- Increasing globalization and the related principles of free circulation of capital,
- growing demand for energy from biological sources,
- downsides of agricultural and environmental policies,
- effort of large investors to invest capital (released as a result of the financial crisis in 2008), into the agricultural land, which is safer investment,
- grabbing of the large agricultural land for development projects etc.

Interest in global soil is considerable. It is difficult to obtain reliable data on the extent of agricultural land grabbing, because not all transactions are registered and land transactions of mutual legal persons on the land are often not transparent, as in the case of land purchase through subsidiaries and partner companies. According to World Bank estimates were in the years 2008–2009 worldwide seized 45 million hectares of land, wherein the industrial and “transit” countries lose annually 2.9 million hectares of cultivated agricultural land in exchange for building land. Approximately 75 % of Europe’s population currently live in urban areas and is estimated that by 2020 this will rise to 80 % [3]. European areas classified as suburban currently have equal size of built-up areas as urban areas, but their population density is only half size [4].

Within the negotiations with the inclusion of the Slovak Republic to the European Union (2000) Slovak Republic’s accession process defined the land as the goods in contrast to Hungary or Poland. Land on Slovakia became a commodity which can be freely marketed with. Slovakia subsequently asked the European Commission for deferral from the free disposal of land. Since June, 2014, the law was modified in a way that acquisition of land can be done only by persons who are in agricultural production for at least three years. This means that the preferential right to purchase has collective farms, and farmers who are engaged in agricultural activity in the municipality where the land is situated. The Act aims to enhance the protection of agricultural land and also to avoid speculative efforts of the complainants, who is in the first step requesting a change of the type of agricultural land “vineyard” to a different type of agricultural land such as garden and then, in the second step of requesting the change of “garden” to building projects.

## 2 Problem Identification

In market society everything has its value. Also soil has. However, does it have only cost of money? The soil primarily has the value of life, permanent, constant, not just one, but also future generations. Therefore, the importance and value of soil grow and as the numbers of inhabitants planet increase, that way will increase value of soil. In less than a decade Slovakia lost about 67 thousand hectares of agricultural land and another 40–100 thousand hectares of land was bought by foreign investors. Change of

the land owner also opens the door to ownership of water. Under the ground is located water, and the largest reservoir of drinking water is on the Rye Island (southern Slovakia), where are one of the best soils in Slovakia. Exactly on them is focused the interest of foreign investors. Land, but also clean water reserves in the world are gradually shrinking, thus both natural resources are becoming more valuable. Therefore, any sale of land, mainly to foreign development companies, gives rise to big debate, which is further exacerbated by the Act on land trading [5]. It is impossible to exist without land because it provides ecological stability of the country and its sustainability. European countries like France, the United Kingdom, but also the neighbouring Austria share the same understanding that land is not a commodity that is traded across borders and therefore land in their territory is diligently defended from strangers by different legal standards.

Long-term problem in the Slovak Republic is grabbing of farmland for the purpose of mainly large development - building industrial and residential projects. The Slovak Republic is one of the transition economies, which since 1990 has undergone major political and economic changes. Factors that contributed to the grabbing of land are primarily due to the need for new residential, industrial and commercial sites, as well as transport infrastructure. The continued urban growth in the Slovak Republic can be explained from several views. Many people reside in urban areas because there is higher quality housing with more living space per person. For the negative trend (negative externalities) can be considered extensive building - suburbanization, urban sprawl. Suburbanization and urban sprawl "consumes" parts of the country, which could be used for example as agricultural lands or forests [6]. With that the natural environment is losing its ecological function.

The question about construction of development projects, industrial parks, storage facilities and new production halls are also linked to the question of location and how they are implemented. In most cases, these complexes are built in the open and undeveloped spaces - on the "greenfields" All this is a consequence of distorted priorities of the public sector. The fact is that for the investor is building on a greenfield much more advantageous than brownfield revitalization. Cities and state leads to new networks to industrial zones, looking for investment propositions because of "greenfields" without environmental and other loads are quickly ready for construction. On the other hand, in the case of projects which revitalize brownfields means a crumbling demolition of buildings, removal of environmental loads and then build new premises. On the one hand it represents a high cost which the developer/investor does not want and on the other hand, such projects require financially strong and experienced developer.

Development of real estate market in the Slovak Republic and huge interest of foreign development companies to enter this market after 2000 affected mostly the growth of gross domestic product (GDP). This positive development mainly affected the industry, construction and agriculture, in which growth of GDP exceeded overall economic performance. Determinant which undoubtedly contributed to the positive image of Slovakia in the area of foreign investors and the real estate market has been re-granting investment rating of the world's largest rating agency Japan Credit Rating Agency, which reacted to previous rating improvement of Slovakia. The rating increase had consequences in terms of interest rates lowering, improvement in financing options and so on.

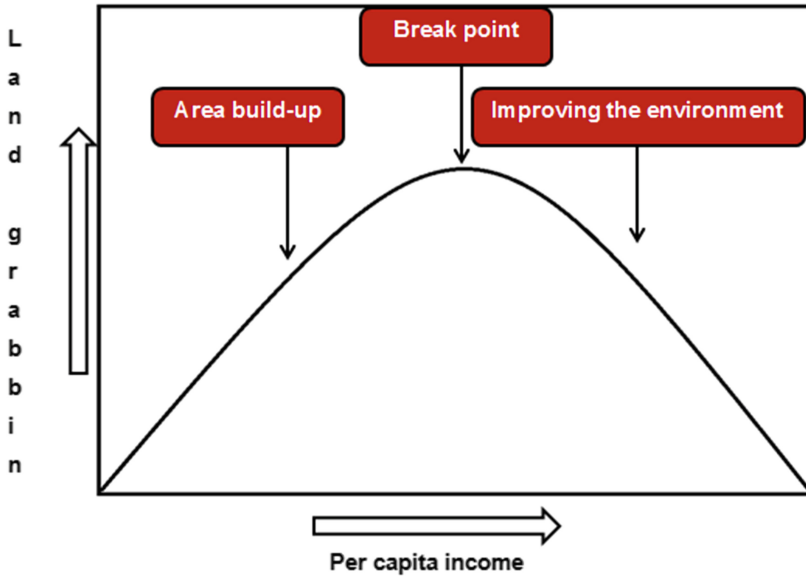


Fig. 3. Environmental Kuznets curves [7]

Building boom in the Slovak Republic in the last 15 years has caused several serious problems. This is particularly the failure of the State administration to manage development activities. Building authorities contribute to the existence of negative externalities, are under pressure from rich development company, causing great damage for violations of land use plan. An important problem that threatens the availability of good quality land is building-up new investment projects. Land management in the country becomes a limiting factor for sustainable development. General knowledge can be complemented by a relatively lower risk of environmental threats for the developed, rich countries. The growth of wealth from a certain point pollution levels decrease and demands for environmental protection increase (this expresses so called environmental Kuznets curve - see Fig. 3), which has its importance in the field of sustainable land management.

### 3 Model Examples

Slovakia is one of the most attractive European countries among residential markets with high profits. Unceasing demand attracted other developers, not only foreign but also those that were previously devoted to commercial real estate while apartments were not considered as very profitable activity. Construction of large investment projects (in Bratislava and its surroundings), which attracted foreign developers, has been implemented on a green meadow.

Bratislava, the capital city of Slovakia is a fast growing and dynamic city which is full of energy and rich history. It presents mainly Slovak centre of business,

employment, development, tourism and education. It benefits from its excellent geographic position, especially from nearby Hungary on the south and Austria on the southwest and it is also located near the central European economic centres such as Prague, Budapest and Vienna. But in comparison with other European capitals it is still not sufficiently developed. This was one of the main reasons why Bratislava became the centre of foreign investors' attention. Developers' focus so far has been mainly in projects that build premises for offices, retail and luxury residential areas. Unsatisfied demand still largely exists in the middle class households, mainly in rental housing projects, respectively construction of small apartments for young people. The main criterion for any development must be a good accessibility by car, which is the main mode of transport because of lack of metro in Bratislava and limited connections for bus and tram to new build areas. However, on the plan are for example speed tram lines linking the southern and northern part of the city. In this paper we present two examples of large investment projects which construction was conditional upon the grabbing of agricultural land.

### 3.1 Investment Project “Sunflowers - South City” in Bratislava

Investment project “Sunflowers - South City” is a pilot project of Petržalka - South City, which consists of two parts - residential and terraced houses with family houses.

The project (Fig. 4) plans construction of 200 apartments in three apartment houses and 71 houses are linked by central park with playgrounds and sport fields. The “South City” project with its territory and urban intention is of one of the biggest development projects in Bratislava. Petržalka is a part of Bratislava with the largest population and one of the most densely populated areas in Slovakia and Central Europe, where in panel houses currently reside 98.5 % of the nearly 120,000 residents.



**Fig. 4.** Residential project “Sunflowers - South City” in Bratislava [8]



**Fig. 5.** PSA Peugeot Citroën Slovakia in Trnava [9]

### **3.2 Automobile Factory PSA Peugeot Citroën in Trnava**

Automotive industry in Slovakia constitutes a significant component of the economy and also attracts foreign investors. It is the driving force of economic development of the country. Based on this automotive industry Slovakia gained adjective “European Detroit”. Project PSA Peugeot Citroën Slovakia is an automotive plant of company PSA Peugeot Citroën in Slovakia near town Trnava. Factory complex was built on 193 hectares of agricultural land and its construction began in 2003 (Fig. 5). The automaker in Trnava belongs to the newest in terms of technology in the PSA Peugeot Citroën group. Strategic investment realized by the French group in 2007 reached approximately 1 billion EUR.

## **4 Conclusions**

The reason for the growth of residential and other development projects in the last two decades since 1990 were several. Gradually were increased incomes of population, interest rates on construction loans (including mortgages) declined and number of apartments offers increased slowly. On the other hand, “hunger” for residential real estate triggered a boom in the construction mainly in Bratislava and western Slovakia. The demand for real estates has caused a rapid increase in property prices to staggering heights.

Developers had significant support in its loan financing from Slovak banks, which provided loan resources primarily for the construction of residential real estate and

mortgage loans up to 120 % of the value of purchased property. Another determinant, which significantly influenced the construction boom in the Slovak Republic, was the fact that after 1990, the agricultural land was reattributed to its original owners. Their relationship to land, however, was greatly disrupted and in many cases completely “uprooted”. Many owners decided to quickly capitalize land ownership to maximize profit by selling the land for construction purposes.

Significant demand for building land, especially in attractive locations with good transport connections and also the lack of coordination of construction through spatial planning contributed to strengthen the process of land sales. As a consequence of selling agricultural land in the past decade was that about 100 thousand hectares of agricultural land was bought by foreign investors, while the volume of agricultural land is decreasing.

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