

LAND POLICIES  
*for* GROWTH  
*and* POVERTY  
REDUCTION

A WORLD BANK POLICY RESEARCH REPORT

BLANK

LAND POLICIES  
*for* GROWTH  
*and* POVERTY  
REDUCTION

KLAUS DEININGER

A copublication of the World Bank and  
Oxford University Press

*Oxford University Press*

OXFORD NEW YORK ATHENS AUCKLAND BANGKOK BOGOTÁ BUENOS AIRES  
CALCUTTA CAPE TOWN CHENNAI DAR ES SALAAM DELHI FLORENCE HONG KONG  
ISTANBUL KARACHI KUALA LUMPUR MADRID MELBOURNE MEXICO CITY MUMBAI  
NAIROBI PARIS SÃO PAULO SINGAPORE TAIPEI TOKYO TORONTO WARSAW

and associated companies in

BERLIN IBADAN

© 2003 The International Bank for Reconstruction and Development / The World Bank  
1818 H Street, NW  
Washington, DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)  
E-mail: [feedback@worldbank.org](mailto:feedback@worldbank.org)

All rights reserved.

1 2 3 4 04 03 02 01

A copublication of the World Bank and Oxford University Press.

This volume is a product of the staff of the World Bank. The findings, interpretations, and conclusions expressed herein do not necessarily reflect the views of the Board of Executive Directors of the World Bank or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

#### **Rights and Permissions**

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The World Bank encourages dissemination of its work and will normally grant permission promptly.

For permission to photocopy or reprint any part of this work, please send a request with complete information to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, USA, telephone 978-750-8400, fax 978-750-4470, [www.copyright.com](http://www.copyright.com).

All other queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, World Bank, 1818 H Street NW, Washington, DC 20433, fax 202-522-2422, e-mail [pubrights@worldbank.org](mailto:pubrights@worldbank.org).

Library of Congress Cataloguing-in-Progress Data

p. cm. — (A World Bank policy research report)

Includes bibliographical references.

ISBN 0-8213-5071-4

1. Land tenure—Developing countries. 2. Land use—Government policy—Developing countries. 3. Land reform—Developing countries. 4. Farm ownership—Developing countries. 5. Right of property—Developing countries. 6. Rural poor—Developing countries. 7. Poverty—Developing countries. 8. Developing countries—Economic conditions. I. World Bank. II. Series.

HD1131.L345 2003

333'.009172'4—dc21

2003050076

Credit for front cover photo: World Bank

Credit for back cover photos: IFAD/R. Grossman (top photo); IFAD/A. Hossain (second photo from top); Klaus Deininger (third and fourth photos from top)

# Contents

**Foreword**     **ix**

**Acknowledgments**     **xiii**

**Executive Summary**     **xvii**

The Importance of Land Policies     xvii  
Property Rights to Land     xxii  
Land Transactions     xxix  
Socially Desirable Land Use     xxxviii  
Challenges Ahead     xliv

**1 Introduction**     **1**

The Relevance of Land Rights     1  
Land Policy in Different Regional Contexts     3  
The Role of This Report     5

**2 Property Rights to Land**     **7**

The Historical Context     8  
Conceptual Framework     22  
Demand for and Impact of Secure Property Rights     36  
Policy Implications     51  
Conclusion     74  
Notes     76

**3 Land Transactions**     **79**

Key Factors Affecting the Functioning of Rural Land Markets     80  
Implications for Land Rental Markets     84  
Implications for Land Sales Markets     93  
Empirical Evidence on Land Markets in Different Regions     98  
Policy Implications     115  
Conclusion     129  
Notes     131

<b>4</b>	<b>Fostering Socially Desirable Land Use</b>	<b>133</b>
	Restructuring the Farm Sector in CEE and CIS Countries	134
	Enhancing Land Access through Land Reform	143
	Reducing the Incidence and Impact of Land-Related Conflict	157
	Land Taxation	165
	Devolution of Control of State Land	169
	Land Use Regulation and Zoning	174
	Putting Land Policy in Context	178
	Conclusion: Continuity and Change since 1975	185
	Notes	190

**Appendix: Regional Workshops 193**

	Regional Workshop on Land Issues in Central and Eastern Europe Budapest, Hungary, April 3–6, 2002	193
	Regional Workshop on Land Issues in Africa and the Middle East Kampala, Uganda, April 29–May 2, 2002	195
	Regional Workshop on Land Issues in Latin America and the Caribbean Pachuca (Hidalgo), Mexico, May 19–22, 2002	199
	Regional Workshop on Land Issues in Asia Phnom Penh, Cambodia, June 3–6, 2002	202

**Glossary 205**

**References 207**

**Boxes**

2.1	A decentralized two-step system for registering property rights: the case of Lithuania	34
2.2	Land tenure security under state ownership	55
2.3	Innovative gender legislation in Latin America	60
2.4	The scope for gradually upgrading tenure security over time	65
2.5	Key differences between deed and title registration	71
3.1	The scope and flexibility of land rental contracts in West Africa	105
3.2	The impact of eliminating restrictions on land rental	121
3.3	Dangers of land privatization in an environment with multiple market imperfections	123
4.1	Changes in land reform policy in Colombia	147
4.2	Brazil: land reform to combat poverty in a middle-income country	148
4.3	Challenges of land reform in South Africa	150
4.4	The many facets of land conflict throughout history	158
4.5	Land tax reform in Kenya and Indonesia	169
4.6	The continuing challenge of state ownership	172
4.7	Ghana: an example of a comprehensive land policy	180
4.8	Elaborating and monitoring a land policy framework: key issues and indicators	182

**Figures**

2.1	Initial land distribution and economic growth, selected countries	18
2.2	Informal land occupation in urban areas, by region	37
2.3	Impact of title status on land values, selected countries and years	44
2.4	Impact of title status on investment, selected countries and years	46
2.5	Impact of title status on access to credit, selected countries and years	49
2.6	Impact of titling and wealth on credit access, Paraguay, 1990–95	51
3.1	Actual and desired rental land, China	110
3.2	Land rental before and after agricultural market liberalization, Nicaragua	112
4.1	Productivity of plots with and without conflict, Uganda, 2001	161

**Tables**

2.1	Intervention to establish and support large farms, selected locations and periods	12–13
2.2	Impact of land ownership distribution in four Latin American countries	21
2.3	Status of customary tenure in new land laws, selected African countries	63
4.1	Nature of land rights, selected CEE and CIS countries	137
4.2	Share of land held privately, selected CEE and CIS countries, 1990 and 2000	139
4.3	Extent and characteristics of land reforms, selected economies and years	144

BLANK



# Foreword

**L**AND POLICIES ARE OF FUNDAMENTAL IMPORTANCE TO sustainable growth, good governance, and the well-being of and the economic opportunities open to rural and urban dwellers—particularly poor people. Therefore, research on land policy and analysis of specific interventions relating to land have long been of interest to the World Bank’s Research Department and other academic and civil society institutions. However, the results of such research have not always been disseminated to policymakers and other key stakeholders as effectively as they might have been. As a result, discussions on land policies are often characterized by preconceived notions and ideological viewpoints rather than by careful analysis of the potential contribution of land policies to broader development, the scope for interventions in the area, and the mechanisms that can be used to achieve broader social and economic goals. Given this lack of analysis, the potential for using land policies as a catalyst for social and economic change is often not fully realized.

This report aims to strengthen the effectiveness of land policy in support of development and poverty reduction by setting out the results of recent research in a way that is accessible to a wide audience of policymakers, nongovernmental organizations, academics in World Bank client countries, donor agency officials, and the broader development community. Its main message rests on three principles.

First, providing secure tenure to land can improve the welfare of the poor, in particular, by enhancing the asset base of those, such as women, whose land rights are often neglected. At the same time it creates the incentives needed for investment, a key element underlying

sustainable economic growth. In addition to highlighting these advantages, the report discusses different mechanisms that can be used to promote tenure security, their advantages and disadvantages, and the ways in which they can fit into a broader development strategy.

Second, facilitating the exchange and distribution of land, whether as an asset or for current services, at low cost, through markets as well as through nonmarket channels, is central to expediting land access by productive but land-poor producers and, once the economic environment is right, the development of financial markets that rely on the use of land as collateral. The report demonstrates the importance of rental market transactions and argues that removing impediments to these can help generate considerable equity advantages and at the same time establish the basis for a positive investment climate and the diversification of economic activity, especially in the rural nonfarm sector. It also recognizes that nonmarket mechanisms for transferring land, such as inheritance, award of public and state lands, and expropriation of land by the state for the broader public good, have historically played a major role in either facilitating or obstructing broad land access and effective land use and that policymakers should take careful account of these processes.

Third, governments have a clear role to play in promoting and contributing to socially desirable land allocation and utilization. This is clearly illustrated by farm restructuring in the context of de-collectivization and land reform and postconflict land policy in economies with a highly unequal distribution of land ownership where land issues are often a key element of social strife. Appropriate incentives for sustainable land use are also required to avoid negative externalities and irreversible degradation of nonrenewable natural and cultural resources. The report illustrates mechanisms, ranging from taxation to regulation and land use planning, to address these issues.

Given the cross-cutting nature, far-reaching implications, and often long time horizon of interventions in the area of land policies, effective dissemination of knowledge and experience requires that research be informed by the broad range of problems policymakers face and be integrated into a broader dialogue with the Bank's development partners. For this reason I am particularly pleased that this policy research report builds on four regional workshops and an electronic discussion that allowed civil society and donor representatives, policymakers, and

academics to discuss the role of land issues in a regional context. These workshops and discussion provide a strong basis for using the report as an input into the development of strategies and activities at the country level.

The Bank issued its last comprehensive overview of land policies in 1975. Since that time the world has changed profoundly. The policy research report illustrates how these changes affect the issues decision-makers have to be concerned about and the implications this will have for specific policy advice. We and our development partners are now more aware of the importance of taking a comprehensive and integrated approach to development that includes attention to issues such as land policy that require a long-term approach. This, together with the consensus already achieved, encourages us to hope that the report will be widely used in the policy debate on land and provide the basis for integrating land into broader strategies and implementing specific land policies that will help increase growth in a way that benefits poor people.

Nicholas H. Stern  
Senior Vice President,  
Development Economics,  
and Chief Economist,  
The World Bank  
May 2003

BLANK

# Acknowledgments

**T**HIS REPORT WAS WRITTEN BY KLAUS DEININGER IN the Development Research Group under the guidance and supervision of Gershon Feder. We would like to thank the external technical advisory committee consisting of Michael Carter, Alain de Janvry, Gustavo Gordillo de Anda, Michael Kirk, Keijiro Otsuka, Jean-Philippe Platteau, Scott Rozelle, Elisabeth Sadoulet, and Jo Swinnen for providing guidance and critical feedback throughout the process. The report also benefited greatly from the comments received in the context of a three-week electronic discussion.<sup>1</sup> We thank all the contributors to this discussion for their valuable inputs, as well as Michael Carter, Jonathan Conning, Alain de Janvry, Robin Palmer, and Elisabeth Sadoulet, who moderated it. We are grateful for discussions with and continuing support from the Bank's Land Policy and Administration Thematic Group, in particular Hans Binswanger, John Bruce, Frank Byamugisha, Ed Cook, Li Guo, Lynn Holstein, Hoonae Kim, Isabel Lavadenz, Shem Migot-Adholla, Jessica Mott, Jorge Munoz, Jeeva Perumalpillai-Essex, Idah Pswarayi-Riddihough, Iain Shuker, Rogier van den Brink, Dina Umali-Deininger, and Wael Zakout. Many other Bank staff, too numerous to acknowledge by name, provided thoughtful comments at various stages of report preparation, and we are grateful for their input. The management of ESSD, in particular, the Agriculture and Rural Development Department, led by Kevin Cleaver and Sushma Ganguly, has been very supportive and has provided valuable inputs throughout the process.

---

1. The archive of this discussion can be accessed at [http://www.worldbank.org/devforum/forum\\_prr-landpolicy.html](http://www.worldbank.org/devforum/forum_prr-landpolicy.html).

The report builds on the insights gained from background papers presented and feedback received at four regional workshops in Hungary (April 3–6, 2002), Uganda (April 29–May 2, 2002), Mexico (May 19–22, 2002), and Cambodia (June 3–6, 2002), as well as a follow-up meeting with representatives from civil society, client governments, and donors in Washington (March 13–14, 2003). To thank the presenters, discussants, and chairs during these workshops, and at the same time illustrate the wealth of experience that these workshops brought together, the appendix presents an abbreviated program of these events. For providing the leadership that made these workshops feasible in the host countries, we thank Im Chhun Lim, Minister of Land Management, Urban Planning, and Construction, Cambodia; Tamas Eder, State Secretary, Ministry of Agriculture, Hungary; Maria Teresa Herrera Tello, Secretary of Agrarian Reform, Mexico; Miguel Angel Nuñez Soto, Governor of the State of Hidalgo, Mexico; and Ruhakana Rugunda, Minister of Land, Water, and the Environment, Uganda.

We particularly thank the French Ministry of Foreign Affairs, the German Agency for Technical Cooperation, the U.K. Department for International Development, and the U.S. Agency for International Development, which were the main sponsors for the regional workshops. In these institutions, Christian Graefen, Lena Heron, Philippe Ospital, Julian Quan, Jolyne Sanjak, Bruno Vindel, and Willi Zimmermann provided substantive and logistical input for which we are most grateful. We would also like to acknowledge the sponsorship of participants from civil society organizations to attend these workshops by the International Land Coalition and Oxfam, as well as the substantive support received from the European Union, the Food and Agriculture Organization of the United Nations, and regional development banks. We are also indebted to the World Bank's regional managers, country directors, and field office staff who provided invaluable support to the conduct of the workshops. Thanks for coordinating logistics locally are due to Susana Becerril, Michael Becker, Tamara de Mel, Vivien Gyuris, Viktoria Kovacs, Gabriele Kruk, Judy Longbottom, Eugenio Montiel, and Placid Ssekamatte.

For their untiring assistance in organizing the workshops and dealing with the many other logistical challenges that had to be overcome in preparing this report, we would like to thank Catalina Ramos-Cunanan, Aban Daruwala, Maria Fernandez, Pauline Kokila, Liliana

Longo, Anna Maranon, Karen McHugh, Renata Mohriak, Jason Paiement, Alfredo Revilak, Anna Regina Rillo Bonfield, Patricia Sader, and Radhika Yeddanapudi, as well as Raffaella Castagnini, Sara Savastano, and Oliver Taft, who, in addition, provided expert assistance with editing. We also would like to thank Lynn Brown, Ronald Kim, Polly Means, Rosemary O'Neill, and Melissa Williams for technical assistance; Alice Faintich for the final editing; Melissa Edeburn, Santiago Pombo, and Stuart Tucker from the Office of the Publisher for coordinating the editorial process; and Lawrence MacDonald for assisting with dissemination.

BLANK



# Executive Summary

## The Importance of Land Policies

LAND IS A KEY ASSET FOR THE RURAL AND URBAN POOR. IT provides a foundation for economic activity and the functioning of market (for example, credit) and nonmarket institutions (for instance, local governments and social networks) in many developing countries. Given this importance, institutions dealing with land have evolved over long periods, and land policies will invariably be affected by the presence of multiple market imperfections. Policy advice that is oblivious of either the complexity of these issues or the historical and political repercussions of policy interventions in this area can lead to unintended negative consequences. Research has long pointed to the need for a careful and differentiated approach as a precondition for making clear policy recommendations in relation to land that can help improve both efficiency and equity. Frequently, however, this message does not seem to have been clearly communicated to policy analysts and decisionmakers, with negative consequences. This report aims to summarize key insights from research and practical experience, not only to highlight the importance of careful and nuanced policy advice, but also to illustrate some general principles for formulating such policy advice in specific country settings.

## Origins and Evolution of Property Rights

Understanding the origins of property rights and their evolution over time is important to appreciate how property rights to land affect households' behavior and can, in turn, be influenced by government policy. Historically, one reason property rights evolved was to respond to increased payoffs from investment in more intensive use of land

resulting from population growth or opportunities arising from greater market integration and technical advances. In the course of development virtually everywhere, the need to sustain larger populations or to make use of economic opportunities associated with trade will require investments in land that cultivators will be more likely to make if land rights are secure. Appropriate institutional innovations to provide such rights can lead to a virtuous cycle of increasing population and successively greater investment in land, economic growth, and increased welfare. At the same time, failure of the institutions administering land rights to respond to these demands can lead to land grabbing, conflict, and resource dissipation that, in extreme circumstances, can undermine societies' productive and economic potential.

In addition to this evolutionary perspective, the imposition of property rights to land by outside forces or local overlords has affected the nature of such rights in many countries of the developing world. The goal of such intervention was to obtain surpluses from local smallholder populations or to force independent smallholders into wage labor by preventing them from acquiring independent land rights. To do so, a variety of mechanisms, often supported by distortions in other markets, was used. Not surprisingly, such imposition of rights often disrupted the evolution of land rights as a response to population growth or has, by co-opting local institutions or changing how they functioned, implied vast changes in the way land was allocated and managed at the local level.

Given that the historical evolution of property rights is not only a response to purely economic forces, it is not surprising that the arrangements found in many countries are often not optimal from either an economic or a social perspective. For example, in Africa, the vast majority of the land area is operated under customary tenure arrangements that, until very recently, were not even recognized by the state and therefore remained outside the realm of the law. In Eastern Europe, collective production structures have failed to contribute to rural growth. In Latin America and parts of Asia, highly unequal land ownership and access to assets have made it difficult to establish inclusive patterns of growth. As a consequence, there is concern that in many of these countries economic growth may widen pre-existing inequalities and tensions rather than reduce them. Despite such shortcomings, socially suboptimal and economically inefficient property rights arrangements have often remained in place for long periods of time. In fact, far-reaching changes of land relations have generally been confined to major historic transitions.

## **Importance of Property Rights for Economic Growth**

Property rights affect economic growth in a number of ways. First, secure property rights will increase the incentives of households and individuals to invest, and often will also provide them with better credit access, something that will not only help them make such investments, but will also provide an insurance substitute in the event of shocks. Second, it has long been known that in unmechanized agriculture, the operational distribution of land affects output, implying that a highly unequal land distribution will reduce productivity. Even though the ability to make productive use of land will depend on policies in areas beyond land policy that may warrant separate attention, secure and well-defined land rights are key for households' asset ownership, productive development, and factor market functioning.

If property rights are poorly defined or cannot be enforced at low cost, individuals and entrepreneurs will be compelled to spend valuable resources on defending their land, thereby diverting effort from other purposes such as investment. Secure land tenure also facilitates the transfer of land at low cost through rentals and sales, improving the allocation of land while at the same time supporting the development of financial markets. Without secure rights, landowners are less willing to rent out their land, which may impede their ability and willingness to engage in nonagricultural employment or rural-urban migration.

Poorly designed land market interventions and the regulation of such markets by large and often corrupt bureaucracies continue to hamper small enterprise startups and nonfarm economic development in many parts of the world. Such interventions not only limit access to land by the landless and poor in rural and urban areas of the developing world, but by discouraging renting out by landlords who are thus unable to make the most productive use of their land, they also reduce productivity and investment. High transaction costs in land markets either make it more difficult to provide credit or require costly development of collateral substitutes, both of which constrain development of the private sector. A recent study estimates that in India, such land market distortions reduce the annual rate of gross domestic product growth by about 1.3 percent.

## **Role of Secure Property Rights in Poverty Reduction**

For most of the poor in developing countries, land is the primary means for generating a livelihood and a main vehicle for investing,

accumulating wealth, and transferring it between generations. Land is also a key element of household wealth. For example, in Uganda land constitutes between 50 and 60 percent of the asset endowment of the poorest households. Because land comprises a large share of the asset portfolio of the poor in many developing countries, giving secure property rights to land they already possess can greatly increase the net wealth of poor people. By allowing them to make productive use of their labor, land ownership makes them less reliant on wage labor, thereby reducing their vulnerability to shocks.

Given the key role of land as a determinant of access to economic opportunities, the way in which land rights are defined, households and entrepreneurs can obtain ownership or possession of it, and conflicts pertaining to it are resolved through formal or informal means will have far-reaching social and economic effects. The implications not only influence the structure of governance at the local level, but also affect (a) households' ability to produce for their subsistence and to generate a marketable surplus, (b) their social and economic status and often their collective identity, (c) their incentive to invest and to use land in a sustainable manner, and (d) their ability to self-insure and/or to access financial markets. For this reason, researchers and development practitioners have long recognized that providing poor people with access to land and improving their ability to make effective use of the land they occupy is central to reducing poverty and empowering poor people and communities.

Control of land is particularly important for women, whose asset ownership has been shown to affect spending, for instance, on girls' education. Yet traditionally, women have been disadvantaged in terms of land access. Ensuring that they are able to have secure rights to one of the household's main assets will be critical in many respects. This includes meeting the challenges arising in the context of the HIV/AIDS epidemic, where the absence of clear land rights can lead to costly conflict and hardship regarding possible loss of land by widows.

### **Impact of Secure Property Rights on Governance and Sustainable Development**

The ability of local leaders and authorities to control land has traditionally been a major source of political and economic power. Over and above the economic benefits that may be derived from giving

households greater tenure security, measures to increase households' and individuals' ability to control land will have a clear impact on empowering them, giving them greater voice, and creating the basis for more democratic and participatory local development. For example, fiscal decentralization is often hampered by the lack of own revenue and accountability on the part of local governments. Both of these could be increased by taxation of land. In countries where land continues to be a key productive asset, governments could use land taxation more effectively to motivate fiscal discipline and to strengthen the voice of the local population by enhancing the accountability of local officials.

Conflicting interventions in land rights systems by outsiders in the course of history, or a failure to establish legitimate institutions in the face of increasing population pressure and appreciation of land values, have tended to exclude the poor from land access and ownership and resulted in the creation of parallel or overlapping institutions. Therefore ensuring minimum standards for rapid conflict resolution and dispensation of justice, accountability, and transparency in land management and access is critical. Where longstanding, systematic distortions in the area of land overlap with race and ethnicity issues, a buildup of land-related conflict and violence can even result in collapse of the state, with devastating consequences. In Africa, for example, formal tenure covers only between 2 and 10 percent of the land. To avoid leaving the occupants of these lands effectively outside the rule of law, many African countries have recently given legal recognition to customary tenure as well as to the institutions administering it; however, implementing these laws remains a major challenge.

In many countries the state continues to own a large portion of valuable land despite evidence that this is conducive to mismanagement, underutilization of resources, and corruption. Broad and egalitarian asset ownership strengthens the voice of the poor, who are otherwise often excluded from political processes, allowing them greater participation that can not only increase the transparency of institutions, but can also shift the balance of public goods provision, especially at the local level. As appropriation of rents from land appreciation through discretionary bureaucratic interventions and controls remains a major source of corruption and a barrier to the startup of small enterprises in many developing countries, this can help to significantly improve governance.

## Property Rights to Land

LAND RIGHTS ARE SOCIAL CONVENTIONS THAT REGULATE THE distribution of the benefits that accrue from specific uses of a certain piece of land. A number of arguments support public provision of such rights. First, the high fixed cost of the institutional infrastructure needed to establish and maintain land rights favors public provision, or at least regulation. Second, the benefits of being able to exchange land rights will be realized only in cases where such rights are standardized and can be easily and independently verified. Finally, without central provision, households and entrepreneurs will be forced to spend resources to defend their claims to property, for example, through guards, fences, and so on, which is not only socially wasteful, but also disproportionately disadvantages the poor, who will be the least able to afford such expenditures.

### Desirable Characteristics of Property Rights to Land

Property rights to land need to have a horizon long enough to provide investment incentives and be defined in a way that makes them easy to observe, enforce, and exchange. They need to be administered and enforced by institutions that have both legal backing and social legitimacy and are accessible by and accountable to the holders of property rights. Even if property rights to land are assigned to a group, the rights and duties of individuals within this group, and the way in which they can be modified and will be enforced, have to be clear. Finally, as the precision with which property rights will be defined will generally increase in line with rising resource values, the institutions administering property rights need to be flexible enough to evolve over time in response to changing requirements.

#### *Duration*

As one of the main effects of property rights is to increase incentives for investment, the duration for which such rights are awarded needs at least to match the time frame during which returns from possible investments may accrue. Clearly this depends on the potential for investment, which is higher in urban than in rural areas. While indefinite property rights are the best option, giving long-term rights that can be renewed automatically is an alternative. Given the long time spans

involved, attention to the way in which such rights can be inherited is particularly warranted, and has often proven to be critical to enhance women's ability to control land on their own.

### *Modalities of Demarcation and Transfer*

Property rights to land should be defined in a way that makes them easy to identify and exchange at a cost that is low compared with the value of the underlying land. With limited land values, low-cost mechanisms of identifying boundaries, such as physical marks (hedges, rivers, and trees) that are recognized by the community, will generally suffice, while higher-value resources will require more precise and costly means of demarcation. Similarly, where land is relatively plentiful and transactions are infrequent, low-cost mechanisms to record transactions, such as witnessing by community elders, will be appropriate. More formal mechanisms will normally be adopted once transactions become more frequent and start to extend beyond traditional community and kinship boundaries.

### *Enforcement Institutions*

The key advantage of formal, as compared with informal, property rights is that those holding formal rights can call on the power of the state to enforce their rights. For this to be feasible, the institutions involved need to enjoy legal backing as well as social legitimacy, including accountability to and accessibility by the local population. Yet in many countries, especially in Africa, the gap between legality and legitimacy has been a major source of friction, something that is illustrated by the fact that often more than 90 percent of land remains outside the existing legal system. Failure to give legal backing to land administration institutions that enjoy social legitimacy can undermine their ability to draw on anything more than informal mechanisms for enforcement. By contrast, institutions that are legal but do not enjoy social recognition may make little difference to the lives of ordinary people, and have therefore often proven to be highly ineffective. Bringing legality and legitimacy together is a major challenge for policy that cannot be solved in the abstract.

### *Subject of Rights*

Whether it is more appropriate to give property rights to individuals or to a group will depend largely on the nature of the resource and on

existing social arrangements. Group rights will be more appropriate in situations characterized by economies of scale in resource management or if externalities exist that can be managed at the level of the group but not the individual. Group ownership is also often adopted in situations where risk is high and markets for insurance are imperfect or where the resource in question is abundant and the payoff from any land-related investment that individuals could undertake on their own is low. Even if these conditions apply, group rights will be the option of choice only if the group to which such rights are assigned has a clear definition of its membership; if the responsibilities of individuals within the group are well identified; if mechanisms for internal management and enforcement, for example, the imposition of sanctions, are available; and if there is a clear understanding of the ways in which decisions to modify rules can be made.

#### *Evolution over Time*

Unless there are clear externalities that can be dealt with most effectively by groups, the relative advantage of group, as compared with individual, land rights will generally decrease in the course of development because of a number of factors. Technical progress reduces the risk of crop failure while at the same time increasing the potential payoff from investments; development of the nonfarm economy provides access to more predictable income streams; and greater access to physical infrastructure reduces not only the risk, but also the cost, of publicly providing property rights. Thus one would expect to see a move toward more individualized forms of property rights with economic development. At the same time, historical evidence suggests that transformation of property toward increased individualization is not automatic. To the contrary, it will be affected by political and economic factors, and thus will often coincide with major conflicts, upheavals, or power struggles.

Exogenous demographic changes, especially in the absence of economic development, will increase the scarcity and value of land. This can challenge traditional authorities and institutions that previously had unquestioned authority over land allocation and dispute resolution. If they coincide with land claims by outsiders and are overlaid with race and ethnicity issues, such situations can lead to serious crises of governance, including civil war. Even neglecting broader noneconomic impacts and possible indirect effects, the direct costs of land conflicts that may arise in this context are high and are borne mostly by



the poor, who are generally least able to afford them. Land conflicts often generate large, negative, external effects. In the extreme, they can undermine the state's authority and effectiveness by leading to the creation of a multiplicity of parallel institutions, as illustrated by the fact that unresolved land conflicts have in some cases escalated to become a significant contributor to state failure.

To avoid such consequences, the institutions managing land rights will need to be able to re-interpret traditions and social norms authoritatively and in a way that protects the poor and vulnerable from abuse of their rights by those with political power and economic resources. This requires attention to legal provisions that can instantly eliminate traditional rights or the rights of specific groups, such as women or herders. Even where an appropriate legal and regulatory basis is in place, operational mechanisms for putting laws into practice in a way that protects vulnerable members of society and precludes the elimination of secondary rights will be important. Seemingly simple alterations of the property rights regime can have far-reaching impacts on the poor.

### **Empirical Evidence on the Impact of Tenure Security**

In many countries of the developing world, insecure land tenure prevents large parts of the population from realizing the economic and noneconomic benefits, such as greater investment incentives, transferability of land, improved credit market access, more sustainable management of resources, and independence from discretionary interference by bureaucrats, that are normally associated with secure property rights to land. For example, more than 50 percent of the peri-urban population in Africa and more than 40 percent in Asia live under informal tenure and therefore have highly insecure land rights. While no such figures are available for rural areas, many rural land users are reported to make considerable investments in land as a way to establish ownership and increase their perceived level of tenure security. This illustrates not only that tenure security is highly valued, but also that in many contexts existing land administration systems fail to provide secure tenure. We discuss first the economic and then the noneconomic benefits of more secure tenure.

A first benefit from increased tenure security that can easily be measured is the increase in land users' investment incentives. Some studies have reported a doubling of investment, and values for land with more

secure tenure are reported to be between 30 and 80 percent higher than those for land where there is a higher probability of losing it. Transferability of land will greatly increase this effect, something that will be especially important in situations where the scope for transacting land between less and more productive producers has increased, for example, because of development of the nonagricultural economy and rural-urban migration. Higher levels of tenure security, not necessarily formal title, will also reduce the time and resources individuals have to spend trying to secure their land rights, thereby allowing them to invest these resources elsewhere. For example, in Peru the formalization of land rights increased the supply of labor to the market by more than 50 percent.

Where effective demand for credit exists, giving formal title to land can help producers gain access to credit and improve the functioning of financial markets. It has long been noted that the impact of such credit access may be differentiated by the size of landholdings, and therefore that attention to the anticipated equity effects will be required. In situations where the credit effect associated with title is unlikely to materialize in the near future, a more gradual and lower-cost approach to securing land rights and improving tenure security, with the possibility of upgrading once the need arises, will allow for provision of most, if not all, the benefits from increased tenure security at lower cost.

While targeting efforts aimed at increasing tenure security for the poor will therefore automatically lead to greater equity, two additional issues are of interest. First, the ability to make decisions about the allocation of land is a key element of political power wielded by traditional authorities or modern bureaucrats. Devolving some of this authority to democratic decisionmaking within the group or to individuals can greatly improve governance as illustrated by the example of Mexico, where beneficiaries mentioned improved governance as a key benefit of property rights reforms introduced after 1992.

Second, ensuring secure land tenure will be of particular relevance for groups that were traditionally discriminated against. In addition to being warranted based on basic considerations of equity, attention to women's land rights will have far-reaching economic consequences where women are the main cultivators, where out-migration is high, where control of productive activities is differentiated by gender, or where high levels of adult mortality and unclear inheritance regulations could undermine women's livelihood in case of their husbands' death. The importance of doing so is reinforced by strong evidence suggesting that the way in which assets are distributed within the household will affect spending

patterns. Greater control of assets by women often translates into higher levels of spending on children's education, health, and food. Similarly, even though the significance of land for indigenous peoples and herders goes beyond economics, even its economic impact has often been underestimated. Transferring property rights to indigenous communities, especially if combined with technical assistance, can allow them to manage these better or to derive greater benefits from the resources associated with their land. For herders, different countries have developed promising approaches to resource tenure and management that recognize the central role of mobility and risk management on an ecological scale that may transcend traditional boundaries.

### **Ways to Increase Tenure Security**

The findings described in the previous section imply that governments have a role to play in providing secure tenure to owners and users of land. Even though formal title will increase tenure security in many situations, experience indicates that it is not always necessary, and often is not a sufficient condition for optimum use of the land resource. The goal of providing tenure security for the long term, administered in a cost-effective way through institutions that combine legality with social legitimacy, can be achieved in a variety of ways depending on the situation.

#### *Customary Land*

In customary systems, legal recognition of existing rights and institutions, subject to minimum conditions, is generally more effective than premature attempts at establishing formalized structures. Legally recognizing customary land rights subject to a determination of membership and the codification or establishment of internal rules and mechanisms for conflict resolution can greatly enhance occupants' security. Demarcation of the boundaries of community land can remove the threat of encroachment by outsiders while drawing on well-defined procedures within the community to assign and manage rights within the group. Conflicts historically often erupt first in conjunction with land transfers, especially to outsiders. Where such transfers occur and are socially accepted, the terms should be recorded in writing to avoid ambiguity that could subsequently lead to land-related conflict.

*State Land*

Occupants on state land have often made considerable efforts to increase their level of security, in some cases through significant investments, but often remain vulnerable to eviction threats. Because of their limited land rights they generally cannot make full use of the land they occupy. Giving them legal rights and regularizing their possession is therefore important, along with ensuring that appropriate means are in place for resolving any conflicts that may arise in the process. In many situations, political or other considerations may preclude the award of full private property rights. If existing institutions can credibly commit to lease contracts, giving users secure, transferable, long-term lease rights will permit the realization of most, if not all, the investment benefits associated with higher levels of tenure security. In these cases, the recognition of long-term, peaceful occupation in good faith (adverse possession) and the award of long-term land leases with provisions for automatic renewal will be the most desirable option. If the leases awarded by state institutions are not credible, measures to increase tenure security or, alternatively, full privatization, will be required to give users sufficient security of tenure and the associated benefits. An indicator of limited credibility of leases is that even where there is strong, effective demand for credit, financial institutions will not accept long-term leases as collateral.

*Individual Title*

Where, after considering the arguments advanced earlier, formal and individual ownership title will be the option of choice, inefficiencies in the land administration institutions responsible for demarcation of boundaries, registration and record keeping, adjudication of rights, and resolution of conflict can still preclude realization of many of the benefits of secure tenure. If these institutions are not working well or are poorly coordinated, inefficient, or corrupt, transaction costs will be high, thereby reducing the level of transactions below what would be socially optimal, and in many cases excluding the poor completely. In the extreme, lack of clarity about who is responsible for specific areas or infighting between institutions has evolved into a major source of insecurity that has undermined the value and authority of titles or certificates of land ownership distributed during systematic interventions. In

such situations, institutional reform, including improved coordination within the government and with the private sector, will be a precondition for the state's ability to deliver property rights effectively.

If no previous records exist, or where these are seriously out of date, a strong case for systematic, first-time registration can be made on the grounds that a systematic approach, combined with wide publicity and legal assistance to ensure that everybody is informed, provides the best way to ensure social control and prevent land grabbing by powerful individuals, which would be not only inequitable, but also inefficient. In addition, interventions should be designed so that they are fiscally sustainable and so that the costs involved do not prevent individuals from subsequent registration of land transactions. Although it is often not necessary to have uniform standards for land administration throughout the whole country, coverage should aim to be comprehensive.

Even though most countries mandate equality of men and women before the law in principle, the procedures used by land administration institutions often discriminate against women, either explicitly or implicitly. To overcome this tendency, a more pro-active stance in favor of awarding land rights to women by governments, together with more rigorous evaluation of innovative approaches aiming to accomplish greater gender equality in control of conjugal land on the ground, would be warranted.

## Land Transactions

**L**AND TRANSACTIONS CAN PLAY AN IMPORTANT ROLE BY allowing those who are productive, but are either landless or own little land, to access land. Land markets also facilitate the exchange of land as the off-farm economy develops and, where the conditions for doing so exist, provide a basis for the use of land as collateral in credit markets. Capital market imperfections and policy distortions have, however, prevented land sales markets from contributing to increased levels of productivity or reduced poverty in many instances. This has led some observers to take a negative stance on any type of land market activity and to support government intervention, despite the considerable scope of rental markets and the evidence on limited effectiveness of government intervention in such markets.

## Conceptual Foundations

To understand why in some cases land transactions may fail to contribute to improving productivity and equity, it is necessary to review the conceptual foundations that underlie the operation of land markets and how some of the market imperfections frequently encountered in rural areas of the developing world will have a differential impact on land rental and sales.

### *Basic Elements*

A large literature has demonstrated that unmechanized agriculture generally does not exhibit economies of scale in production, even though economies of scale from marketing may in some cases be transferred back to the production stage. At the same time, the need to closely supervise hired laborers implies that owner-operated farms are more efficient than those that rely predominantly on large numbers of permanent wage workers. However, credit rationing and the scope to use collateral as one means to overcome imperfections that are inherent to credit markets will favor farmers who own larger amounts of land. In environments where access to credit is important, this can lead to the appearance of a positive relationship between farm size and productivity, possibly counteracting the supervision cost advantage of small owner-operated farms. These factors will have different implications for land rental as compared with sales markets.

### *Rental Markets*

Rental markets are characterized by low transaction costs, and in most cases where rent is paid on an annual basis require only a limited initial capital outlay. This, together with participants' ability to adjust contract terms so as to overcome market failures in capital and other markets, implies that rental is a more flexible and versatile means of transferring land from less to more productive producers than sales. Renting is thus more likely to improve overall productivity and, in addition, can provide a stepping stone for tenants to accumulate experience and possibly make the transition to land ownership at a later stage.

The importance of tenure security for rental markets is illustrated by the fact that where land tenure is perceived to be insecure, long-term contracts are unlikely to be entered into. Indeed, relatively insecure tenure

has been claimed to be one of the key reasons for the virtual absence of long-term rental contracts in most countries of Latin America.

The literature has long pointed out that rental arrangements based on fixed rather than share rents are more likely to maximize productivity. Poor producers may, however, not be offered fixed rent contracts because of the risk of default. In these circumstances, sharecropping has emerged as a second-best solution. Hypothetically, sharecropping contracts could be associated with sizeable inefficiencies, implying that government action could improve efficiency. In practice, the efficiency losses associated with sharecropping contracts were found to be relatively small, and improving on them through government intervention has proven to be difficult, if not impossible. Given that the contracting parties have considerable flexibility to adjust contract parameters so as to avoid inefficiencies, for example, by entering into long-term relationships or through close supervision, the general view is that prohibiting sharecropping or other forms of rental contracts is unlikely to improve productivity. The welfare impact of rental contracts depends on the terms of the contract, which in turn are affected by the outside options open particularly to the weaker party. Efforts to expand the range of options available to tenants, for instance, via access to infrastructure and nonagricultural labor markets, are likely to have a more beneficial impact on land rental market outcomes and rural productivity than prohibiting certain options.

### *Sales Markets*

Transfer of land use rights through rental markets can go a long way toward improving productivity and welfare in rural economies. At the same time, the ability to transfer ownership of land will be required to use land as collateral in credit markets, and thus to provide the basis for low-cost operation of financial markets. This advantage comes at the cost that sales markets will be more affected than rental markets by imperfections in credit markets as well as by other distortions, such as subsidies to agriculture.

Activity in land sales markets will depend on participants' expectations regarding future price movements, creating a potential for asset price bubbles that are not justified by the underlying productive value, as well as a tendency toward speculative land acquisition by the wealthy in anticipation of major capital gains. Ample historical evidence also shows that in risky environments where small landowners do not have

access to credit markets, distress sales of land by the poor can occur, with consequent negative equity and efficiency impacts. The impact of such distress sales is magnified by the fact that where, as in most rural areas, land sales markets are thin, land prices can fluctuate considerably over time. High transaction costs associated with land sales, which are often further increased by government intervention, can result in the segmentation of such markets whereby certain strata deal only with each other or sales remain entirely informal. All these factors imply that land acquisition by the poor through the land sales market will be difficult, and that as a consequence, the potential for productivity-enhancing land redistribution through sales markets is likely to be very limited.

### **Empirical Evidence**

The general conclusions discussed in the foregoing section, and the importance of government policies in shaping the outcomes from land sales markets that can be observed in practice, are supported by empirical evidence from different regions of the world.

#### *Industrial Countries and Eastern Europe*

In many industrial nations high levels of activity in rental markets, which cover more than 70 percent of cultivated land in some countries, illustrate that land rental is far from archaic. Indeed, because of lower capital requirements, many producers prefer to rent rather than to buy land. The fact that well-functioning, though often strongly regulated, rental markets in most industrial countries allow households to enter into long-term contracts that do not appear to be associated with a visible reduction of investment incentives, demonstrates the flexibility and possible advantages of land rental. It also highlights that long-term security of tenure is critical to achieve such outcomes.

In countries of Eastern Europe and the Commonwealth of Independent States (CIS), land rental was particularly important in the initial phases of the transition to a market economy, and continues to be relevant for facilitating access to land by younger producers and for consolidating operational holdings in situations where the ownership structure is highly fragmented. The potential for rental markets is particularly high where land plots were restituted to original owners who had little intention of becoming involved in farming, but where macro-



economic uncertainty and shallow financial markets slowed the development of land sales markets. Land rentals are also important to achieve market-based consolidation in countries that distributed extremely small plots of land.

Long-term leases are not common in Eastern Europe and the CIS because of tenure insecurity. Short-term leases of public land are widely applied to privatize enterprise land owned by local governments in Eastern Europe, but doing so may be highly inefficient. The reason is that the need to renew these periodically encourages rent-seeking and causes insecurity about contract terms that is likely to undermine the scope for long-term investment on such lands. In this case, sales or other means of transferring ownership would be preferable to rental. Developing true lease markets is also difficult where land was privatized only in share form, and where a combination of high risk, scant market development, and limited knowledge about their property rights prevents owners from making the most effective use of their endowments or establishing operations different from the former collectives.

The fragmentation of ownership and operational holdings caused by restitution implies that there may be considerable scope for land sales markets to bring about an ownership distribution that more closely matches the operational distribution of land. Furthermore, the high number of landowners in some of these situations increases the transaction costs of rental markets, and in some cases has reportedly led to preferences for sale rather than rental. However, in the absence of long-term credit, and with an uncertain overall economic outlook, the level of activity in land sales markets remains limited, implying that most of the adjustments of operational holding sizes are arrived at through rental.

### *Africa*

The current differences in land market activity across African countries can often be directly traced to past policy interventions. Rental markets, including long-term transactions that are in many respects equivalent to sales, are extremely active in West Africa, even though they mostly remain informal. Land transfers are more limited in East and southern Africa, where colonial policy had outlawed them for a long time. Recent studies suggest that activity in rental markets can nevertheless increase relatively quickly once the opportunities to engage in such activity exist. In most empirical settings rental markets improved efficiency as well as equity, and evidence from Ethiopia indicates that

restrictions on the operation of rental markets also tend to undermine the emergence of nonfarm enterprises. This would imply that eliminating remaining restrictions on the operation of rental markets could make a critical contribution not only to better land utilization, but also to accelerated development of the broader rural economy.

While the cross-country variation in activity in land sales markets is even wider than in the case of rental markets, evidence points toward the rising importance of informal land sales in peri-urban locations and in areas with potential for high-value crops. Although long-term land transactions are often recognized by communities, failure to formalize them creates opportunities to raise doubts about their legality at a later time, something that has often given rise to serious conflict. Greater efforts to formalize transactions at the local level could therefore have a beneficial impact, especially where the buyers are from different ethnic groups or are migrants.

### *Asia*

Most South Asian countries have legislation restricting land rentals to avoid exploitation of tenants by landlords. Although such laws may have provided advantages to sitting tenants, they are likely to have a negative impact on the ability of the landless to obtain land through the market, as well as on landowners' incentives to undertake land-related investment. The case for gradual abolition of such restrictions is strengthened by the example of China and Vietnam, where rental markets transfer land to more productive and land-poor producers in a way that is more effective than what was achieved by administrative reallocation. Evidence from Southeast Asian countries also illustrates that active markets in use rights can develop quickly as the availability of nonagricultural labor increases. Indeed, broader economic development provides considerable potential for the development of land rental markets that in many instances has not yet been fully tapped or developed.

In most of Asia, markets for long-term use rights have developed only recently. The scant empirical evidence available suggests that such markets will generally help to improve both equity and efficiency, except in situations where credit markets do not work well and shocks may therefore force households into distress sales of land. The threat of government expropriation without compensation is reported to lead to a large number of informal land sales by individuals who hope to use such sales as an opportunity to recoup at least a small part of the real

value of the land. Land sales markets in Asia, especially at the rural-urban fringe, are subject to a variety of restrictions. For example, in many peri-urban areas restrictions on conversion from agricultural to urban land limit the availability of such land for settlement and lead to high prices, which may put such land out of the reach of large portions of the population.

### *Latin America*

In Latin America, a perception of weak property rights and a history of land rental market restrictions imply that rental markets are less effective than one might expect in transforming a highly unequal distribution of land ownership into a more egalitarian operational distribution. Even though evidence suggests that land rental is more effective in bringing land into productive use than government programs, weak and insecure property rights, together with high transaction costs, continue to limit the scope for exchange, in particular, long-term contracts, in many countries. As a consequence, markets remain segmented and thin, and transactions are often limited to close relatives, where private enforcement without recourse to formal authorities is possible.

While in much of Latin America macroeconomic liberalization led to a significant drop in land prices during the 1990s, the expected results in terms of greater land market activity have only partly materialized. Even where sales markets are active, they are often highly segmented in the sense that large and small landowners trade with each other, but trades rarely occur across different size classes of producers. The rather muted impact of land market liberalization would be expected in a situation where confidence in property rights is still low, capital markets are imperfect, and transaction costs are high. It supports the hypothesis that land markets alone will not be able to equalize the land ownership distribution in a sustainable manner, thereby helping to overcome the structural difficulties plaguing rural areas in the region.

### **Policy Implications**

To realize the full benefits that can accrue from rental markets, governments need to ensure that tenure security is high enough to facilitate long-term contracts and eliminate unjustified restrictions on the operation of such markets. Limitations on the operation of land sales mar-

kets may, in some cases, be justified on theoretical grounds. In practice, efforts to implement such restrictions have almost invariably weakened property rights, with the result that the unintended negative consequences of sales market restrictions have often far outweighed the positive impacts they were intended to achieve. With few exceptions in the case of rapid structural change, there is little to recommend such restrictions as an effective tool for policy.

### *Rental Markets*

Short-term rental contracts will provide only limited incentives for users to undertake land-related investment. For longer-term contracts to be feasible, long duration of land rights and high levels of tenure security are critical, and finding ways to ensure such tenure security is a key policy issue. Another constraint on land rental markets has been the imposition of rent ceilings or the award of implicit ownership rights to tenants. While effectively implemented tenancy regulation can benefit sitting tenants, implementing such regulation is costly, and may therefore not be an efficient way of transferring resources to the poor, even in the short term. In the longer term, tenancy restrictions will reduce the supply of land available to the rental market and undermine investment, directly hurting the poor. Evidence from countries that have eliminated such restrictions suggests that doing so can not only improve access to land via rental markets, but can also increase households' participation in the nonfarm labor market and, by reducing the discretionary power of bureaucrats, improve governance. A key policy issue is therefore how to sequence the elimination of such restrictions in a way that does not undermine equity.

### *Sales Markets*

Credit market imperfections will affect the functioning of sales markets and may lead to situations where government intervention could, in a hypothetical world of perfect implementation, lead to outcomes that would improve efficiency and equity. Implementing such interventions has, however, proved to be exceedingly difficult in practice. In the vast majority of cases, restrictions on land sales markets have undermined tenure security and ended up making things worse than they were at the outset.

Restrictions on the transferability of land imposed by a central authority have generally limited credit access and often only pushed such transactions into informality. Except in situations of rapid economic transition, they are unlikely to be justified. Local communities are more likely to be able to appreciate the costs of limiting the transferability of land to outsiders or the benefits of eliminating such restrictions than central government institutions. As long as such decisions are reached in a transparent way and can be enforced, allowing communities to decide on whether to maintain or drop the restrictions on land transactions with outsiders that generally characterize customary land tenure systems may be more effective than imposing central restrictions that are difficult or impossible to enforce.

Land ownership ceilings have generally been ineffective as a means to facilitate the breakup of large farms, and instead have led to red tape, spurious subdivisions, and corruption. Where they were low, they have apparently had a negative impact on investment and landowners' ability to access credit, as in the Philippines. The only situation where they can be justified is where high enough land ceilings may help to limit the speculative acquisition of land, something that may be relevant in some CIS countries.

High levels of fragmentation, caused either by successive subdivision in the course of inheritance or by the desire to award at least one plot of a specific quality or use type to each producer in the process of land distribution, are often thought to lead to inefficiencies in agricultural production. The magnitude and importance of such inefficiencies increase as agricultural production becomes more mechanized. Dealing with fragmentation based on individual initiative will incur high transaction costs. This provided the justification for governments to adopt programs to complement market mechanisms in an effort to facilitate more rapid consolidation of holdings at lower costs. Although significant monetary and nonmonetary benefits are reported from Western Europe, such programs have often been costly and slow. Evidence from China highlights that in environments where administrative capacity is limited, programs aiming at consolidation can run into great difficulties and fail to yield the expected benefits. Rigorous evaluation of the costs and benefits of different approaches to consolidation in Eastern Europe would be desirable, and will be required before wider adoption of such measures can be recommended.

## Socially Desirable Land Use

**D**ECENTRALIZED TRANSACTIONS BASED ON SECURE LAND rights are likely to be more conducive to efficiency and equity while offering less scope for corruption and other undesirable side effects than administrative intervention, especially as the number of exchanges increases and the contractual arrangements become more complex. At the same time, governments have a clear role to play in a number of respects. Governments need to help establish the legal and institutional frameworks within which land markets can function and create a policy environment that rewards transactions that will increase productivity and welfare rather than the opposite.

Even though the need to do so is particularly obvious in the case of farm restructuring in Central and Eastern European (CEE) and CIS countries, devolution of authority over state land has also emerged as a critical issue in many other contexts. Where the land distribution is highly unequal and large amounts of productive land are unutilized or underutilized, governments may find it necessary to deal with fundamental issues related to the distribution of asset endowments that markets will not be able to address. In view of the large number of failed attempts at doing so in a way that increased efficiency and equity, drawing lessons from experience would be particularly relevant.

Finally, governments have a number of fiscal and regulatory instruments at their disposal to provide incentives for land use that maximize social welfare, for example, by helping to internalize effects that are external to individual land users. Their shortage of administrative capacity notwithstanding, many developing countries rely disproportionately on a regulatory rather than a fiscal approach, often with the result of encouraging discretionary bureaucratic behavior. Awareness of the rationale, mechanisms, and most appropriate level for intervention can help promote an approach that could produce more satisfactory outcomes, both in terms of compliance and in terms of reducing the red tape with which private entrepreneurs have to deal.

### Farm Restructuring

The performance of production collectives, as opposed to service cooperatives for marketing, has been dismal worldwide, and many of the production units in CIS and CEE countries were economically unvi-

able long before the political changes of the 1990s. The process of reform was affected by a number of factors. First, many of the production units performed important social functions, and viable local governments to take over these functions have emerged only slowly. Second, establishing the infrastructure and supporting institutions needed to facilitate the smooth operation of other markets is a process that requires time. Finally, the magnitude of the transition and the large number of interests affected implies that progress toward a stable post-transition equilibrium is unlikely to be smooth and linear.

Indeed, rather than being based on economic considerations, the specific modalities of farm restructuring were determined by a political process. Most CEE countries adopted restitution of land, while the majority of CIS countries and Albania opted for equal distribution of land to farm members. The distribution of physically demarcated plots, as adopted in Albania, the Kyrgyz Republic, and Moldova, was slower and caused considerable fragmentation, whereas the distribution of land shares that could be taken out of the collective under specified procedures allowed quick privatization, but led to hardly any change in the production structure.

The experience of farm restructuring illustrates that it is impossible to divorce land tenure from broader policy and institutional issues and access to local as well as global markets. Most of the economic benefits of titling have initially been concentrated in urban areas, where credit markets were much faster to emerge than in rural ones. The malfunctioning of rural output and factor markets in a risky environment has in many cases prevented households from leaving former collectives. Improvements in the legal and institutional environment will therefore be critical. To ensure a gradual improvement in the functioning of rural markets, including those for land, establishing a correspondence between land shares and physical property and eliminating implicit and explicit restrictions on land rental will be important.

## **Land Reform**

The fact that in many countries the current land ownership distribution has its origins in discriminatory policies rather than in market forces has long provided a justification for adopting policies aimed at land reform. The record of such policies is mixed. Land reforms have been very successful in Asia (Japan, Republic of Korea, Taiwan [China]), and positive

impacts have been reported from some African countries such as Kenya and Zimbabwe in the early phases of their postindependence land reforms. At the same time, land reforms in Latin America, other Asian countries, and more recently South Africa, failed to live up to their objectives and remain incomplete in many respects. A key reason for such limited impact was that reforms were often guided by short-term political objectives, or that implementation responded more to planners' conceptions than to the needs of beneficiaries, often limiting the reforms' sustainability and their impact on poverty.

Where extreme inequality in land distribution and underutilization of vast tracts of productive land co-exist with deep rural poverty, a case for redistributive measures to increase access to land by the poor can be made, both politically and from an economic perspective. Even in such cases, a number of different instruments (ranging from expropriation with compensation to activation of rental markets) to effect the transfer of land will normally be available. To ensure success of the reform and productive use of the land, land reform needs to be combined with other programs at the government's disposal. Access to nonland assets and working capital and a conducive policy environment are essential. Those benefiting from land reform need to be able to access output markets as well as credit, the selection of beneficiaries needs to be transparent and participatory, and attention needs to be paid to the fiscal viability of land reform efforts.

Governments are more likely to meet these challenges if they use the mechanisms at their disposal in concert and with the objective of maximizing synergies between them. This also implies a need to integrate land reform into the broader context of economic and social policies aimed at development and poverty reduction, and to implement programs in a decentralized way with maximum participation by potential beneficiaries and at least some grant element. Given the continuing relevance of the issue, the often heated political debate surrounding it, and the lack of quantitative evidence on some more recent approaches, rigorous, open, and participatory evaluation of ongoing experiences is particularly important.

### **Land Conflict**

Increasing scarcity of land in the presence of high rates of population growth, possibly along with a historical legacy of discrimination and highly unequal land access, implies that many historical and contemporary con-



licts have their roots in struggles over land. This suggests a special role for land policy in many postconflict settings. An ability to deal with land claims by women and refugees, to use land as part of a strategy to provide economic opportunities to demobilized soldiers, and to resolve conflicts and overlapping claims to land in a legitimate manner will greatly increase the scope for postconflict reconciliation and speedy recovery of the productive sector, a key for subsequent economic growth. Failure to put in place the necessary mechanisms can keep conflicts simmering, either openly or under the surface, with high social and economic costs. In such situations, subsequent transactions can lead to rapid multiplication of the conflict potential, which in some rural areas can result in generalized insecurity of land tenure that jeopardizes the broader rule of law.

Although empirical evidence is limited, even comparatively “minor” conflict over land can significantly reduce productivity and, as it is likely to affect the poor disproportionately, equity. Such conflicts are more likely in situations of rapid demographic or economic transition. Where this is an issue, existing institutions must have the authority and legitimacy to re-interpret rules and thereby prevent relatively minor conflicts from evolving into large-scale confrontation. Instead of opening up parallel channels for conflict resolution, something that has often contributed to increasing rather than reducing the incidence of land-related conflict, building on informal institutions that have social legitimacy and can deal with conflicts at low cost may be preferable.

## **Land Taxation**

Local governments’ lack of adequate sources of own revenue may not only affect their financial viability, but also limit their responsiveness and accountability to the local population. Land taxes have long been identified as a source of own revenue for local governments that is associated with minimal distortions, the use of which can at the same time encourage more intensive land use. Even though the extent to which land taxes are used varies widely across countries, actual revenues are generally well below their potential. Reasons for this include deficient incentive structures and neglect of capacity building with respect to assessment and administration, in addition to the political difficulty of having significant land taxes.

The high visibility of land taxes implies that establishing them may be difficult politically, especially in settings where landlords still wield considerable political power. In addition to democratic election of local

governments and administrative support to the different aspects of tax collection, schemes to encourage fiscal responsibility and tax collection at the local level, for example, by matching local taxes collected with central funds, can help to design and subsequently collect land taxes appropriately. This can have a significant impact on incentives for effective land use, local government revenues, types and levels of public services provided, and governance.

### **State Land Ownership**

Governments should have the right of compulsory land acquisition, with compensation, for the broader public benefit. At the same time, the way in which many developing country governments exercise this right, especially for urban expansion, undermines tenure security and, because often little or no compensation is paid, also has negative impacts on equity and transparency. In a number of cases, anticipation of expropriation without compensation has led landowners to sell their land in informal markets at low prices, thereby not only forcing them to part with a key asset at a fraction of its real value, but also encouraging unplanned development and urban sprawl that will make subsequent provision of services by the government harder and more costly. Limiting the scope for such uncontrolled exercise of bureaucratic power is a precondition for transparent decentralization and improved tenure security in many peri-urban areas.

The state, especially in developing countries, often lacks the capacity needed to manage land and bring it to its best use. Nevertheless, surprisingly large tracts of land continue to be under state ownership and management. In peri-urban areas, this can imply that unoccupied land of high potential lies idle while investment is held up by bureaucratic red tape and nontransparent processes of decisionmaking that can attract corruption. Experience demonstrates that transferring effective control of such land to the private sector could benefit local governments, increase investment, and improve equity. Where public land has been occupied by poor people in good faith for a long time and significant improvements have been made, such rights should be recognized and formalized at a nominal cost to avoid negative equity outcomes. In cases where valuable urban land owned and managed by the state lies unoccupied, auctioning it off to the highest bidder will be the option of choice, especially if the proceeds can be used to compensate original landowners or to provide land and services to the poor at the urban fringes at much lower cost.

## Land Use Regulation

Even though direct management of land through government agencies has rarely been effective, there is a clear role for government to ensure that resources that embody broader social and cultural values and benefits, such as landscapes, biodiversity, historic sites, and cultural values, will not be irreversibly destroyed by myopic individual actions. Furthermore, public action is warranted to reduce undesirable externalities and nuisances, provide incentives for the maintenance of positive external effects such as hydrological balances, and facilitate cost-effective provision of government services. Ensuring that these goals can be met requires paying attention to the nature of property rights and to the ability to adopt specific regulations.

External environmental effects can often be internalized if property rights are designed in a way that encourages prudent management of natural resources, for example, by awarding property rights to groups that jointly benefit from optimum resource use, by strengthening the capacity of these groups for collective action, or by making award of property rights either to individuals or to groups subject to certain restrictions or rewards for desirable behavior. With the exception of interventions to obtain environmental benefits, regulatory action to avoid negative externalities from land use is more likely to be justified in urban and peri-urban than in rural areas. The two questions that need to be answered in this context are whether such measures should be imposed by central or local authorities and how specific interventions should be designed.

Zoning and other land use regulations should be established based on a clear assessment of the capacity needed to implement them, the costs of doing so, and the way in which both costs and benefits will be distributed. Failure to do so has often implied that centrally imposed regulations could either not be implemented with existing capacity, that doing so was associated with high costs that were predominantly borne by the poor, or that they degenerated into a source of rent-seeking. Too little thought has often been given to providing mechanisms that would allow local communities to deal with such externalities in a more decentralized, and therefore a less costly, way. To facilitate this, it is essential that local governments have sufficient capacity and be aware of the advantages and disadvantages of different approaches. A gradual devolution of responsibility for land use regulation to local governments, if coupled with capacity building, could make a significant contribution to efforts toward more effective decentralization.

## Land in the Broader Policy Context

Land policy addresses structural issues that, in the longer term, will affect the ability of the poor to take advantage of the economic opportunities opened up by broad macroeconomic changes. Measures to increase land tenure security, reduce the transaction costs of transferring land rights, and establish a regulatory framework to prevent undesirable externalities do, however, cut across traditional boundaries. As a consequence, institutional responsibilities are often dispersed among ministries such as those responsible for the environment, land reform, and urban planning, many of which do not have strong capacity. To overcome the compartmentalization that may result from such arrangements, it will be essential to have a long-term vision and to include land issues in the framework of a development strategy that has broad backing, as well as being supported and coordinated by a high political level. The extent to which goals are achieved should be monitored independently, and the results compared with those achieved by other government programs aimed at poverty reduction and economic development.

Land policy issues are complex, country-specific, of a long-term nature, and often controversial politically. Even though specific interventions in the land policy area can make society better off, such measures may be challenged by vested interests that derive benefits from the status quo. To prevent stalemate or inaction, proper sequencing of reforms and attention to their political economy will be critical. To make reforms feasible, strong local capacity, an open and broadly based policy dialogue, carefully chosen and evaluated pilots, and sharing of experience across countries will be essential, and can also help build capacity for policy formulation.

## Challenges Ahead

THE LAST PUBLIC PRONOUNCEMENT BY THE WORLD BANK ON land issues was in the 1975 *Land Reform Policy Paper*, which analyzed land largely in terms of agricultural use and productivity, devoting little attention to the importance of land rights for empowering the poor and improving local governance, the development of the private sector outside agriculture, the gender and equity aspects associated with land, and the problems arising on marginal areas and at the interface between rural and urban areas. Review of the

extent to which the substantive messages have changed since 1975 and the implications of this for operational approaches can illustrate the challenges ahead as well as the scope for successfully addressing them.

It is now widely realized that the almost exclusive focus on formal title in the 1975 paper was inappropriate, and that much greater attention to the legality and legitimacy of existing institutional arrangements will be required. Indeed, issues of governance, conflict resolution, and corruption, which were hardly recognized in the 1975 paper, are among the key reasons why land is coming to the forefront of the discussion in many countries. While there are more opportunities for win-win solutions than may often be recognized, dealing with efficiency will not automatically also resolve all equity issues. Stronger rights for women, as well as improving access to land by herders, indigenous populations, and other groups that were historically disadvantaged, can be justified on the basis of basic human rights considerations, even if they do not imply an immediate increase in economic efficiency.

Another area where the policy recommendations of the earlier paper needs to be corrected is the uncritical emphasis on land sales, without being aware of the high transaction costs and the many obstacles that might impede the functioning of sales markets, especially for the poor. Transferability of land is more important today than it was earlier, as evidenced by the high incidence of rental markets and the role these markets play in facilitating the development of an off-farm sector. At the same time rental markets, whose outcomes in terms of equity, productivity, and long-term investment are more beneficial than had been assumed, can address nearly all productivity concerns. Eliminating remaining restrictions on the functioning of these markets is of high priority.

Even though the earlier paper acknowledged the scope for land redistribution to improve equity and efficiency, little follow-up action took place and no criteria to make this recommendation operational were proposed. This report goes beyond this position in two respects. First, it acknowledges that land reform can be a viable investment in a country's future, but that to ensure that the potential is fully utilized, there is a need to carefully assess the requirements and scope of this intervention as compared with others to determine both target groups and necessary complementary measures. The targeting and impact on poverty reduction, empowerment, and productivity, as well as the cost of such a program, need to be evaluated carefully and in a transparent and participatory way, explicitly allowing for modifications of program design in response to results. Second, there are many land-related interventions with a clear poverty-reducing

impact that are less controversial politically and less demanding in terms of institutional capacity and fiscal resources. Initiating a program of land reform without at the same time exhausting these other options will not be prudent. Moreover, even where redistributive land reform is either not needed or is not politically feasible, much can and may need to be done to improve land rights and access by the poor.

Not surprisingly, in view of the controversial nature of the subject, in 1975 the Bank was very cautious about offering policy advice and did not confront the political dimension of land directly. Few links between land and broader economic development were drawn that could have helped to integrate land issues with a long-term strategy that had broad support at the country level, and little detail was offered on how the insights gained could be made operational. As a consequence, the impact in terms of implementation was limited. This report illustrates not only that substantive policy advice has evolved considerably since then, but also that the general principles and recommendations derived here need to be translated into the local realities prevailing in any specific setting. Doing so will require not only an active policy dialogue, but also the collaboration of all major stakeholders, drawing on their respective comparative advantage. It is hoped that building on the process embarked upon in its preparation, this report will make a contribution toward reaching this goal.