

Land access and markets

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A couple of myths: I

- Land reforms can be decreed w/o thinking implementation
 - India: Land reform legislation effective only with implementation
 - Mexico: Law alone had minimum effect: PA, Tribunales
 - Second generation problems in many countries (clientelism, patronage)
- Free trade is the foe of land reform
 - Land reform to help take advantage of opportunities (and other factors)
 - Liberalization opens the door to effective land reform (sugar estates)
- State-driven land reform is cost effective
 - Brazil: Good business to get expropriated - clear figures (MALR pilot)
 - Huge bureaucratic overhead
- Land reform is a zero sum game
 - Needs to be advantageous for society - and politicians will buy in

A couple of myths: II

- It's easier (& more effective) to expropriate than to tax
 - Political vs. economic rationale: Who owns what
 - “Proper use” clauses breed bureaucracy, rent seeking, and corruption
- Poor can get access to land *only* through redistribution
 - Landless excluded from most land reforms; Nicaragua example
 - Giving secure title - remove restrictions (subdivision acts) as important
 - Land reform *one* instrument in a broader range of policies
- Markets are dangerous; will lead to mal-distribution
 - History of systematic distortions to *prevent* large farm breakup
 - The majority of land in Korea's land reform was through the market
 - Issue: How to bring about efficiency- and equity-enhancing land reform

Outline

- Why do we want to do land reform?
 - Not a zero sum game and related to broader development
 - But also not the only instrument
- Challenges and the “market assisted” model
 - Technical issues facing any land reform
 - Limited one-time grant for establishment of productive projects
- Examples
 - Adaptation to local conditions - and evolution over time
- Possible implications for the Philippines
 - Accomplishments and challenges ahead

Efficiency

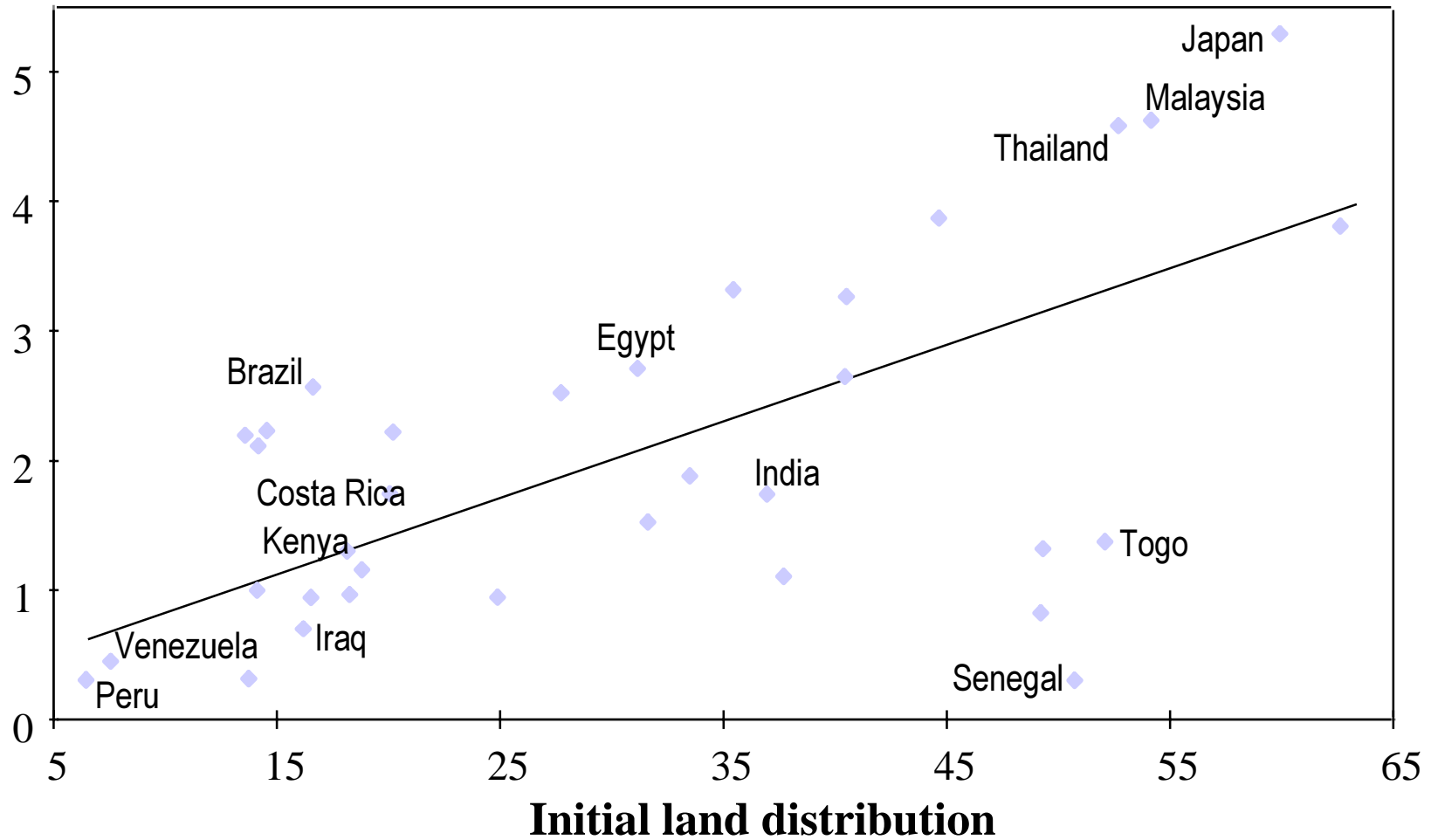
- **Farm-size productivity relationship**
 - Supervision advantages of family labor
 - Low efficiency and employment generation of wage labor operations
 - Considerable empirical evidence
- **Incentives for human and physical capital formation**
 - Path dependence, poverty traps, and economic growth
 - Credit constraints and risk diversification
- **Might be reduced by other market imperfections**
 - Access to credit and output markets
 - Policy distortions
 - Need for integrated approach

Equity

- Economic growth
 - Clear evidence of negative impact of asset inequality
 - Investment in human and physical capital
 - Governance and independent institutions
- Household well-being
 - Nutrition (China vs. India)
 - Poverty traps and insurance in time of crisis
- Social peace
 - Land conflicts as a source for violence
 - These cause direct and indirect damage
 - Land rights and conflicts in Central America, Uganda, etc.
- No conflict between equity and efficiency

Land distribution and economic growth

Average GDP growth, 1960-90



Key elements of the Bank's land policy

- Improve tenure security
 - Legal definition of land rights (incl. indigenous); land policy framework
 - Processes for conflict resolution and accountability
 - Efficient institutions (registry, cadastre)
- Improve functioning of markets: Sale and purchase
 - Eliminate distortions affecting land prices
 - Eliminate restrictions on land rental and sale
 - Valuation, tax collection, and provision of public goods
 - Regulatory framework and information on land prices
- Improve land access

Land reform: Specific issues

Challenges

- **Productive efficiency and change in output mix**
 - Intensification in products with high value added
 - Labor use and risk diversification
- **Management capacity of beneficiaries**
 - Management and skills for running an enterprise
 - Social capital, conflict resolution, etc.
- **Access to output and credit markets**
 - Private sector participation key
 - Reason for lack of success in the past
- **Need for complementary investment**
 - Land alone less and less important
 - Productive and social infrastructure

The community-based model

- Focus on establishment of productive projects
 - Integrated investment package (including land) instead of mere land transfer
 - Identification of marketing and credit channels **before** land transfer
 - Economic viability is key: Sustainable livelihoods, instead of only land dist.
- One-time grant for establishment of such projects
 - Limit on absolute grant size and free negotiation of land
 - Community-level and individual level (implicit subsidy; community-level)
 - Complemented with own resources and/or bank credit
- Decentralized implementation
 - Local NGOs and private sector to provide training etc.
 - Consistency with local development goals - and often large spillovers
 - Approval of projects in a local level committee w beneficiary part'n

Potential advantages

- **Replace central bureaucracy with local empowerment**
 - Demand-rather than supply driven: Put beneficiaries in drivers' seat
 - Faster and less conflictive: 7 months in Colombia
 - Landlords have an interest in putting together good projects
 - Cheaper if beneficiaries have the necessary capacity
- **Focus on economic development of the most needy**
 - Landless have an equal opportunity to access land
 - Don't have to kill land markets (ladder) but build on them
 - Capacity building and change of mentality
- **Address structural issues**
 - Land tax uses power of the state more effectively than ownership ceilings
 - Creating competition among land owners more effective than ineffective threat
 - Provide infrastructure *together* with land transfer
 - Eliminate distortions that undermine the functioning of credit markets

Examples

Colombia

- **Background**
 - Underutilization of land, violence, env'l degradation
 - INCORA since 1961 - no impact on land ownership (Gini 0.84 to 0.81);
 - High costs and low beneficiary satisfaction - large-scale desertion
- **New model**
 - “Pro-landlord” law passed independent from Bank involvement (70%)
 - Idea: Give money to beneficiaries directly
 - But: No change in bureaucratic structure to reflect decentralization
- **Pilots in 5 municipalities**
 - “Productive projects” - 6 months preparation process
 - Key role of local actors to drive the process
 - NGOs and private sector: Developed considerable capacity

Colombia II

- Mechanisms and implementation
 - Dissemination and elaboration of productive plans; change of mentality
 - Key role of “Consejo municipal”; local approval - 5 farms visited on avg.
 - Caused local power struggles
- Impact
 - Pilot beneficiaries are the only ones who are still credit-worthy
 - Diversified market production surpassed projections 1 year after transfer
 - Shortage of capital to to legal structure: 2 ha intensive - 13 cattle grazing
- An opportunity lost
 - No expansion because lack of quick independent evaluation and inability to finance land purchases
 - Gov’ spent 80 mn US \$ on “conventional” model with little impact
 - The issue remains of great importance

Brazil

- Political importance of Agrarian Reform
 - Since 1964 - not a complete success story (desertion rates)
 - A direct result of NGO initiatives
- The pilot and the traditional program
 - Complementarity
 - Reliance on local level support and capacity building
 - Ongoing evaluations and search for improvement
- Impact
 - Well targeted to the poor
 - Models show possible 5-fold increase in beneficiary income
 - Does get to the poor and does create investment (melons)
 - Beneficiaries can deal better with drought

Philippines

- Limited progress in CARP implementation
 - But: Should be finished by now - and there is no end in sight
 - No money for Land Transfer component
 - CARP-related distortions undermine credit markets, investment, land rental
- Market assisted approach already in place (VOS, VLT, DPS)
 - But divorced from funding for complementary investments
 - Incentives to go for high-cost developed land (few beneficiaries; owners)
- Large unrealized potential
 - Huge NGO/PO capacity comes in only in the post-transfer stage (if at all)
 - Participation by other local players is ad hoc rather than institutionalized
 - Great interest by donors

The CMARP approach

- Eligibility for infrastructure support contingent on LGU interest
 - Needs to fit into municipal plan laying out the broad context
 - Identify demand and supply; provide support; cadastre and register
 - Take measures to increase supply (land tax) if needed
 - Integrated LTI-PBD financing package (w. ceiling)
 - Will empower beneficiaries to go for undeveloped land with potential
 - Requirement of own contribution
 - Complement with private sector financing, credit, etc.
 - ...according to a viable farm plan based on decentralized approval
 - Participatory structure to oversee the process
 - Public approval of projects to be financed
 - Utilize NGO/PO potential for capacity building/dissemination
 - Feasibility study suggests that it can work under Filipino cond's
 - This needs to be complemented by actual land transfers
- For this to work, the support of NGOs/POs is essential