Land access and markets

Klaus Deininger
World Bank
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

Initial land distribution

More equal
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’t 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