

**Property Rights, Land Markets and
Poverty in Namibia's 'Extra-Legal'
Settlements:
An Institutional Approach**

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❖ introduction & background

- ❖ Represents work-in-progress of ongoing research.
- ❖ Research aims to investigate the potential of land and real estate markets for poverty alleviation in Namibia's "extra-legal" settlements.
- ❖ Uses conceptual tools of the New Institutional Economics, principally theories of *transaction costs* and *property rights*.

➤ introduction & background

❖ Objectives of *this* presentation.

- To suggest/clarify conceptual framework linking property rights, transaction costs, property markets and poverty alleviation.
- To highlight knowledge gaps on this subject..
- Articulate the research agenda in this field and the direction the research intends to take.

➤ introduction & background

- ❖ In urban landscape three 'transitions' which will set the context for research activity and policy formulation currently underway (Jones 2003).
 - Increasing *urbanisation* of the developing countries.
 - The urbanisation of *poverty*.
 - Greater prominence given to *property rights* in the development agenda.

➤ introduction & background

- ❖ Namibia classified as lower middle income country with a 1997 per capita income of US\$2,220 (Hansohm 1999).
- ❖ Statistic obscures great inequalities in the distribution of wealth which exists in this country.
- ❖ 5 % of the population earns more than 70 % of the national income with the poorest 55 % earning a meagre 3 % (Schade 2000, 111).
- ❖ Richest 1 % of households consume as much as the poorest 50% (Schade 2000, 111).

➤ introduction & background

- ❖ Gini Coefficient of 0.701 (calculated in 1993/94) is among the highest measured worldwide.
- ❖ A large proportion of the population therefore live in abject poverty.
- ❖ Using food consumption ratio as an indicator, the incidence of poverty was estimated at 47 % in 1993/94 (Schade 2000, 113).
- ❖ Schade (2000, 119) attributes the causes of poverty to high unemployment and *unequal distribution of assets, particularly land* which in turn reflects the legacy of apartheid.

➤ introduction & background

- ❖ Namibian Government has been engaged in an ambitious land reform programme since independence from South Africa in 1991.
- ❖ The focus of land reform in urban areas have been to provide secure property rights to thousands of Namibians who live in informal settlements.
- ❖ A key policy innovation is the proposed 'flexible land tenure system' which has been piloted in some urban settlements.

❖ conceptual framework

- ❖ **The New Institutional Economics**
- ❖ The 'purpose' of the NIE is both to explain the determinants of institutions, such as property rights, and their evolution over time and to evaluate their impact on economic performance, efficiency and distribution (Nabli and Nugent 1989 cited in Kherallah and Kirsten 2001).
- ❖ The NIE is based on a few concepts such as *property rights* and *transaction costs*.

➤ conceptual framework

- ❖ **Transaction Costs**
- ❖ Market transaction costs (Furubotn and Richter (1998, 44ff)
 - search and information costs.
 - bargaining and decision costs.
 - supervision and enforcement costs.
- ❖ High transaction costs cause market failure.

➤ *conceptual framework*

❖ **Property Rights**

- Right to use/exclude.
- Right to derive income from.
- Right to alienate.
- ❖ Right to exclude prevents the property from becoming common property.
- ❖ Right to derive income from and to alienate permits the realisation of gains from exchange.
- ❖ Well-defined and secure property rights necessary for functioning of decentralised markets and the efficient use of resources.

➤ *conceptual framework*

- ❖ Realising the potential value of an asset presupposes exchange.
- ❖ By constraining exchange, high transaction costs may prevent realisation of this potential.
- ❖ The conventional wisdom is that well-defined property rights lower transaction costs.

➤ *conceptual framework*

- ❖ **Linking Urban Land and Real Estate Markets and Poverty - A Conceptual Framework.**
- ❖ Markets distinguished by relatively high transaction costs.
- ❖ As argued above, realising the latent benefits of real estate presupposes exchange in the *capital, rental or development* markets.
- ❖ High transaction costs may cause markets to fail or not to function well.

➤ *conceptual framework*

- ❏ Real estate often the major asset held by the poor and " *their ability to claim and sell land and then to move on to settle, claim and sell yet again and again is a critical element in social and economic advancement*" (Alston *et al* 1999, 10).
- ❏ The key in this process are property rights. Secure tenure allows the development of *wider markets*, encouraging land to be used for highest-valued uses and allowing owners to capture *capital gains* from sales (Alston *et al* 1999, 3).

➤ *conceptual framework*

- ❏ Context is settlement on the Amazon frontier but the principle has clear relevance to the urban poor in most developing countries, where the desirable end-state may be full integration into the formal sector .
- ❏ Research, based on robust theoretical and empirical platforms, needs to demonstrate clearer the links between land markets and poverty alleviation (Jones 2003).

➤ *conceptual framework*

- ❏ Conceptual tools of the New Institutional Economics (NIE), principally theories of property rights and transaction costs, provide an appropriate framework for such research.
- ❏ The thesis of this paper is that both (relatively) high transaction costs and inappropriate property rights configurations account for the failure to unlock the potential of real estate to create wealth.

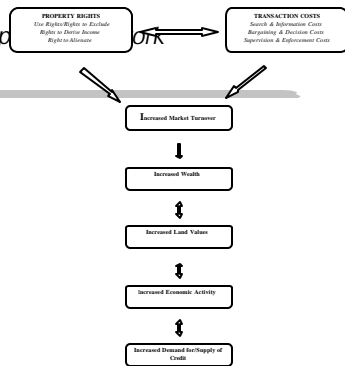
conceptual framework

- ❏ Low transaction costs and secure property rights in real estate markets are a necessary (but not sufficient) condition for the unlocking of the potential of real estate to alleviate poverty.
- ❏ These two factors create conditions that make it possible for large numbers of secure and impersonal transactions in a decentralised market to take place.

conceptual framework

- ❏ However higher transaction costs and insecure property rights are not an inevitable feature of informal land and real estate markets.
- ❏ The question of the relative levels of transaction costs and security of property rights, as well as their effects on property markets and incentives, is therefore a matter of empirical investigation.
- ❏ The link between property rights, transaction costs, real estate markets and poverty alleviation is illustrated in figure .

conceptual framework



➤ *conceptual framework*

✦ Following on from our conceptual framework, land and real estate markets in informal settlements will need the following attributes if they are to be a tool for poverty alleviation:

- Well defined, secure and enforced property rights
- Liquidity i.e. frequent numbers of impersonal transactions.
- Low levels of uncertainty with regard to individual transactions.
- Low levels of transaction specific investment, such as security deposits.
- Facilitative regulatory framework/institutional arrangements

➤ *conceptual framework*

✦ The emphasis in some of the literature on the link between formal property rights, access to credit and improved welfare is premature.

✦ Priority task is to increase turnover in markets. i.e. directing attention to those factors that impede exchange.

✦ The key therefore is to gain a better understanding of transaction costs in informal real estate markets and how they are mediated before taking prescriptive action.

➤ *conceptual framework*

✦ This conceptual framework is consistent with, and dovetails with the emerging consensus in conceptualisation of poverty, the so called vulnerability/capital assets framework.

✦ Poor households are seen to be managers of portfolios of assets which can be stored, accumulated, exchanged or depleted and put to work to generate a flow of income or other benefits (Rakodi 1999).

➤ *conceptual framework*

❖ "In those urban contexts where the poor are systematically excluded from formal sector jobs, and the capacity of macroeconomic growth strategies to generate additional jobs is limited, the removal of tenure-insecurity related obstacles that prevent or constrain households from using their housing effectively as a productive asset is possibly the single most critical poverty reduction intervention" (Moser 1998, 11).

❖ **knowledge gaps**

- ❖ Lack of basic information regarding the functioning of urban land markets in Africa and other developing countries (Antwi and Adams 2003; Gough and Yankson 2000; Payne 1997).
- ❖ In particular little systematic attention has been placed on the role of informal institutions that allow markets to function regardless of government regulations (Pamuk 2000; Rakodi and Leduka 2003).

➤ *knowledge gaps*

- It is of interest to find out how the problem of exchange in informal settlements is resolved in institutional terms and the resulting incentives and constraints.
- Without this knowledge it becomes difficult to see how these markets may aid poverty alleviation and to make prescriptions for improvement.
- ❖ Another problem identified is lack of rigorous theoretical framework to link research on land markets and poverty alleviation.

❖ research agenda

- ❖ Institutional analysis directs attention to the importance of the institutional environment and institutional arrangements within which property market activity takes place.
- ❖ NIE focuses on the *property market process* defined "in terms of the institutions which collectively constitute the property market, the legal framework which constrains the operation of those institutions, and a set of conventions which govern the way that actors operate and perceive opportunities in the market" (Armitage and Keogh 1996, 1).

➤ research agenda

- ❖ Research questions that need addressing, first asked 10 years ago (Doebele 1994, 50).
 - "Why do so few re-sales appear to be taking place in informal settlements (if indeed such is the case)? When do they occur, to whom are the plots or properties sold and how is the price fixed? How do sellers use the proceeds of their capital accumulation, and what economic consequences result?...How does sluggishness in such a market affect the succession or (filtering) phenomenon in which marginal housing stocks receive and pass up successive categories of urban migrants?"

➤ research agenda

- ❖ Other questions relate to the question of whether formalisation hurts or benefits the poor.
 - For e.g. Jones (2003) ask pertinent questions: "As the poor already invest in their homes, is access to finance the only or principal mechanism by which regularization addresses generation-to-generation poverty established by the denial of property rights? Are reforms creating new forms of illegality that might be more complex to resolve and which might lock the poor into more exclusionary social or spatial patterns?"

➤ *research agenda*

❖ Additionally, the following questions need answers:

■ What institutional arrangements facilitate or constrain the function of informal property markets? What incentives or constraints do actors face? What is the case for reform? What is the (potential) contribution of real estate to poverty alleviation?

❖ This research aim to provide answers to some of these questions in the context of Namibia's informal settlements.

➤ *research agenda*

❖ A better understanding of these markets is necessarily if they are to be marshalled in the fight against poverty.

❖ Research aims to "demonstrate clearer the links between land markets and poverty alleviation" (Jones 2003) and in a manner that 'takes into account the complex relations and processes engaged in residential land production and distribution' (Jones and Ward 1994, 13).

➤ *research agenda*

❖ The research complements current studies examining informal land delivery systems in six other African countries (Rakodi and Leduc 2003).

Thank You
