

Reforming Land and Real Estate Markets

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1. Introduction

Land and real estate¹ assets account for 45-75% of the wealth of developing countries (Ibotson, et al., 1985). These assets have the unique characteristics of being simultaneously a major input into production activities (agriculture, industry, and services), and into consumption by households of residential real estate and infrastructure services. For agriculture, land is the most important factor of production. For enterprises, especially of small and medium size, land and real estate are the largest cost center second only to labor. For poor households, land and real estate are the single most significant vehicle for saving and the largest item of expenditure.

All too often, however, land and real estate assets are seriously underutilized as inputs in production and as vehicles for saving or leveraging of resources. This is true for most developing economies, especially the poorest among them. In the case of Egypt, informal real estate accounts for 92 percent of the dwellings in the urban sector and 87 percent of the holdings in the rural sector. The value of these dead assets is estimated at US\$240 billion, relative to a GDP of around \$75 billion (De Soto, 1997). Whether measured by formality of ownership, access to mortgage finance, access to infrastructure services, or the flexibility of re-deploying assets across alternative uses, significant disparities remain within and across countries. For example, informal housing ranges from 15 percent of the total housing stock in East Asia to more than 65 percent in Africa (Urban 21: World Commission, 1999); the share of housing credit to total housing investment ranges from less than 10 percent in most developing countries to more than 50 percent in East Asian countries, and to 85 percent in OECD countries (excluding the US and Turkey) (Buckley, 1996).

Over the last decade, momentum has been building to bridge these disparities. In transition economies, post-privatization reforms are centered on increasing the ability of households and firms to *exercise* their property rights over privatized assets. In East Asia, the recent crisis has highlighted the connection between international capital flows, exchange rates, banking sector stability, and cycles in real estate markets (Renaud, et al.,

¹ Real estate is defined in Black's Law Dictionary as "land and anything permanently affixed to the land." However, lay usage of the term "real estate" often refers to urban real estate and excludes agricultural land; hence our use of land *and* real estate to emphasize the rural-urban scope of this study.

1998). In Latin America, the waves of liberalization, democratization, decentralization, and post-conflict reconstruction have focused attention on market-assisted land reforms in rural areas, and more transparent and equitable planning and service delivery procedures in urban areas. These same forces are creating momentum for bridging gaps in access to, and use of land and real estate in, Africa, the Middle East, and South Asia.

Notwithstanding this reorientation, there is evidence to support the notion that reforms to better utilize land and real estate have not produced maximum benefits to their owners and users. In this paper, we argue that this outcome can be traced, at least in part, to the narrow focus of attempted reforms on only one aspect or another of land and real estate's many key dimensions. In particular, the absence of a comprehensive approach or a "road map" to guide the design of reforms often produces reforms that focus too narrowly on, for example, technical intervention at the expense of legal reform (e.g. physical cadastre instead of land registration). Or it produces emphasis on one set of reforms while ignoring another set which is a necessary prerequisite (e.g. focusing on mortgage finance with little attention to the status of property rights and land registration). Or the focus is given to one sector ignoring the interaction with another (e.g. urban land focus ignoring rural land conversion). Even though some specific reform actions can and do produce positive results, the impact and sustainability of such results can be seriously undermined in the absence of an overall strategy which capitalizes on such reforms.

In the remainder of the paper, we set out the case for a more systematic and coherent approach to reforms. First, we attempt to make the case for reforming land and real estate markets by briefly reviewing the evidence on the linkages between reforms and poverty reduction, economic growth, and stability. In Section 3, we develop a conceptual framework, which traces the inherent characteristics of land and real estate assets to different types of market and institutional failures. On the basis of this framework, we recommend a set of policy and regulatory reforms. In Section 4, we evaluate the World Bank's experience in supporting land and real estate reforms across a wide range of countries over the last 10 years, with a view to exploring whether the design of such support is consistent with the proposed framework. More specifically, we

examine how strategies for reform are conceived, projects are designed, and outcomes are evaluated. We conclude, in Section 5, with a summary of our main findings.

2. Land, Real Estate and the Economy

The case for reforming land and real estate markets is compelling when viewed either from the poverty reduction or a broader economic development perspective. There is extensive and growing literature in support of the positive association between land distribution, poverty reduction, and economic growth. There is also extensive literature, which suggests that reforms to secure land tenure increase the productivity of land and its value. Since most of the assets owned by the poor are held informally, this finding suggests that land and real estate reforms are especially beneficial to this disadvantaged group. Finally, there is evidence emerging from the East Asian crisis that traces the crisis, at least in part, to imperfections in the real estate market. Given that such crises are associated with widespread bankruptcies and deep recessions, they tend to affect the poor disproportionately. In the rest of this section, we provide partial review of this vast literature, along with findings to the contrary.

Starting with *asset* poverty, it is worth noting that recent research has emphasized asset distribution generally and landlessness specifically. Among these studies, Ravallion and Sen (1994) and Besley and Burgess (1998) have shown that rural poverty and landlessness go hand in hand. Although substantial empirical evidence shows that small-scale/family-based farming can be more efficient than large-scale farming, distortions and barriers prevent a market-driven breakup of larger farms into smaller family-operated units. Chief among these barriers is asymmetric information in credit markets (see e.g. Bowles, and Gintis, 1997; Deininger and Feder, 1998). Poor but efficient farmers are unlikely to overcome the information asymmetry problem without adequate collateral, putting them at a major disadvantage vis a vis asset rich farmers. A number of recent papers have suggested the prevalence of a “poverty trap” that perpetuates the plight of credit-constrained actors (Piketty, 1997; Banerjee and Newman, 1993; Aghion and Bolton, 1997). When actors are rationed out of the credit market, they are unable to make bulky investments financed through their annual earnings, and therefore are unable to escape the initially poor endowment of wealth (Galor and Zeira, 1993).

These findings have implications not only for poverty reduction, but for productivity and growth as well. Indeed a number of empirical studies examined the correlation between inequality in land ownership and growth: Alesina and Rodrik (1994) found that a one-standard-deviation increase in equality in land ownership and income (i.e. reduction in the gini coefficient) increases growth by more than one percentage point. These findings have been confirmed elsewhere in the literature (e.g. Persson and Tabellini, 1994). More recent studies have distinguished between asset inequality and income inequality and found asset inequality to be more significant in affecting subsequent growth (Deininger and Squire, 1996; Li, Squire, and Zou, 1997; and Lundberge and Squire, 1999). Birdsall and Londono (1998) found the initial land gini, along with the initial educational inequality, to have strong negative impacts on economic growth and on the income growth of the poorest.

The strong evidence on the link between rural land distribution, rural poverty reduction, and growth has not generated renewed interest in the massive land reform policies of the 1950s. Notwithstanding the potential gains of carrying out effective land reform (as seen in Japan, Korea, Taiwan, and China), these reforms are politically difficult and costly (as reflected in the experience of land reforms in Latin America, Africa, and the Middle East) (Banerjee, 1999). This has prompted policymakers to consider alternative means to achieving redistribution of land, including “market-assisted land reforms” in which the state assists the landless to acquire land by providing them grants or subsidized loans and technical assistance to purchase land.

But landlessness is only one of several constraints facing the poor. Indeed, when poor households hold land, they still face constraints which frequently either prevent them from fully benefiting from it or losing it altogether through distress sale. A number of studies have noted that in the absence of inter-temporal markets, especially in credit and insurance, poor farmers are left without a risk coping mechanism, making them highly vulnerable to distress sales, and putting them back into the ranks of the landless (Deininger and Feder, 1998).

Another type of constraint facing the poor is that while they might “hold” land, i.e. *possess* it, they might not have *secure rights* to it. The effects of insecure tenure have been studied extensively in urban and rural literature in terms of its effect on value

(mainly in urban areas) and productivity and access to credit (mainly in rural areas). In urban areas, the focus has been on “informal” tenure. While informal land tenure is not always insecure, it often does entail a discount in value due a higher risk premium and asymmetric information. Several studies point out the cost that the lack of legal title may impose on households. In Jakarta, for example, residential plots with clear title sell at a 45 percent premium over comparable plots without clear title (Dowall, 1998). In Manila, the risk of eviction lowers the value of the housing units by 25 percent (Dowall and Leaf, 1990; Dowall, 1998). In Davao, the Philippines, Jimenez (1984, 1988) finds a 58% increase in value due to titling. In the barrios of Quito, Ecuador, Simon (1995) finds a 21% increase in value due to land titling. In rural Thailand, Chalamwong and Feder (1986) find that the prices of legally documented lands are significantly higher than those of equal quality untitled land. These differences, however, appear to originate primarily from the credit advantage available to formal owners of land, who were found to secure loans at 14-16 percent compared with 46-52 percent charged to informal land holders.

To be sure, not all poor households own or hold some form of land and real estate: many are tenants. But rental housing for the poor is often provided not by rich slumlords as the stereotype might suggest, but rather by landlords who themselves are poor and using rental income to reduce their vulnerability during economic downturns, or to provide for subsistence during retirement. This is evidenced best in a number of studies where, in Mexico City for example, “the landlords of the urban periphery are laborers, employees, traders, bricklayers or artisans” and only one-third of the landlords had constructed the dwelling with the purpose of renting it (Coulomb, 1985:52, cited in Gilbert and Varley, 1991: 133). A later study on Mexico found that many of the landlords were indeed poor elderly couples or widows. It concluded that “[t]he majority of landlords are clearly operating on a small scale; they own only one rental property and may not be conspicuously wealthier than their tenants” (Gilbert and Varley, 1991:153). A comprehensive approach to helping poor city dwellers with security of tenure and access to credit stands to help all – poor landlords and tenants – through the increased supply of rental housing.

The literature assessing the impact of land tenure arrangements on productivity indicates that insecure land tenure arrangements translate into lower output per unit of

land, while more robust rights contribute to productivity. Again, this is manifested in urban areas where investment in housing is correlated to the sense of security of tenure (Jimenez, 1984) as well as in rural areas which focused on increased agricultural output (see Collier, 1983; Feder, Onchan, and Hongladarom, 1985; Atwood, David, 1990; Rozelle, Guo and Brandt, 1996; Banerjee, Gertler and Ghatak, 1998; Lin, 1992; Alston, Libecap and Schnieder, 1995; Lopez, 1995; Carter and Olinto, 1996). In China, there is evidence from a study by Yao (1996) that the increase in transferability of land has allowed for a better allocation of household labor to non-agricultural sectors.

Beyond the link between land and real estate markets, poverty and economic growth, the East Asian crisis has highlighted the potential adverse impact of real estate bubbles on economic stability (Bertaud, 1998). In a recent paper on causes of financial intermediary failure, Caprio and Honohan argue that “[i]n industrial countries, the most characteristic cause of bank failure has been over-exposure of banks to a real estate property boom, itself fuelled by an over-expansion of bank lending (pp.3, 1999).” More broadly, a review of banking crises in a number of countries over the last twenty years by Byamugisha (1998) suggests that lending for and mortgaging real estate is a major reason for the insolvency of banks. Byamugisha shows that real estate played an important role in the eruption of bank crises in Hong Kong, Malaysia, Thailand, and Chile at different points in time. Evidence of such a link between banking crises and real estate booms date back to the late 19th century.² Typically, bank supervision is weak and bankers tend to lend to lucrative activities, like real estate, even if the risk of default is relatively high. This practice increases the probability of accumulating bad loans, which eventually leads to insolvency of banks and very expensive bailouts. If bank failure is also associated with exchange rate collapse, bankruptcies and recessions are inevitable, which deprive the poor of their jobs and leads to a decline in real wages.

While the literature discussed above lends strong support to the notion that reforming land and real estate can produce benefits to the poor, such a conclusion bears important qualifications. A number of studies covering both urban and rural areas have

² Calomiris, Charles, 1997 “The Postmodern Bank Safety Net” Washington D.C. The American Enterprise Institute. Cited in Caprio and Honohan.

questioned the effectiveness of specific instruments, such as land registration, housing finance, or formalization of tenure in squatter settlements, as a panacea to poverty and productivity issues. Plateau (1995) questions the conceptual underpinnings for doing land registration in Sub Saharan Africa. He argues that property rights and demand for such institutional arrangements have not evolved enough to warrant the supply of land registration systems. Varley (1987) questions the relationship between tenure legalization and housing improvements and argues that such improvements are more the result of provision of services, which often accompany legalization of tenure. Razzaz (1991, 1993) finds no significance of titled over untitled peri-urban land in Amman, Jordan, where the threat of eviction is minimal and formal credit is unavailable. In rural areas, Bruce and Migot-Adholla (1994) do not find any consistent link between robustness of property rights (proxied by the extent of transfer rights) and agricultural yields in eight African countries. They speculate that the relative abundance of land and the lack of development in factor markets (labor, capital) and farm produce may account for such findings. Similarly, Atwood (1990) and Carter and Weibe (1990) find no increase in investment where credit markets are not available. In a study of the relationship between owners and tenants with usufruct rights in Niger, Gavian and Fafchamps (1996) find no significant difference in investment levels. In this case, the authors suggest that the usufruct holders held sufficient medium-term tenure security over the land and therefore exhibited similar investment behavior to that of the land owners. It is also important to note that in studies from Honduras and Paraguay (Lopez, 1995; Carter and Olinto, 1996), while titled land gave some land-holders greater access to existing credit markets and investment opportunities, the poorest (smallest land holders) were still rationed out of participation.

Another common concern about formalization of property rights of the poor is the effect on informal tenants: that formalization might drive property values up and displace poor tenants. This has indeed been observed in urban contexts when the scale of formalization was very limited. In contrast, when formalization is carried out on a broad scale, more poor landlords have the incentives to consolidate and expand, ensuring a more elastic supply of rental housing.

The studies that find a weak link between one element of reform (say land registration to secure tenure) and productivity or investment point to an important conclusion. Namely, partial reforms may not always lead to the desired outcome. In some cases, there is the possibility that the individual reform was intended to relax a constraint that was not binding in the first place (e.g. providing individual titles in areas with strong communal property rights). But it is also possible and even likely that reforms to secure property rights may not lead to the full benefits because mortgage finance is missing, or the prices of goods and services derived from land and real estate are distorted. In other words, instruments such as land redistribution, land registration, credit subsidies, physical upgrading, etc. are each likely to be necessary but not sufficient to induce poverty reduction or growth. They are more likely to deliver positive outcomes if they are well-coordinated as part of a reform package. This conclusion suggests the need for an integrated framework to approach land and real estate reforms. The question is: How do we move from a world of scattered instruments and policies to one where a reform agenda drives the use of specific instruments of physical redistribution, upgrading, registration, mortgage finance, taxation, and subsidies? The next section attempts to sketch out such a framework.

3. Analytical framework

Finding out how to better utilize land and real estate assets requires answering such questions as: Why are many landholders reluctant or unable to make long-term investments in land? Why do they opt, or find themselves obliged, to accept less than the full value of and potential returns on their land and real estate? Why are the more productive individuals in society unable or unwilling to acquire land and real estate assets from the less productive? And why is land scarcely used as collateral, although it potentially qualifies perhaps as the safest guarantee for credit because of its immobility and lack of depreciation?

The above set of questions is clearly very broad. Moreover, they have been analyzed extensively as shown in section two of this paper. But the analysis has tended to focus on specific constraints (credit, tenure, etc.) or specific sub-markets (housing, commercial, agricultural, etc.). Less has been written, however, on the necessary

structure of policy and institutional reforms to improve the functioning of land and real estate markets and the utilization of these assets. In this section we attempt to develop an analytical framework for the design of such a package, elaborate the normative implications of this framework, and discuss limitations of implementation. The cornerstone of the analysis is that land and real estate have their own unique characteristics, which are associated with problems in the efficient use, exchange, and development of land and real estate. Resolving these problems, therefore, constitutes the basis for the desired reforms.

3.1 Land characteristics, associated problems and impact

From the perspective of reforming land and real estate markets, the following characteristics stand out: (1) land and real estate are fixed in location; (2) they are heterogeneous; (3) they require bulky finance to acquire and develop, and (4) their demand is derived from the demand for the products and flow of services they help generate. These characteristics, along with the associated problems and impact, are shown in Table 1 and elaborated below.

Table1. Land characteristics, associated problems, and impacts

Characteristics of Real Assets	Associated Problems	Impacts
<p>1. Fixed in location</p> <p>2. Heterogeneous</p>	<ul style="list-style-type: none"> ➤ Negative/positive externalities, resulting from actions by neighbors and government ➤ Government residual control (powers) over ownership and use of land could lead to opportunistic behavior ➤ Information asymmetry, ill defined property rights, and high transaction costs 	<ul style="list-style-type: none"> ➤ Over/under investment, and government exposure to contingent liability ➤ Risk of asset or income expropriation, especially for informally held assets, reduces incentives to trade and invest ➤ Inefficient exchange and loss of productive and allocative efficiency, especially where transaction costs are fixed and high
<p>3. Bulky investment</p>	<ul style="list-style-type: none"> ➤ Inability to finance the acquisition and development of land and real estate through own savings, making lack of term finance a problem ➤ Where term finance is available but capital markets underdeveloped, exposure to real estate cycles through credit risk, interest rate risk, and collateral risk. 	<ul style="list-style-type: none"> ➤ Under investment where liquidity is constrained or risk premium is high. ➤ Financial crises driven by real estate cycles ➤ Lack of access to collateral by the poor, who may be more efficient users
<p>4. Derived demand</p>	<ul style="list-style-type: none"> ➤ Policy and tax distortions in input markets of agriculture (e.g., fertilizer), housing (e.g., cement) and finance (e.g., interest rate) ➤ Policy and tax distortions in output markets of agriculture (e.g., cotton) and housing (e.g., rent control) 	<ul style="list-style-type: none"> ➤ Misallocation of resources ➤ Policies aimed at making the poor better-off may actually have the opposite effect (rent control)

Fixed in location. Land is fixed in location, as are the permanent improvements on it. Fixed location exposes owners to positive and negative externalities resulting from uncompensated actions by others, be it neighbors or government. Owners can, for example, realize windfalls from a reclassification of land from a low-value use to a

higher-value use, or they can suffer substantial uncompensated losses from changing land use regulations which could erode the value, use, or yield of their asset. Lack of credible commitment by governments not to take arbitrary actions, absence of due process and full compensation, widespread rent-seeking behavior by public agents, and spatial uncompensated externalities all reduce the incentives for landholders to invest (e.g. planting trees or upgrading houses) as much as they would have under a more predictable regime. Buyers and lenders are likely to value assets less than they would have otherwise to discount for these risks

The importance of credible government commitment follows from the combination of the locational characteristic of land and real estate and the residual control power enjoyed by all governments, at the federal and local levels. Governments can, indeed, influence what owners can or cannot do with their assets through zoning policies and land use controls, licenses and permits, price controls, and most drastically, uncompensated expropriation (nationalization, land ceiling acts, etc.).³ Even where property rights are established and assigned, these rights have little value in the absence of enforceability and adjudication. In the case of informal settlements, lack of secure tenure often derives from loose enforcement of property rights to begin with, and then an inability of the legal system to recognize the de facto possessory rights of settlers.

Heterogeneity. The heterogeneity of land real estate assets derives partly from their fixed location -- each parcel of land and each building on it are unique, i.e. one real estate asset is not a perfect substitute for another. But heterogeneity also derives from endogenous quality attributes such as soil quality, slope, etc. for agricultural land; and building quality, features, useable space, etc. for urban real estate. Finally, rights, privileges, and powers over land and real estate can vary significantly from one asset to another (rights of owners and tenants, liens, residual controls by condominium association or local government, etc.).

³ The credibility and transparency of government participation in markets appears to be a major factor in the decision to invest (Brunetti, 1997). Further evidence exists that the threat of expropriation is one of the major components of risk in international real estate investment decisions (Jaffe, year??). Both studies suggest that credible government action with respect to property rights may have the affect of reducing risk to investors and lenders and thereby spur investment and lower interest rates.

These heterogeneous features create asymmetry of information, whereby the owners tend to know more about these assets than the buyers or lenders. Because buyers and lenders find it costly to collect this information, they tend to attach higher risks to owning land and real estate or using it as collateral than would be the case if the information was collected and made available to the public. To deal with the information problem, governments create institutional mechanisms for registration and exchange of property. But these arrangements, while improving the quality of information, often involve extensive bureaucratic and technical procedures with high transaction costs. The end result of all of this is limited exchange and less than full utilization and development of assets.

Bulky Investment. Financing the acquisition and development of land and real estate requires resources often in excess of most individual household savings and certainly their annual income. Where term finance is lacking, investment in these activities is blocked. At the same time, where term finance is not well-placed, real state cycles could contribute to financial crises as seen in East Asia.

The importance of finance in land and real estate markets is evident from such observations as “cities are built the way they are financed” (Renaud, 1987). In developed countries, housing finance is available for new as well as existing units, and at low spreads which reflect the low risk premium thanks to collateral. In countries with underdeveloped mortgage finance infrastructure, financial markets tend to serve only upper income groups, new construction, and owner-occupied housing. In countries with non-existent mortgage finance, housing and real estate development in general are only built incrementally, hence the often seen “unfinished” but occupied structures of middle and lower income residents.

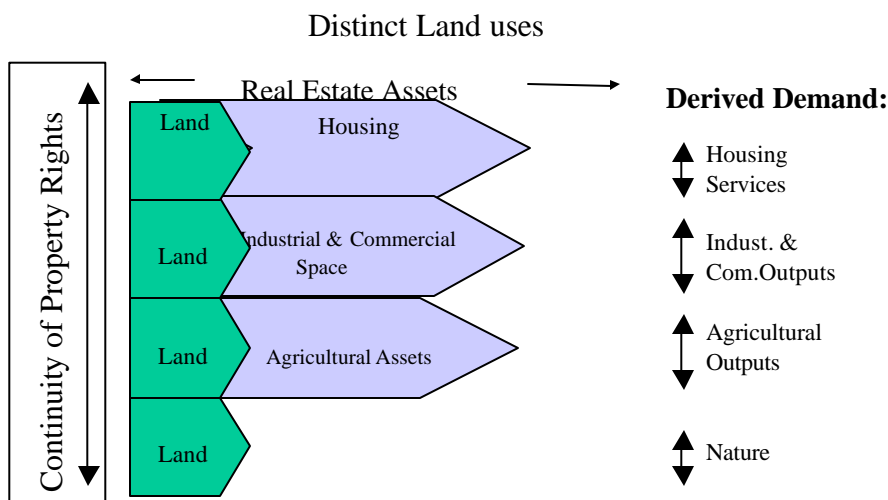
Further, a developing country often excludes a significant portion of its potential market participants because of poor access to credit. This defect reduces the number of participants in the market, the number of transactions that take place, and thereby amount and quality of information in the market. Welfare is also reduced when due to lack of credit, poor participants are unable to bid away land from wealthier participants who might be less efficient landholders. Finally, the use of real property as collateral has the

direct effect of reducing the likelihood of default on a loan and therefore has the potential of reducing interest rates, reflecting lower risk, and thereby increasing the affordability of credit to lower income groups. An increase in the number of collateralized assets may increase the flow of capital to financial markets and help to spur development in other sectors (see, for example, evidence on business start ups, lack, 1996).

For most poor households, however, and for a multiplicity of reasons, formal long-term mortgage finance will remain unattainable in developing countries. Innovations in micro-finance and formal and informal savings associations, however, can greatly contribute to meeting the demand for small incremental investments in land and real estate.

Derived demand. Because the demand for land and real estate assets is derived from the demand for the products and services they produce, distortions in product and service markets have bearing on the value and flow of benefits from the assets. (See figure 1). Government interventions in the form of price controls or subsidies of outputs and inputs in these markets, as well as rent control, taxation, and tariff policies, increase or diminish the value of land and real estate assets. Where these distortions are pervasive, serious misallocation of resources is inevitable. This conclusion applies to land and real estate assets, in urban as well as rural areas, although the nature of derived demand varies, and therefore, market conditions and sources of distortion vary as well.

Figure 1.



In the market for agricultural products, price controls on crops, high tariffs on imported inputs (e.g., fertilizer, seeds), or taxes on domestic products of these inputs have the effect of reducing the value of and return from land. Labor and capital will be diverted from agriculture to other activities, and agricultural output will be less than optimal. Policy intervention in the opposite direction would encourage excessive use of and investment in land, resulting in waste of scarce resources. Policy interventions in the industrial sector have similar effects.

In the housing market, perhaps the most widespread distortion is rent control. Rent control is often justified on grounds of helping the urban poor. More often than not, however, rent control has the effect of reducing the supply of rental housing, lowering maintenance, and creating market rigidities in which tenants with higher incomes remain in rent control housing to capture the subsidy, even though they are able to pay for market rate housing. Government tax and subsidy policies also affect tenure choice, often creating a bias for single family housing and against rental housing.

In financial markets, government policies on interest rate subsidies, housing finance monopolies, and underdeveloped mechanisms for saving mobilization all limit the development of private mortgage lending, and hence access to credit for real estate development and mortgage financing.

All these market distortions cause misallocation of resources. In the case of land and real estate markets, misallocation is particularly costly because it is not easy to reverse by removing the policy distortions given the durability of real estate assets (see A. Bertaud and B. Renaud “Cities without Land Markets”. 1995).

3.2 Policy Implications

To reform land and real estate markets effectively, an attempt should be made to simultaneously address all the problems emerging from the characteristics of these assets. A summary of the proposed reforms is given in Table 2 and elaborated below.

Table 2. Land characteristics, associated problems, and recommended reforms

Characteristics	Associated Problems	Nature of reforms
<p>1. Fixed in location</p> <p>2. Heterogeneous</p>	<ul style="list-style-type: none"> ➤ Negative and positive externalities, resulting from actions by neighbors and government ➤ Government residual control (powers) over ownership and use of land could lead to opportunistic behavior ➤ Information asymmetry, ill defined property rights, and high transaction costs 	<p>Rights, Information, Contracting, and Enforcement (RICE)</p> <ul style="list-style-type: none"> ➤ Introduce and enforce rules to protect property rights and assess the social costs and benefits of land use regulations. ➤ Adopt mechanisms to enhance the credibility of government commitment (e.g., legalize and enforce full compensation and fair resolution of disputes) ➤ Establish and register rights to land and real estate, and reduce cost of compliance ➤ Publicize information in registries and market trends ➤ Strengthen implementation agencies
<p>3. Bulky investment</p>	<ul style="list-style-type: none"> ➤ Inability to finance the acquisition and development of land and real estate through own savings, making lack of term finance a problem ➤ Where term finance is available, exposure to real estate cycles through credit risk, interest rate risk, and collateral risk. 	<p>Finance & Risk Management</p> <ul style="list-style-type: none"> ➤ Provide a regulatory regime to allow the development of mortgagee finance ➤ Assist the poor in using land and real estate as collateral ➤ Enable institutional investors (e.g., pension funds) to invest in asset backed securities ➤ Strengthen the ability of financial institutions to better assess and manage risk of lending for land and real estate
<p>4. Derived demand</p>	<ul style="list-style-type: none"> ➤ Distortions in input markets of agriculture (e.g., fertilizer), housing (e.g., cement) and finance (e.g., interest rate) ➤ Distortions in output markets of agriculture (e.g., cotton), housing (e.g., rent control) 	<p>Market Structure and Fiscal Policy</p> <ul style="list-style-type: none"> ➤ Remove/phase out price controls, subsidies, differentiated taxation, excessive tariffs on agricultural products ➤ Remove/phase out rent control and interest rate subsidies ➤ Use targeted subsidies to help the poor

Rights, Information, Contracting, and Enforcement

One of the most basic, albeit critical, areas of reform a government can undertake is to develop effective property rights regimes. This includes: the constitutional protection of property; the laws and regulations defining rights and obligations to property; the means of assignment of rights to property; and the institutional arrangements which register and enforce such rights. Such a regime has the public good elements of non-excludability and non-rivalry.

The problem of externalities can in principle be minimized by modalities that internalize the costs and benefits to the producers of externalities (e.g. impact fees), and/or by regulations on growth, density, and separation of uses (Fischel, 1989). Similarly, the problem of government commitment can be resolved at least partially by instituting measures that make it difficult and costly for government to renege (e.g., constitutional guarantee of property rights, laws ensuring full compensation, mechanisms for resolving conflicts fairly). For both actions to work, it is important that property rights are well-established and enforced.

In carrying out the above reforms, two considerations have to be kept in mind. First, regulatory measures for dealing with negative externalities may be too rigid, risking imposing more costs than generating benefits. Separation of uses, green belt regulations, and density regulations are all prone to overkill (Fischel, 1989; Dowall, 1998). Second, the fear of government opportunistic behavior has to be balanced with the recognition that government residual control over land and real estate assets is not, in and of itself, undesirable from an efficiency point of view. After all, governments need to acquire right-of-way for network infrastructure and acquire land for public uses and environmental protection. Governments are also the residual claimants of tax delinquent property, abandoned property, and toxic sites. What is undesirable is government behavior that is not rule-bound and not subject to a due process which allows for recourse and compensation in the case of loss. In other words, while government, by definition, has residual control, how it goes about exercising such control has to be perceived as well defined as being fair by citizens.

Finance and Risk Management

Overcoming the bulkiness of investment and managing risk associated with land and real estate requires financial and capital markets. While operational development efforts tend to focus on establishing primary and secondary mortgage lending intermediaries, less attention is given to the broader macro and regulatory reforms needed to ensure their sustainability. Priorities and sequencing will vary depending on the initial conditions of the macro economy, institutional development, the banking sector, and capital markets development.⁴ Most reforms in this area would involve the undoing of bad regulations such as interest rate ceilings and state monopolies on housing finance. But reforms will also have to tackle the issue of how to extend market financing to lower income groups. Innovations in mobilizing savings, lowering transaction costs, micro lending, credit enhancement methods, and design of subsidy schemes need to be examined in the context of reform.

Market Structure and Fiscal Policy

Finally, supply and demand for land and real estate can be highly distorted by policies which artificially depress or inflate supply or demand. Different land uses (agriculture, housing, commercial) are subject to different regulatory and tax structures, creating incentives and disincentives to convert from one use to another which have little to do with allocative efficiency. Regulation should carefully attempt to reduce market distortions, not only for land and real estate themselves, but for the markets of the goods and services they produce. These reforms include price liberalization of inputs and outputs in the agricultural sector, and the phasing out of rent control, interest subsidies, and differentiated taxation.

3.3 Limitations and Constraints

No country can take on all the above reforms simultaneously. First, initial conditions vary from country to country: the degree of informality, wealth distribution, the state of capital

⁴ According to Renaud (1997), six major groups of housing finance systems can be identified: Undeveloped systems (Sub-Saharan Africa), missing systems (Former Soviet Union, Central and Eastern Europe, China, Vietnam), fragmented and unstable systems (Latin America), segregated but stable systems (East Asia, Middle East, India),

market development, the extent of market distortions, and property rights and contract enforcement define the reform agenda. Second, the scope of reforms is far-reaching, covering a wide range of sectors of the economy such that it might not be administratively possible to carry out all reforms simultaneously, even if they were desirable. Third, reforms are likely to touch vested interests of bureaucrats who benefit from the ambiguity of rules; banks, developers, and speculators enjoying market power and/or insider information; and recipients of untargeted subsidies who stand to lose their entitlements.

These constraints are not easy to overcome in practice, but they can be minimized. With respect to the initial conditions, it is imperative that the reform process starts with a comprehensive diagnosis, even if implementation is to be phased in over time. Comprehensive diagnosis involves defining the problem and the deficiencies in the three dimensions of the analytical framework outlined in the previous section. This diagnosis will help to sort out the priority areas for reform. For example, if the analysis reveals that the country's financial sector is highly developed and there is no problem in the access or cost of mortgage finance, the critical problems may then lie in the areas of property rights and market distortions. Accordingly, efforts should be focused on the latter. The next question is one of sequencing, given the country's administrative capacity. Here, there is no optimal path to prescribe. But reformers could decide the desired course of action, depending on the pockets of strength in government, the key bottlenecks facing the exchange and use of land and real estate, and the location of reform champions locally.

Perhaps the most difficult constraint is likely to be the political opposition to reforms. One way of dealing with this constraint can be found in the framework developed elsewhere to deal with privatization and state-owned enterprise reform (Bureaucrats in Business, 1995). According to this framework, reforms are likely to take place when three conditions are met: political desirability, political feasibility, and political credibility. Political desirability occurs when the leadership finds it attractive to adopt the reform, either because of a crisis or a shift in power. Political feasibility attains

sound and integrated systems (South East Asia, Malaysia, Thailand, etc) and advanced systems (Europe and North America).

when the executive branch is able to force the reform, gain support in parliament and/or buy the support of reform opponents. Political credibility is necessary because reform involves making promises to compensate the losers and winners, which only occur in the future. In land and real estate reform, increasing the desirability of reform could involve efforts to highlight the costs and benefits of the current regime to potential supporters. Compensating the losers may be one effective mechanism for improving the feasibility of reform. Credibility may be possible if the political leaders at the highest level are engaged in the reform process.

Throughout, it is important to remember that successful implementation requires more than just issuing new laws or regulations. It requires changes in incentives, institutions, and behaviors. To give but two examples, while it is important that property rights are well-defined and established, it is equally important that they be exercised. Establishing, registering, and updating property rights to land and real estate would clearly reduce the asymmetry and reduce transaction costs, but as a public good, such provision of information suffers the typical problems of concentrated costs and dispersed benefits.⁵ Accordingly, the role of government engagement is indispensable. The second example concerns the collection of accurate information about all land and real estate assets and updating it. This is a daunting task, which many countries start but rarely accomplish. In this regard, there is rich empirical experience on how to reduce the cost of collecting and updating such information, how to utilize the private sector, and how to turn land registries from “silos” of closely held information, to service providers to prospective developers, buyers, and investors. Developing and disseminating this knowledge is crucial for better provision of this vital public good.

4. Assessment of the World Bank Experience

Almost all developing countries have attempted in one form or another to reform their land and real estate markets, some of them with the support of the World Bank. In this section we examine the World Bank’s role in these reform episodes by reviewing evidence on strategy formulation, project design, and evaluation of outcome. We begin

⁵ Unlike typical public goods, however, excludability is feasible, making cost recovery, and even generating net government revenues a reality in many developed and developing countries.

with a brief account of the portfolio of land and real estate projects supported by the World Bank. Next, we address three questions:

- Do land and real estate issues receive adequate treatment at the strategy formulation level? This question is addressed by analyzing the Bank's Country Assistance Strategy (CAS) documents, which represent the key vehicle for conceptualizing the Bank's reform agenda for client countries.
- How well-designed are Bank-supported reforms relative to the recommended design presented in Section 3? We address this question by exploring whether Bank lending operations simultaneously address the three dimensions of land and real estate reform.
- Finally, what is the impact of Bank-supported projects? In answering this question, we rely on the project evaluations reports prepared by the Operations Evaluation Department (OED) of the World Bank. These reports assess impact in terms of outcomes, sustainability, and institutional development.

4.1 Portfolio of Bank Supported Operations

An intensive search of the World Bank Lending Operations database for land and real estate operations turned up 168 operations between 1989-1999. Only a subset of these operations, however, focus exclusively on land and real estate; the rest are components in sectoral or structural adjustment projects with a broad coverage of issues. For the purpose of this review, all operations are classified in three groups: those with a primary, secondary, and tertiary focus on land and real estate. The classification is revealing of regional, sectoral, and temporal trends.

Projects with primary focus on land and real estate: These projects have the terms land, cadastre, titling, real estate, or housing in their title, or identify one of these terms in their objectives and components. Examples are Lithuania-First Housing Project, Moldova-First Cadastre Project, Colombia-Land Reform Project, Honduras-Agricultural Sector Credit (in which securing land property rights is an immediate objective and a significant component). We identified 59 projects in this category. Figure 2 shows an increase in the number of projects focused on land and real estate since 1989. Figure 3 shows the regional distribution of projects showing clearly that the main activities are in Eastern Europe and Central Asia (ECA), and in Latin America (LAC). Attention to land and real

estate reforms in ECA is necessitated by the transformation process to a market economy in these countries. In LAC, a number of factors contribute to the significance of land and real estate issues. Chief among them are post-conflict reconciliation, decentralization, and democratization, all of which have given greater voice to landless and dispossessed groups in society. Attention to land is being recognized as a prerequisite to bringing in many improvements from infrastructure to access to credit. Most projects are in urban or rural sectors, but almost one third are in finance, environment, industry, and public sector. The diversity of sectors covered testifies to the importance of land and real estate markets to multiple sectors, and explains the tendency of reforms to be partial, targeting one aspect or another of land and real estate.

Figure 2: Primary Focus Projects

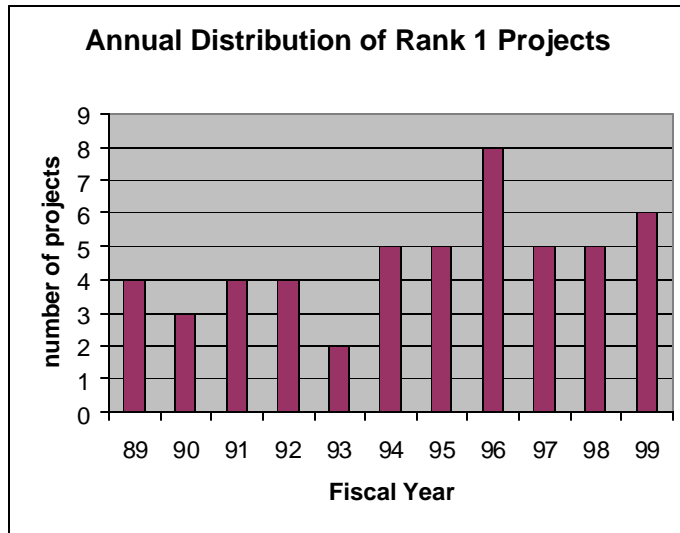
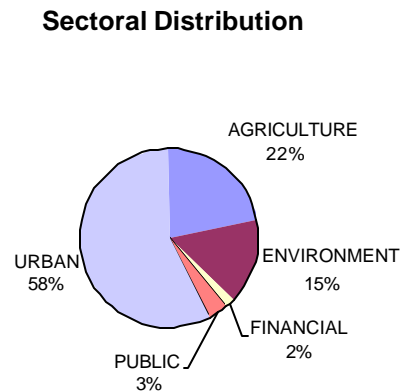
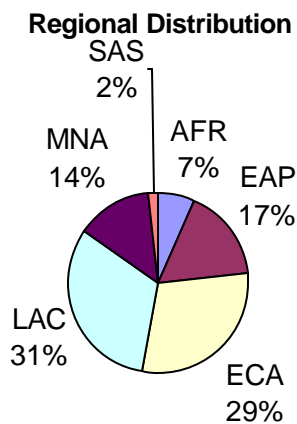


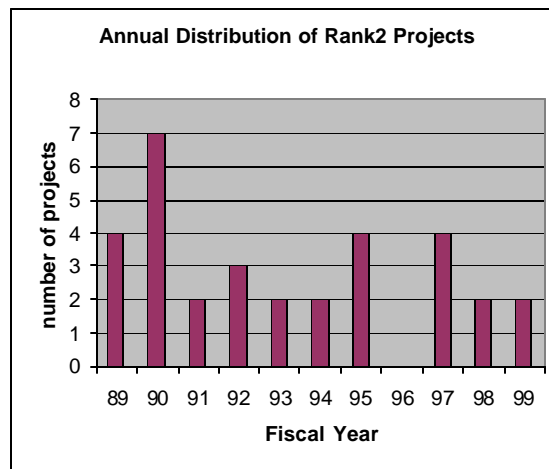
Figure 3

Figure 4



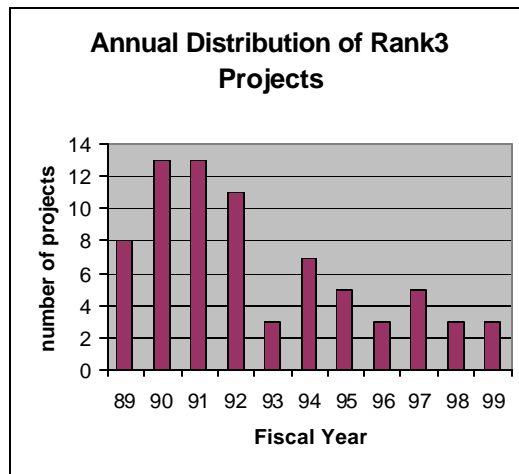
Projects with secondary focus on land and real estate: These projects cover real estate issues, but their main objectives and components are much broader. They include a number of municipal development, urban slum upgrading, rural development, and infrastructure investment projects with reform or investment components in property tax, land cadastre and titling, rural land funds, farm privatization, etc. Examples include Brazil-Municipal Development, Costa-Rica- Agricultural Sector Investment, India Assam Rural Infrastructure, and Azerbaijan-Farm Privatization. We identified 33 such projects distributed by year as shown below. Land and real estate representation in these types of projects is clearly declining, reflecting a broad move in Bank projects toward a narrower scope of project design.

Figure 5: Projects with Secondary Focus on Land and Real Estate



Projects with tertiary focus on land and real estate: These are typically structural adjustment loans, sector adjustment loans, or investment loans in which land and real estate reforms or investments appear in the matrix of conditionality for loan disbursement. Examples are Vietnam Agricultural Diversification Project, Indonesia-Surabaya Urban, Tunisia-Municipal Sector-Investment. We identified 76 such loans, which are shown below by year.

Figure 6



4.2 Land and Real Estate in Country Assistance Strategies

To explore the extent to which land and real estate issues are covered adequately at the strategy formulation level, we carried out a comprehensive search of the 158 Country Assistance Strategies (CASs) completed since 1994.⁶ Of the total, we found 43 CASs, which mentioned land and real estate related key words. These 43 CASs were then reviewed in detail. This review revealed that only 28 contain strategies/actions or instruments for addressing land and real estate issues.

Factually, the review of the 28 CASs reveals that CASs approved by the Board after 1996 have better representation of the growing importance of the land and real estate agenda. CASs with the strongest emphasis on land and real estate are those for Peru, Russia, Moldova, Mexico, Armenia, and Nicaragua. Land and real estate issues tend to come up under broader sectoral themes such as private sector development, agricultural and rural development, macroeconomic stability and structural reforms, and banking and housing finance. This broad, cross-cutting coverage is consistent with the important linkages land and real estate have with these sectors. Notably missing from the sectoral themes, however, are urban development strategies; i.e. land and real estate issues do not tend to be conceived as part of an urban development strategy. Problem diagnosis of land and real estate issues appears mainly in terms of missing or poorly functioning markets,

⁶ A Country Assistance Strategy, or CAS, is the main instrument for setting the Bank's operational policy framework for a specific country. It provides the Board of Directors with country background, diagnosis of structural and sectoral problems, a rationale for prioritizing Bank involvement and associated risks, and proposed lending and non-lending operations/instruments to be used by the Bank.

title insecurity, and underdeveloped legal and administrative frameworks for secured transactions and use of collateral. Finally, despite the attention given to poverty issues in CASs, land and real estate aspects of poverty, or asset poverty in general, get little attention. The Peru, El Salvador, and Brazil CASs are notable exceptions. The Peru CAS in particular makes rural and urban property central to its diagnosis of poverty problems. See Box 1

The Peru Country Assistance Strategy (1997):

Development Objectives:

- Support the sustained continuous reduction of poverty by maintaining economic stability and improving access to basic services
- Sustainable growth with stability and structural reform.
- Deepening of financial system
- Human development: Formalize property ownership and protect property rights

Diagnosis:

- Uncertain property rights in regards to land, water, and fisheries.
- Limited financing, inefficient banking, no bank interest in rural and small enterprise credit.
- Majority of rural land holdings and more than one million urban properties lack adequate title and registration reducing the value of assets and access

Government Strategy/Action:

- Strengthen regulatory framework to promote competition, assure autonomy of the regulatory institutions, and enact new laws regulating water, land and fisheries.
- Strengthening the legal and regulatory framework for banks, financial and capital markets.
- Formalize property ownership as a means of creating an asset base for the urban poor and promoting a property market and financial intermediation; strengthening municipal tax base.

The most striking finding, however, was that the CAS review suggests a much lower number of operations in land and real estate than is actually the case. In fact, out of 44 countries with active land and real estate lending operations since 1994, only 28 can be traced back to CAS strategy/action plans. This can be explained in one of two ways: either the current number of lending operations for land and real estate is too high (relative to that envisioned in CASs) and should be revised downwards, or that CASs do not always adequately project the need for land and real estate lending components and should better detect such need in the future. Which of the two explanations is true cannot be conclusively addressed without further investigation into specific country portfolios.

However, it is our impression that task leaders and country directors see the relevance of land and real estate reforms to a range of sectors such that even in the absence of explicit endorsement in the CAS, land and real estate issues are addressed as sub-components of other projects, if not as stand-alone projects. Why many CASs fail to anticipate the need for this work has more to do with the cross-sectoral nature of land and real estate reforms: strategies do not tend to be conceived across sectors but within them. Just like issues of decentralization and gender, land cuts across sectors and is not a sector itself. The risk, of course, is a collective action dilemma where each sector would benefit from such reforms but no sector can unilaterally undertake the effort. We propose that this is happening with land and real estate not only in Bank CASs, but also in national strategy designs where cross-sectoral issues get overlooked because they involve a large number of stakeholders.

4.3 Evaluation against a yardstick

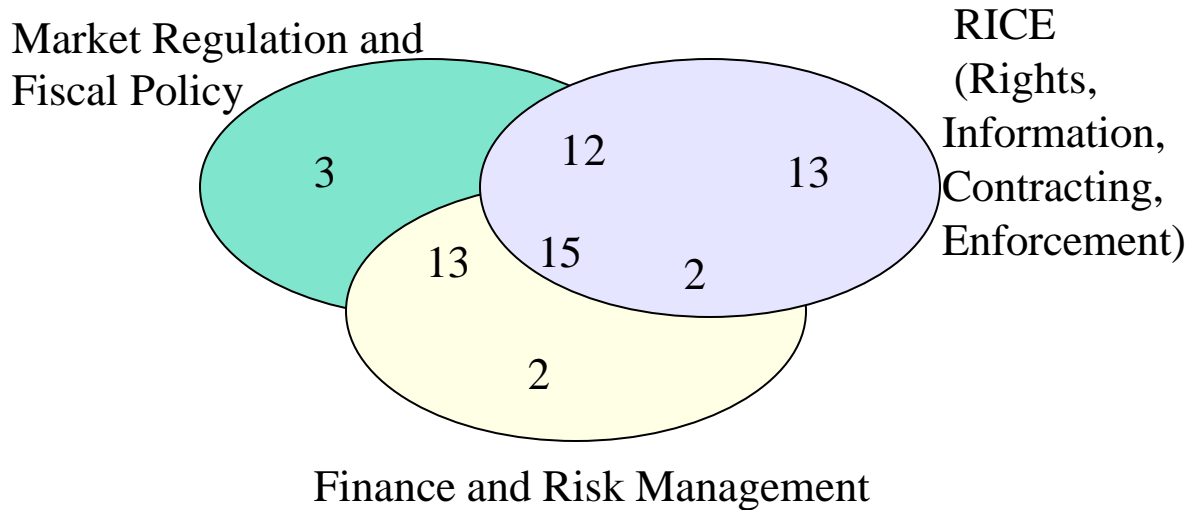
To assess the design of World Bank support to land and real estate reforms, we examined the coverage of lending operations against the three critical areas for reform proposed in Section 3: (1) Rights, Information, Contracting, and Enforcement (RICE); (2) Finance and Risk Management; and (3) Market Regulations and Fiscal Policy. We also examined how these lending operations bundled the three areas of reform: how many operations attempted all three, how many attempted two of the three, and how many focused on one area of reform. We attached no a priori normative value to operations that are inclusive of more reforms: first, not all countries need reforms in all three areas (different countries are at different stages of development and different needs) and, second, even if all three areas of reform need to be addressed in a particular country, they need not be addressed simultaneously and under one project. Indeed, evidence suggests that “Christmas tree” projects with many components involving a number of counterparts can be more problematic in implementation than narrowly-focused projects with a main counterpart. Instead, we looked for evidence of project design containing references to all three areas of reform: either by recognizing that they had already been carried out by the country, by including them in project scope, or by flagging them as areas of reform for future projects to tackle.

Our analysis of 60 projects with primary focus on land and real estate reveals that only a small proportion of projects (15 out of 60) address all three reform areas. Most addressed one or two (see figure 7). Notable is the limited overlap of projects which combine finance and property rights issues. Furthermore, our review of the projects which covered one or two of the reform areas indicates that the majority of these projects (77 percent of the total in this category) make no mention of the reform area(s) left out and provide no justification for leaving it out (i.e., they neither highlight these reforms as already accomplished by the country, or as reforms to be addressed by the operation, or to be left for future operations). In a few cases, such as the Poland Housing Project, the project appraisal document devised its own framework within which project components were situated. This was the exception rather than the rule, however, and is hardly surprising given the lack of an overall framework.⁷

⁷ This of course still leaves the possibility that task managers and their project teams did implicitly conceive of the project in terms of actions already taken and proper sequencing of future actions. However, we found no evidence of this in the Staff Appraisal Reports or Project Appraisal Documents.

Figure 7

Reform Components in Bank Supported Projects, 1988-1999



4.4 Evaluation of Bank supported projects by OED

Evaluation of all Bank projects, including those dealing with land and real estate, is an integral part of the World Bank's operational cycle. This evaluation is based on a well-defined process and predetermined criteria. The process starts with the completion of Implementation Completion Reports (ICR), which are prepared by staff and presented to the Executive Board. This report evaluates the benefits of the project, the obstacles encountered in implementation, and lessons learned. The next step is an independent evaluation carried out by OED, which is intended to validate or adjust the evaluation ratings. The ICRs and OED evaluations form the basis for the evaluation provided below.

Box 2

OED Evaluation Criteria

The three criteria used in OED evaluations are: outcome, sustainability, and institutional development.¹ Outcome is determined on the basis of whether the project achieved most of its major goals efficiently and with few shortcomings. The rating takes into account: *relevance* (were the operation's goals consistent with the country's overall development strategy and the Bank's assistance strategy for that country?); *efficacy* (did the operation achieve its stated physical, financial, institutional, or policy-related goals?); and *efficiency* (what inputs did it take to produce those results?)

As for sustainability, it is defined as the likelihood that the project will maintain its results in the future. In essence, the evaluator determines whether, given the risks, future benefits are likely to exceed future depreciation, operation, and maintenance costs. Several factors are taken into account here, including country conditions (for example, the government's commitment to the future of the project), government policies, including policies on cost recovery, availability of funds for operation and maintenance; the political situation, sector conditions, and conditions specific to the project (particularly the quality of project management and the capacity of project institutions).

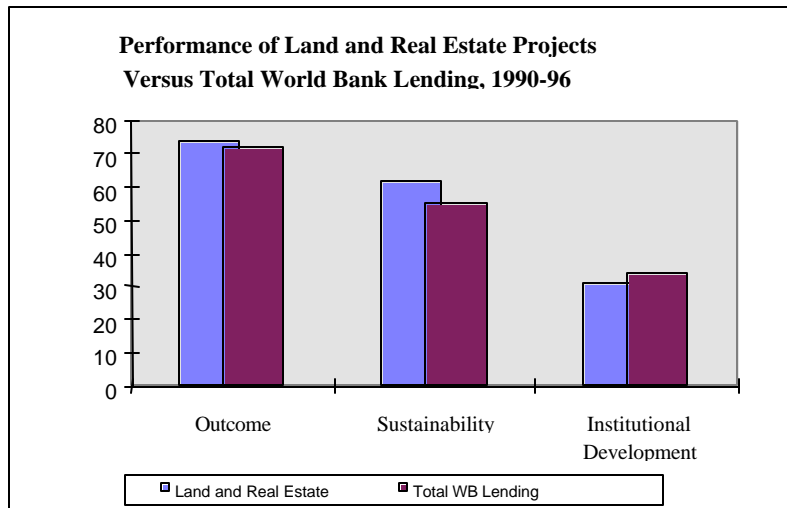
Finally, the impact of the project on institutional development (ID) is defined broadly as the extent to which a project has improved an agency's or a country's ability to make effective use of its human and financial resources. To judge this impact, evaluators assess the relevance of the project's ID objectives, the appropriateness of the adopted legal, regulatory, or policy changes for meeting these objectives, their impact on behavior, the strength of the agencies involved, and the improvement in the capacity of agencies to plan, conduct policy analysis and deliver services on a sustainable basis.

On the basis of the OED criteria (see Box xx), we looked at projects with a primary focus on land and real estate and have OED ratings over the period 1988-99. Only 16 projects met these criteria. The rating of these projects is shown in Figure 8. While the criteria themselves involve value judgment, the pattern of the results is revealing. The majority of projects do reasonably well on outcome (74 percent) and sustainability (62 percent).⁸ In contrast, they do much less well on institutional development (31 percent). To put such ratings in context, we compared them to OED ratings of the overall Bank portfolio. This comparison shows that the sample's

⁸ These results are also confirmed by Quality Assurance Group (QAG) assessment of project risk upon entry.

performance has been slightly better regarding the sustainability criterion, similar in outcomes, but slightly worse with respect to the institutional development impact.

Figure 8



Source: OED Database and ARDE 1998.

The weak performance of projects with primary focus on land and real estate on institutional development is surprising, given that land and real estate reforms are institutional-intensive. Unlike ports and highways, land and real estate lending operations are not intended to directly add to physical capital. Unlike health and education, they are not intended to directly add to human capital. *They ought to be mainly intended to strengthen the institutions which define property rights, the ability to exercise such rights, and lower the cost of exercising such rights.* While many land and real estate operations are very effective in this regard and receive high ratings (the Third Thailand Project received the World Bank Excellence Award), many are not. A major factor in explaining project success and failure has to do with the country context.⁹ Even so, the role of project design should not be underestimated. The OED evaluations suggest that while projects are well designed in relation to their narrow objectives (thus the favorable

⁹ This is echoed in the conclusion reached in the 1998 Annual Review of Development Effectiveness with respect to the high cost of weak institutions: the effects are more pronounced in low-income countries, projects yield lower returns, and lower the country's ability to adjust. In 1998, only 40 % of Bank projects had substantial impact on institutional development, whereas the percentage of Bank-supported projects with a satisfactory outcome increased to 75% (1998, ARPP).

ratings on outcomes and sustainability), they are not necessarily situated within a path or program for institutional development and reform.

Although the OED evaluations do not define institutional reforms precisely as we do in this paper, they nonetheless capture the general weakness of these operations to contribute to “legal, regulatory, and policy changes... and the improvement in the capacity of the agencies to plan, conduct policy analysis and deliver services on a sustainable basis.”

5. Concluding Remarks

Starting from the observation that land and real estate reforms have not been fully effective in achieving their objectives, we argued in this paper that this outcome can be traced at least in part to how these reforms were designed and implemented. In particular, we argued that successful reforms need to be comprehensive in design, even if implementation is phased out over time. We defined comprehensiveness as encompassing three elements: (1) institutional reforms that better define property rights, reduce the information asymmetry problem, and improve contract enforcement; (2) capital market reforms that make the cost of and access to mortgagee finance feasible at reasonable rates, especially to the poor; and (3) market reforms that reduce/eliminate the main distortions in the prices of the goods and services produced by land and real estate assets.

Our review of land and real estate reforms supported by the World Bank lends support to the above argument. In particular, we found that land and real estate reforms tend to receive less attention at the conceptual stage than is justified by their impact on poverty, growth, and stability. This conclusion is based on the limited coverage of land and real estate issues in the Bank’s Country Assistance Strategy, which is the main vehicle for identifying priority areas for reform. We also found that actual Bank support, as measured by the number of lending and non-lending operations, surpasses the number of CASs that have references to land and real estate, suggesting that these issues are more important in practice than believed up-front.

Another finding relates to the design of reform programs to better utilize land and real estate. Namely, we found that most of the projects supported by the Bank do not address all the three elements we consider critical for these reforms to be effective.

Partial coverage would have been justified had it been part of an ongoing program of reforms, with individual projects serving as building blocks. But that was not the case, as the majority of projects did not provide a rationale for excluding missing ingredients, or a justification for excluding them, or a plan for a follow up in the future.

Finally, according to the World Bank's Operation and Evaluation Department, Bank-supported projects in the area of land and real estate seem to perform comparatively well relative to other Bank operations on outcomes and sustainability, but much less on their contributions to institutional development. We find the latter to be a source of concern, given that reforms of land and real estate are institutional in nature. The implications of these findings are important for future work on land and real estate. Provided there is an agreement that reforming land and real estate requires the implementation of a framework of the type proposed here, both the Bank and policymakers need to change course. They need to begin with a comprehensive assessment of the status of real estate institutions and markets (see Appendix I). They need to devise an implementation strategy that takes local conditions into account. And they need to pull together the diverse actors working on land and real estate issues into one team to deliver a difficult but most rewarding task.

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Appendix I

Land and Real Estate Assessment

How can governments reform land and real estate markets and enable the full realization of benefits from these assets to their population, especially the poor among them? This paper suggests that it cannot be done on an ad hoc basis. The analysis of World Bank operations in this area supports the paper's argument: while individual projects do deliver on promised outcomes (number of titles, number of mortgages, passing of laws and regulations, etc.), they are less successful in effecting long-term reforms and institutional development. This is hardly surprising given the limited scope and time span (2-4 years) of individual projects. For isolated projects/actions to make sustainable contributions to reform and institutional development of land and real estate markets, they have to be bundled and sequenced as part of a comprehensive reform agenda. Today, no such agenda exists.

To move beyond the isolated projects/actions approach, we propose that more diagnostic/analytical assessment of the functioning of land and real estate markets and the impact on the poor be carried out up front. Such assessment would not attempt to create a blueprint of reforms for all countries at all times, but rather a "road map" for considering the current state of development of land and real estate and prioritizing and sequencing needed reforms and investments. It would be done on a country basis, highlight the linkages between various areas of reform, generate indicators which point policymakers to gaps and bottlenecks in institutional development, and propose an action plan for reforms and investments. Using the framework developed in Section 3, the paper identifies three main building blocks of such an assessment: i) Property Rights, Information, Contracting and Enforcement (RICE); ii) Finance and Risk Management; and iii) Market Regulation and Fiscal Policy. Each of these building blocks would be examined in terms of its growth, poverty alleviation, and stability implications. Under each of these three blocks a number of questions would be examined. The following list represents some of the main questions to be considered in such an assessment.

Property Rights, Information, Contracting, and Enforcement (RICE):

- Are property rights well-defined and protected through formal, informal, or traditional institutions?
- Do existing institutions allow for the evolution and transformation of property rights (e.g. from common or state to private)?
- Can property rights be exercised? Do institutions exist to provide information, ensure validity of transactions, enforce contracts, and resolve disputes? What are the transaction costs of exercising property rights?
- How does the existing regime of property rights and contracting institutions affect the poor's ability to access land and real estate and benefit from it?

Finance and Risk Management :

- Is the macro environment conducive to the development of primary and secondary mortgage markets?
- Does the market structure allow for the development of a competitive private industry in mortgage finance?
- Are banking regulations (interest rates, reserve requirements, etc.) and supervision adequate for the development of mortgage finance?
- Are capital markets developed? Would institutional investors (pension funds, insurance) generate demand for mortgage backed securities? What impediments exist to the development of secondary mortgage markets?
- Are foreclosure and repossession laws and procedures well developed and reliable?
- How do subsidy schemes operate in financial markets (interest rate, credit enhancement, grants, buy-downs)? How effective are such subsidies at reaching the poor and what are their costs?

Market Regulation and Fiscal Policy

- What are the effects of land use regulations in various markets (agriculture, housing, commercial/industrial)? Are they flexible enough to allow for adjustment to market forces? Are they focused enough to protect watershed and fragile areas and against hazardous uses?

- What types of price controls exist in input and output markets which influence supply and demand for land and real estate (rent control, agricultural price controls, etc.)?
- What other regulatory or administrative controls affect the ability to invest and trade in land and real estate?
- What regulations govern the various land and real estate service industries (realtors, valuation, insurance, surveyors, notaries. etc.)? What is the impact of such regulations (or lack thereof) on the development of competitive services?
- What are the main tax and subsidy policies which affect incentives to invest or trade in land and real estate? What biases do such policies create among alternative investments (stocks, bonds, etc.)? What biases do such policies create among various classes of real estate (agriculture, housing, commercial/industrial, etc.)? What is the effect of such policies on the poor's access, investment, and trade in land and real estate?

The above questions are not exhaustive and would vary depending on the country context. They are indicative of the types of issues addressed under the three building blocks of an assessment.

The assessment we propose is not a silver bullet for land and real estate market reform and development. But we consider it a necessary element, along with political will, capacity building, and attention to implementation in realizing the full benefits of land and real estate assets. First, it would be an instrument to move from an ad hoc approach to a systematic approach to reform. It would provide a forum for dialogue and consensus building among the various stakeholders *within* a country. Second, it would allow policymakers to compare country performance to other countries. Third, it would allow international organizations such as the World Bank to better represent land and real estate issues at the early stages of strategy formulation and ensure complementarity of assistance by various donors. Finally, the assessment would be of use to local and international private investors considering investments in real estate.

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