

To own or to hold?

Assessing the social and economic impacts of land titling programmes in urban and peri-urban areas.

Presentation by Geoffrey Payne, GPA

This presentation summarises the findings and policy implications of a research project undertaken by GPA during 2006-08. The project team consisted of Alain Durand-Lasserve, Carole Rakodi and myself, together with local researchers. We gratefully acknowledge the funding received from the GLTN/UN-Habitat, Sida and the Ministry of Foreign Affairs, Norway, though we are fully responsible for the research findings.

Home ownership has been widely accepted as the most effective means of improving one's position in the world and building successful economies. Some advocates have even claimed that it is the means by which the West became affluent and that developing countries should adopt the same approach to reduce poverty. Land titling programmes have accordingly been promoted in developing countries by many governments and international agencies as a means of increasing:

- tenure security,
- access to formal credit
- investment in home improvements
- municipal revenues and
- urban land market efficiency,

These claims have been made, however, in the absence of empirical support. Our project therefore sought to assess the evidence for such claims. When the project started, the world economy was sailing in calm waters, but now the situation is very different. Excessive promotion of home ownership in the USA has triggered a global financial crisis which has yet to run its course and may even cause a worldwide recession. Without knowing it, our project has therefore proved to be timely.

The project involved a review of the international literature, followed by detailed case studies in various titled and untitled settlements in Senegal and South Africa. The research drew a number of conclusions and identified some policy implications. So what are the findings?

Tenure security:

A key finding was that perceptions are important in determining tenure security, not just legal status. Surveys revealed that many residents in informal settlements already enjoy *de facto* tenure security. However, titling has had a very positive impact on increasing security for women by specifying them on ownership records. The situation for tenants is less positive in that rents in the Senegal case increased sharply as newly regularised owners passed on the costs of regularisation and upgrading into higher rents.

A significant percentage of households entitled to regularisation have not yet completed the process of registering their rights. This suggests that at least some consider that the option of a title is sufficient and that finalising the process can be delayed indefinitely, especially if completion exposes them to additional costs.

Access to formal credit:

There was no evidence in the published sources or the case studies that titles increase access to credit from private sector banks, or that banks are using property titles to secure loans. The main reason was that households fear losing their prime asset – their property, whilst the banks usually ask borrowers to provide evidence of incomes before offering loans. Most low-income households finance investments through savings or loans from friends or

extended family, or informal credit sources. These are more expensive than bank credit, but are more flexible and easier to access. The proportion of households who have taken out loans to develop businesses is tiny, and *none* used their houses as collateral.

The clear conclusion is that titles do not increase access to formal credit. It is also clear that low-income households are expressing a deep, and rational, fear of debt and that finance institutions are not responding to the needs and circumstances of low-income families.

Increased investment in housing:

Links between titles and investment in house improvements are not always clear, partly because titles are allocated as part of settlement upgrading, or the location of a settlement influences behaviour. Of the households who improved their property, most said that they would have done the improvements even if they had not received their title. When probed, those who had not invested in their homes claimed that the reason was a lack of finance. The evidence shows that titling is one of many means of encouraging investment in housing and land, though by no means the only one.

Increased municipal revenues:

Where titling raises property values, revenues can theoretically rise substantially. However, this may not be affordable to newly titled poor households. In such cases, some may be forced to sell their property, as is reported in South Africa. Conversely, if taxes and charges are set according to affordability levels, the consequent net increase in revenues may be small and possibly even less than the costs of collection. In both case study countries, the impact of titling on municipal government revenues was found to be extremely modest. Furthermore, property taxes, stamp duty and other charges have discouraged many households from completing the tenure formalisation process.

Improved urban land and housing markets:

Surveys showed that one of the most powerful benefits of possessing a title deed was that households can appeal to the authorities when property claims are contested, even though none had actually used their title deed for such a purpose.

The research reinforces the literature in noting that there is very little buying and selling of homes in titled communities, except in areas subject to gentrification. This suggests that households regard their properties primarily as homes, not commodities to be traded in the market. Whilst titling has formalised some informal settlements, it has also resulted in the “informalisation” of formal land transactions by households seeking to avoid taxes or other official charges.

Conclusions of the research:

Titling programmes have generally failed to realise their objectives. Investment in land and housing, access to formal credit and municipal revenues have not increased noticeably more than under other tenure regimes; and there is no significant evidence to date of poverty levels being reduced.

Whilst there is considerable evidence of increased tenure security from titling for some households, and particularly for women, tenants have rarely benefited. It is also clear that many alternative forms of tenure, including many informal or unauthorised settlements, also provide high levels of security. In those countries where the threat of eviction is tangible, clearly the possession of a title is highly valued. Equally, where no threat exists, people feel sufficiently secure to invest what they have in housing improvements and in these cases titles are not regarded as important, and may even have negative connotations due to the increased commitments and visibility to the authorities that they entail. Ironically, titling programmes are often implemented in those countries where they are least needed.

Policy implications:

The research has demonstrated that the social and economic impacts of titling programmes vary according to the objectives and circumstances under which they are undertaken. Three broad categories can be identified:

- **Titling of existing informal settlements within urban areas.** These may dramatically increase land values over a very short period, particularly in well located areas, encouraging competition between potential beneficiaries; adversely affecting tenants and; encouraging market driven displacement of newly titled owners unaware of the enhanced market value of their property. They may also lead to distress sales. *Titling programmes under such conditions should therefore be discouraged* in favour of other options for the gradual integration of selected settlements into the formal land and housing markets.
- **Titling of new areas, mostly on the urban periphery, undertaken as part of slum or squatter relocation programmes.** These programmes are usually undertaken as part of city 'beautification' or market driven development programmes. Such approaches force the poor out of the cities, often with no, or minimal, compensation, except to a relocation site. *Titling programmes under such conditions should be strongly discouraged.*
- **Titling undertaken as one option amongst others allocated in new development areas, but generally in the urban periphery where new development sites are more readily available.** Private developers can be encouraged to provide individual plots for residential development to those who can afford the purchase price and associated costs of ownership. These are unlikely to be affordable to low-income groups unless provided as part of a public-private partnership, but *titling should be encouraged as part of such developments.*

Given the costs and other demands of titling programmes on land administration agencies, there is considerable potential for introducing, or expanding, innovative mechanisms for providing tenure security and credit to low and lower income households. We are presently preparing a methodological framework for assessing different tenure and rights regimes and would welcome the opportunity to discuss this with others working on these issues.