Land Tenure and Urban Poverty Alleviation: Theory, Evidence and New Directions

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SUMMARY

It is frequently asserted that secure formal land tenure is an efficacious tool for the alleviation of poverty, especially in urban informal settlements. The conventional view is that secure tenure works to reduce poverty by increasing the security of households against eviction and increasing their access to credit markets using their property as collateral. Available evidence however casts doubt on these assertions. Many have argued that the poor in most cases already have secure *de facto* tenure and that security of tenure is frequently not their main priority. Similarly, many studies have shown that the demand for formal credit by the poor for purposes other than consumption is low. Given this context, this paper reviews the theoretical and empirical literature on land tenure and urban poverty alleviation. The paper concludes by outlining new research which argues that increased market activity, arising out of decreased transaction costs brought about by appropriate land tenure systems, is the key to leveraging urban land for poverty alleviation.

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1 INTRODUCTION: PROBLEMATISING LAND TENURE AND URBAN POVERTY ALLEVIATION

The issue of the link between land tenure and poverty alleviation in urban areas has existed on the international development agenda in some form or other for over thirty years. Many international donors and national governments have over the last two decades extensively promoted land titling programmes as a means of increasing tenure security, improving access to formal credit and reducing poverty (Payne *et al*, 2007). But it is perhaps Hernando's de Soto ideas, so compellingly enunciated in his book *The Mystery of Capital* (2000), which has in recent times given this issue much prominence, propelling it into popular consciousness and bringing it to the fore of development policy and practice. De Soto uses the analogy of nuclear fission to emphasise the enormous latent value in real estate which can be unlocked to fight endemic poverty in developing countries, the trigger being appropriate land tenure systems. As Payne *et al* (2007) notes, de Soto's thesis is based on the fundamental assumption that the provision of individual property rights can bring about a 'triple transformation', where property can be transformed into collateral, collateral into credit and credit into income. De Soto's ideas has provided renewed intellectual support for land titling programmes around the world.

A major problem with the de Soto thesis and programmes based on similar ideas is that they, despite their ubiquity around the world, lack empirical support. Payne *et al* (2007) observe that despite the intellectual and financial investments made to date on land titling programmes, there is a lack of independent evidence to support or challenge the application of land titling as the most appropriate policy option to achieve the important objectives of social and economic development and reducing urban poverty. A recently completed review by the authors find no evidence of serious efforts at *ex post* assessments of titling programmes around the world, something that the authors describe as surprising and disturbing, given that there is no other area in development aid and lending policies where a policy has been continuously promoted for more than a decade without being subjected to rigorous evaluation concerning its ability to deliver the expected targets (*ibid*.) A number of fundamental questions therefore remain unanswered revolving around the nexus between land tenure and poverty alleviation. Specifically, under what conditions will land titling programmes bring about pro-poor outcomes? Is there a demonstrable link between land tenure and poverty alleviation? If so what is the 'transmission mechanism'? Given that residents of informal settlements often already enjoy de facto rights, do formal property rights matter? What is the case for reform of land rights and what form should this take?

This paper reviews the theoretical and empirical literature on land tenure and urban poverty alleviation with a view of clarifying the state of knowledge in this important area. The paper builds on recent comprehensive reviews by Payne *et al* (2007) and Durand-Lasserve and Selod (2007) of the empirical literature on social and economic impacts of land titling programmes undertaken in developing countries. This paper extends this review in two ways. Firstly it articulates the theoretical underpinnings regarding the effects of land tenure to the wider development litetrature on poverty alleviation Secondly it goes beyond the existing literature to consider emerging research which holds good prospects for advancing knowledge in new directions.

The paper is arranged in five sections. Section 2 discusses the conventional theoretical basis for linking land tenure and poverty alleviation. This is followed by a review of the extant empirical literature in section 3. Section 4 presents an outline of lessons learnt from the empirical literature, highlights problem areas and presents recent theoretical thinking which suggest new directions for research. A concluding summary follows thereafter.

2 LAND TENURE AND POVERTY ALLEVIATION: THEORETICAL UNDERPINNINGS

Land tenure is generally understood to refer to the relationships that individuals and communities have with each other relating to rights over land. According to Durand-Lasserve and Selod (2007) land tenure should primarily be viewed as a social relation involving a complex set of rules that governs land use and land ownership. At the core of land tenure systems are the ability of relevant actors to exercise certain rights over land. Three broad categories of land rights can be recognised, namely, the right to alienate or sell, the right to use, and the right to bequeath. Key questions in the analysis of land tenure systems involve the extent or content of land rights, who holds these rights and the security with which they are held. In addition, there are debates about the relative merits of individual and collective or communal rights, and of formal and informal rights.

Conventional economic theory holds that secure property rights to land, especially individual rights, are a prerequisite for land development and economic growth (Miceli *et al*, 2001). The gains from property rights are traditionally seen as arising from three things. Firstly, secure property rights creates conditions that encourage investment, by making long term planning possible as well ensuring that rewards from the investment will be appropriated by the investor. Secondly, property rights make possible the functioning of credit markets and the use of land as collateral. Credit does not only leverage the use of land as an asset but provides resources for increased investment as well. Finally secure proper rights makes commerce between strangers easier, expanding opportunities and thereby increasing gains from trade.

The conventional practice to the provision of secure tenure in urban areas has been the promotion of property titling. Literature on the effects of property titles has largely focussed on the three outcomes alluded to above, and established in a paper by Besley (1995): gains from trade in land, greater investment incentives, and improved credit access (Field, 2003; also Smith, 2003). Alston *et al* (1999) see the promotion of market formation as one of the primary outcomes of a property rights regime. According to the authors, clear and recognised property rights have three salutary effects. Firstly, they assist in attracting buyers, thus supporting wider markets. Secondly, they allow owners to focus scarce resources on productive rather than defensive activities. Thirdly, they promote investment by creating incentives for longer term planning horizons on one hand and making mortgage finance feasible. The World Bank (2003) argue that the existence of clear and well defined property rights prevent the dissipation of valuable resources in attempts to secure and define such rights by individuals. Similarly, Deininger & Binswanger (1999) and Deininger and Chamorro (2004) for their part list reduction of private enforcement activities, greater incentives for investment, access to credit and increased transferability of land as the key benefits of secure property rights. Formal property titles reduce information asymmetry about land ownership and quality or transaction costs generally, thus encouraging the development of wider markets.

For the above reasons, property titling has increasingly been considered as an effective form of government intervention for targeting the poor and encouraging economic growth in urban areas (Field, 2003). It is seen as the main instrument for increasing land tenure security, stimulating land markets and facilitating the use of land as collateral in credit markets (Lanjouw and Levy, 2002; Deininger and Binswanger, 1999; Deininger and Chamorro, 2004). Ward (2003) list the positive outcomes associated with full property title regularisation, reflecting conventional wisdom in this area, as follows:

- Provides security against eviction.
- Brings people into the market from which they can benefit by free sale at full market price.
- Raises land values.
- Provides incentives that stimulate investments in home improvements and consolidation.
- Makes possible the introduction of basic services such as electricity and water.
- Generates greater access to credit by using the home as collateral on loans.
- Incorporates residents into the property-owning democracy and citizenry.
- Integrates settlements and property into the tax and regulatory base of the city.

It will be apparent that many of these outcomes would potentially have the effect of reducing poverty. As we shall see in the following sections however, a number of problems appear to stand in the way of achieving the claimed benefits of land tenure in poverty alleviation. Two problems are apparent in this regard. Firstly, the lack of clarity, in theoretical terms, of the link between land tenure and the dominant conceptualisations of poverty and strategies for its alleviation, as seen in the wider development literature. Simply put, the relationship between land tenure and poverty alleviation, while frequently asserted to exist, is not sufficiently articulated in terms of current orthodoxies. The second problem arises from the lack of unequivocal empirical evidence to support the claimed benefits of property titling.

3 LAND TENURE AND URBAN POVERTY ALLEVIATION: ASSESSING THE EMPIRICAL EVIDENCE

As alluded to above, the empirical literature addressing the effects of land tenure has tended to focus on influence of property titles on three outcomes, namely land investment, access to credit and land market development. Within that troika most studies have tended to emphasise one aspect, the notable exception being the study by Besley (1995). Besley (*ibid.*) reports on his investigation of the relationship between investment and land rights in Ghana. He tests the hypotheses that (i) security of tenure encourages investment, that (ii) security of tenure makes access to formal credit easier (encouraging investment as a result of increased demand as well as lower interest rates), and that (iii) ('superior' transfer rights are modelled as lowering the cost of exchange). Besley finds that the data are supportive of his models (*ibid*., p. 910). Besley concludes there are gains from trade arising from easier transfer of rights in the capital and rental markets and that better rights to land encourage or facilitate investment but these need not to be formal transfer rights (Rakodi, 1999).

Research by Alston *et al* in the Brazilian Amazon frontier show that title is ”a vital institution in promoting investments and in expanding markets” (1999: 8). Title was seen to significantly increase land values and wealth, and to create incentives for long-term planning. Though this was in the context of settlements in the frontier regions of the Brazilian Amazon, the results have relevance to urban settlements where successive waves of immigrants are analogous to frontier settlers and where land can be an important means for capital accumulation. Urban informal settlements are in many respects a frontier region, juxtaposed as they are between the formal and informal, the rural and the urban.

Oft cited research on small scale farmers in Thailand by Feder and Onchan (1987) and Feder and Feeny (1991) found that formal titles and collateral play an important role in economic development (Alston *et al*, 1999). Evidence from Peru suggest that households in titled communities devote fewer human resources to informal property protection, both at the household and the community levels, and more resources on productive activities outside the home (Field, 2003).

More recently, Durand-Lasserve and Selod (2007) cite evidence from India, Peru and Argentina which show significant effects of titling on housing improvements, in cases amounting up to two-thirds of the baseline level. Citing research by Cantuarias and Delgado (2004: 9) in Peru, Payne *et al* (2007) report that (i) 75 percent of the population with property titles has invested to improve their homes versus a 39 percent of persons without property titles; (ii) between 1994 and 1999, the number of rooms per house increased in approximately 20 percent within the target sector; (iii) families with property titles have more rooms in their homes; and (iv) the families with property titles have better quality homes.

With regard to their impact on land values, the literature broadly supports the claim that title increases land values. Lanjouw and Levy (2002) find that in urban Ecuador the effect of land title was to raise values by almost 24 per cent. These results have been corroborated by Kim (2004) who found out that in Vietnam properties with legal title transferred on average between 3 - 10 per cent higher than those with incomplete rights. Deininger and Chamoro (2004) report on results from Nicaragua which show that registered title was found to increase land values by 30 % and at the same time greatly increase the propensity to invest. Similar results have been reported for Indonesia, the Philippines, Cambodia and Brazil with value premiums of titled over untitled ranging between 25 to 73 % (Payne et al, 2007).

A smaller body of literature has on the on the other hand come to the conclusion that the claimed investment benefits of land titles are without empirical foundation. For instance Razzaz (1993) presents results from Jordan which cast doubt on the assumed causal relationship between formal property rights, security of tenure and land investment. Kironde (2000) finds that titles in settlements around Dar es salaam, Tanzania, do not result in significantly higher land values. Durand-Lasserve (2003) point to research in (rural) South Africa which seem to suggest that individualisation of tenure have been found to increase inequality and landlessness, to have little or no impact on the mortgageability or productive use of land, to fall into disrepair after the first set of transfers, and to lead to ever increasing fragmentation of land parcels. A most interesting study, in that it deals with a developed country, explores the impact of title on the performance of land markets in irregular settlements in Texas (Ward *et al*, 2004). The study finds little positive direct relationship between title regularisation and rising property values. These dissenting findings, while non-trivial, are a minority. On balance therefore the literature supports the claim that titles do encourage land investment and enhance land values.

The evidence regarding the effect of land title on access to credit markets is a lot clearer and generally not positive. In a major research project in the peri-urban areas of Botswana, Trinidad and Zambia Home and Lim (2004) report that there is widespread aversion to the use of land as collateral in all the three countries. This finding is also consistent with results elsewhere. Ward *et al* (2004) for instance, in the context of *colonia*s in Texas, find that receiving full title made little difference to the residents' propensity to use their homes as collateral. Gilbert (2002) reports similar findings for Bogota, concluding that property titles made little or no difference to the availability of formal finance. Research in Mexico by Varley (2002) comes to broadly the same conclusion, that poor people eschew formal credit as it entailed, in part, a loss of flexibility. Evidence from the nation-wide titling programme in Peru, widely promoted as the world's most large scale and successful example of land titling programmes in reducing urban poverty (Payne *et al*, 2007), show that obtaining a property title has had no effect on the approval rates of private banks and only a limited effect on the approval rates of public institutions (Durand-Lasserve and Selod, 2007, citing Field and Torero, 2006; also Payne *et al*, 2007)). Further studies cited by Durand-Lasserve and Selod *(ibid.*) include Galiani and Schargrodsky (2006) who find that, in Buenos Aires, titling only has a minor effect on access to mortgaged credit and Byabato (2005) who observes that residents in a planned settlement in Dar es Salam would not jeopardize their prime asset by mortgaging it.

The evidence therefore appears pretty strong that titling does not foster credit markets. This is a big blow to proponents of de Soto's ideas which hinge heavily on the ability of poor households to leverage the collateral value of their land. It is not hard to see why the granting of formal titles to the urban poor has not had the desired or expected effects on credit markets. As Durand-Lasserve and Selod (2007) observe, for this to happen three implicit assumptions need to be met simultaneously; first that the investment capacity of these households are hindered by credit-constraints, second, that these households agree to pledge their land and house as collateral in order to finance business activities, and third, that financial institutions that agree to provide mortgage credit to households in low-income settlements exist and accept the properties as collateral. These assumptions are unlikely to hold simultaneously for many informal settlements. Many studies have shown that the demand for formal credit in informal settlements for purposes other than consumption is low (Ward *et al*, 2004; Smith, 2003; Ward, 2003; Gilbert, 2002; Varley, 2002). This is due to a number of reasons, including widespread risk aversion, high interest rates, ineligibility for formal credit and the lack of opportunities to invest such credit. Deininger and Binswanger (1999) note that titling confers benefits, but only under conditions where informal land transactions *are common,* a credit market that permits the use of title as collateral exists and profitable investment opportunities exist. The latter two conditions are likely to be absent in many informal settlements. Credit supply depends on the lenders' confidence that they can foreclose (Smith, 2003). However for cultural and economic reasons it may not be possible to repossess land as a consequence of default, rendering formal credit markets impossible. In addition financial institutions find it unprofitable to lend the small amounts that the poor need.

We can now turn to the last of the three expected outcomes of titling, that of the effect of property title on land market activity. Advocates of active land markets see them as a means through which households can 'trade up', thereby improving their economic and social status (Payne *et al*, 2007). The evidence regarding the effect of property title on land market activity is mixed. Some studies have concluded that property title result in an increase in transactions and prices (Durand-Lasserve and Selod, 2007). Research in Ecuador, the Dominican Republic and Cambodia found that formal title had a positive effect on the numbers of transactions in sale and rental markets (Durand-Lasserve and Selod, *ibid*., citing Lanjouw & Levy, (2002), Macours, de Janvry and Sadoulet (2005) and Deutsch (2006)).

Other research have has however taken issue with the often *a priori* assumption that lack of formal title has a negative impact on land markets (Antwi and Adams, 2003; Ward, 2003). Evidence from a study of informal transactions in Ghana for example found out that most of them were the optimal solution in an environment where the formal system is riddled with excessive bureaucracy and cost, and the resulting formal property rights of limited value (Antwi and Adams, 2003). Kim (2004) presents evidence from Vietnam of property markets functioning very well even with incomplete legal property rights. Similarly in Bogota an active market for plots was found to exist despite the lack of legal titles (Gilbert, 2002). In fact the evidence suggested that, by increasing cost, formalisation of titles in Bogota's informal settlements had the effect of reducing market activity. Thus and as Ward (2003) argues, it is not only legality and secure property titles that prime the marketplace. In both formal and informal property markets, regulation and restrictions sometimes can, and do, severely inhibit market activity. With regard to the former, the policy ambiguity, procedural complexity and prohibitive cost involved in obtaining titles which legalize ownership of urban land has forced the urban land market to further proceed in the informal or illegal way

(Fekade, 2000, citing McAuslan, 1985).

In addition, it may be the case that the poor are not prepared to view land as a marketable commodity like any other. Payne *et al* (2007) argue that newly titled in the main continue to regard their properties primarily as homes, the basis for family and community life, and an asset to bequeath to their children. In their studies in Botswana, Trinidad and Zambia, Home and Lim (2004) found little evidence of market activity in peri-urban plots “with plot-holders more likely to pass their land to relatives…than sell” (*ibid.* p. 146). They attribute this to ‘resistance to market pressures’, resulting from the conception of land as a security and welfare support rather than a tradable asset.

It is clear from the foregoing review of the empirical literature that we are still unable to establish unequivocally whether property titles increase market activity. What is clear is that in some *contexts*, title has had positive effects on market activity. Yet in many other cases the anticipated benefits have not materialised. The differential effects of title on market activity could most likely be explained by differences in institutional environments and arrangements.

4 LAND TENURE AND URBAN POVERTY ALLEVIATION: NEW DIRECTIONS

Before proceeding to examine emerging thinking regarding land tenure and poverty alleviation, it is appropriate at this stage to summarise the empirical evidence in terms of the three effects of property title. It is fair to say that available evidence permits the making of definite conclusions in a number of respects. Firstly, with regard to the effect of title on land investment, there is some consensus that there is a positive relationship. Thus it is generally agreed that title promotes land investment and increases land values. Less clear is whether having title increases perceptions of tenure security. It would seem that it indeed does, especially in cases where de facto rights are perceived to be weak. Secondly, the evidence shows that having title largely has no effect on credit markets. Finally, with regard to the effect of title on land market activity, the evidence shows that in certain contexts, property titles have had a positive effect on the volume of transactions while in others this result has not been observed. This is clearly an important area for empirical research, one with the aim of clarifying underlying socio-economic conditions under which having property title may lead to increased market activity.

While there is an emerging consensus in the empirical literature regarding the various effects of title as reflected in these conclusions, a number of weaknesses are apparent nevertheless. A key problem is that there is insufficient articulation between the literature on land tenure and the wider literature on poverty alleviation. More specifically, the question of how various effects of property titles can be said to be efficacious for poverty allevation is rarely explictly and sufficiently addressed. This question cannot of course be answered without reference to the broader development literature on the nature of poverty and how it may be alleviated. It is important therefore to clarify the link between land tenure and poverty alleviation, as a prelude to consideration of emerging thinking in this area.

Contemporary definitions of poverty stress the dynamic concept of *vulnerability* of households arising from an inadequate command of assets or capital. Vulnerability, and therefore poverty, is thus closely linked to asset ownership (Moser, 1998). Lack of assets is both a cause and an outcome of poverty. And more importantly these assets lie at the core of whether an individual, households or groups lives in poverty or escapes it (World Bank, 2001). As the World Bank (*ibid.*) puts it, these assets interact with market and social opportunities to generate income, a better quality of life, and a sense of psychological well being. In addition assets are also central to coping with shocks and reducing the vulnerability that is a constant feature of poverty.

While there are differences in taxonomy and emphasis between different authors it is possible to identify a core set of assets available to the urban poor. Rakodi (1999, p. 316) for example identifies the following types:

- *Natural capital* - made up of the natural resource, including land, water and other environmental resources.
- *Physical or produced capital* - basic infrastructure and the production equipment and means (including housing).
- *Financial Capital* - financial resources including savings, credit, remittances and pensions
- *Human Capital* - Both the quantity and quality of labour resources available to households.
- *Social capital* - comprising social relations at household, community and societal levels.
- Political capital - based on access to decision-making.

The Capital Asset Framework and its taxonomic variants represent current best practice in the conceptualisation of both the causes of poverty and how it may be alleviated. Under this framework poverty is seen as vulnerability to insecurity, impoverishment and reduced self-respect of households which lack assets that they can mobilise and manage in the face of hardship (Rakodi, 1999; Moser, 1998). The Capital Asset Framework focuses attention on what assets poor household have and sees the returns to those assets as key in explaining their poverty. According to Rakodi (1999) the crucial determinants of households' ability to achieve increased well-being are access to these capital assets and the effects of external conditioning variables which constrain or encourage the productive use and accumulation of such assets.

The link between land tenure and the broader literature on poverty can now be made. Land and housing are of course major capital assets held by the urban poor. The conventional argument is that lack of security of tenure creates 'an extreme sense of vulnerability' for poor households. Poverty alleviation strategies centred on housing have therefore tended to emphasise tenure security. As Rakodi (1999) puts it, tenure security and legal title give households the incentive to invest in upgrading their homes and the security to use this asset productively. Thus Rakodi (*ibid.*) argues that a strategy centred on housing as an asset helps some move out of poverty and prevents others from slipping deeper into poverty. Moser (1998) sums up the argument succinctly thus

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).

There is no doubt that security of tenure in important for the material well being of many households who constantly face the threat of eviction. However the efficacy of secure tenure per se in poverty alleviation can be over emphasised. The conventional view is that secure tenure works to reduce poverty by increasing the security of households against eviction and increasing their access to credit markets using their property as collateral. The problem however, as noted by Payne *et al* (2007), is that while titles have generally succeeded in increasing tenure security and encouraging housing investment, the literature indicates that they have not significantly reduced poverty. In addition, and as we have pointed out before, property titles have not increased accesss to formal credit, again blunting that potential avenue for poverty alleviation.

This leaves the third of the potential effects of title mentioned by Besley (1995), that of gains from trade in land markets. This effect has arguably received the least amount of attention so far, but things are beginning to change. Arising from the landmark 2001 World Development Report (World Bank, 2001) there has been renewed interest from policy makers and academics in how the power of markets may be harnessed to aid poverty alleviation. The current economic orthodoxy is that well-functioning markets that support competition and lower the cost of doing business provides incentives for trade and investment, thereby promoting growth and poverty reduction (DfID, 2005). In this context the 'making markets work for the poor' ('MMW4P') approach represents recent thinking about how to use market systems to meet the needs of the poor (*ibid.*). This approach is largely based on the work of New Institutional Economics (NIE). The NIE emphasises the role of institutions and transaction costs in the efficient functioning of markets. According to this approach markets fail or do not work well if the cost of transaction is too high or if necessary institutions are absent or weak.

In proposing the way to tackle poverty, the World Bank Bank combines insights from the Capital Assets Framework and the MMW4P paradigm. Thus the World Bank (*ibid.*)) calls for systematic attention to the types of assets poor people have, the returns to these assets and the volatility of these returns. According to the World Bank (*ibid.*)

The returns to these assets depend on *access to markets* and all the global, national and local influences on returns in these markets. But returns depend not just on the behaviour of markets, but also on the *performance of institutions* of state and society. Underlying asset ownership and returns to assets are not only economic but also fundamental political and social forces. Access to assets depends on the legal structure that defines and enforces private property rights or customary norms that define common property resources… And both access to assets and returns to assets are affected by public policy and state interventions, which are shaped by the political influence of different groups (Word Bank, 2001: 34).

Recent work by Mooya and Cloete (2007) propose a conceptual framework that links informal urban land markets and poverty alleviation. Based on the NIE, the conceptual framework brings together institutional arrangements, property rights and transaction costs as determinants of land market activity. Market activity is argued as being important in the realisation of the latent value of property, which in turn helps in the accumulation of capital for the poor. Mooya and Cloete (*ibid*., p. 155) argue that urban land markets 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.
- Facilitative regulatory framework/institutional arrangements.

Mooya and Cloete (2007) argue that property titles must not be seen primarily as a means of encouraging credit. Rather the focus should be on the way property rights reduce transaction costs, thereby supporting the expansion of sale, rental and development markets in urban land. Well-defined, secure and well-enforced property rights reduce transaction costs- by clarifying property boundaries, validating ownership rights and making those rights easily transferable (Lanjouw and Levy, 2002). The need for extensive search of ownership is thus obviated (Pamuk, 2000). Similarly, resources spent on private enforcement are reduced (Field, 2003).

It has to be pointed out that the an overlooked aspect of de Soto ideas is the efficacy of formal property in facilitating land markets. His key argument, that informal property rights in third world countries prevent the emergence of impersonal exchange systems he sees as necessary to unlock the immense 'dead capital' locked in real estate, has tended to be buried under the rhetoric of titles and bank credit.

The idea that more active land markets should facilitate poverty allevation by way of opprtunities for capital gains and trading-up is not without its challenges. The first point is that, as we have seen in the empirical literature, it is not at all clear under which conditions titles would result in increased land transactions. More generally, the lack of secondary market activity in informal settlements is well documented (see Doebele, 1994; Gilbert, 2002; Home and Lim, 2004). Thus, and as Ward *et al* (2004) conclude, substantial capital gains are possible, but only if the market in these irregular settlements were to be 'primed'. In their own words, ”unless the market is 'primed' to allow for greater mobility and sales, then there is little prospect that low income residents will be able to benefit financially from homeownership” (Ward *et al*., ibid., p. 2641)

The second point is that while it is accepted that formalisation is necesary for land market activity, it is increasingly beeing realised that individual freehold rights may not be appropriate for the poor, in part because of their relative high cost. The challenge therefore is the creation of new, innovative land tenure systems that able to provide adequate security, facilitate investment and market activity while remaining accessible to the poor.

The final challenge arises from ubiquitous official hostility to the idea that more efficient land markets are efficacious and should therefore be encouraged for the urban poor. Official attitudes to land markets usually find expression in warnings about the dangers of ‘commodification’ (UN-Habitat, 2003) and ‘gentrification’ (World Bank, 2001). It is thus common to find official restrictions on the operations of land markets, particularly for beneficiaries of land reform programmes in informal settlements. These usually take the form of restrictions on land ownership or use (ownership ceilings) or on land sales and rentals (Deininger and Binswanger, 1999). As the authors point out, these restrictions are quite common in urban informal settlements and may be motivated in part by equity considerations. Thus Governments may be seeking to prevent rapid accumulation of land by a small elite or speculative behaviour or distress sales. Both these could result in landlessness (*ibid*.).

These fears are of course valid. They do however lack unequivocal empirical support. There are no reasons *a priori* why commodification of land, higher land values and gentrification should be detrimental to the poor. In a context where a significant proportion, in some cases up to 80 %, of urban land is held by poor people, it is inconceivable that a small elite would appropriate all these benefits at the expense of the indigent. On the contrary, higher land values represent increased wealth which could be tapped to fight poverty. Further, the fear that the poor will sell out and *become worse off* once their properties have become more marketable is paternalistic and in fact not borne out by empirical evidence. As Deininger and Binswanger (1999) point out the available evidence suggests that many of the restrictions on real estate markets have not achieved their intended objectives. On the contrary, they argue, restrictions on property rights have been found to be costly to enforce and have tended to spawn corruption and other ‘rent seeking’ behaviour in addition to damaging economic incentives. Royston (2006) cites numerous examples from South Africa where low income housing built with state subsidies have been sold at far below their subsidy value despite a moratorium for sales being in place.

5 CONCLUDING SUMMARY

The aim of the paper has been to review the theoretical and empirical literature regarding land tenure and poverty alleviation. The paper has summarized the empirical literature regarding the three effects of land tenure and related these effects to the broader development literature on poverty and how it may be alleviated. The paper ended by outlining new thinking which argues that increased market activity, arising out of decreased transaction costs brought about by appropriate land tenure systems, is the key to leveraging urban land markets for poverty alleviation.

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