COLOMBIA: LAND POLICY IN TRANSITION

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Background

The harmful impact of inequality—on incomes, assets, voice, and opportunities—in Latin America is well recognized. Land inequality is associated with higher violence and lower land productivity. Even using land valuation (avaluo) instead of physical area, land inequality in Colombia remains high, with a Gini coefficient of 0.85 (compared to Korea with 0.35, or Japan with 0.38). Successful land policy could help break the vicious cycle of inequality, violence, underutilization of productive resources, and poverty. A multipronged strategy is needed, including (a) direct measures to reduce violence and its consequences; (b) more use of markets to improve competitiveness and correct deep-rooted structural inequalities; and (c) measures to complement markets and/or improve their functioning, to better benefit small producers, foster diversification and rural growth. Colombia’s experiences with market-assisted land reform pilots (Höllinger 1999) and projects that put land reform within the context of broader entrepreneurial development (Rojas and Urbina 1999) provide important lessons for moving forward.

Land utilization patterns

Only 30 percent of land suitable for agriculture is utilized for crops (with significant regional variation). More than double the area suitable for pasture is used for livestock grazing, with negative environmental consequences. Although markets provide land access to poor and productive producers, they are not effective in transferring land from large to small producers, implying continuing concentration, driven largely by violence and displacement.

Data from about 800 municipalities show that high land inequality is associated with greater expansion of livestock farming into ecologically fragile areas unsuitable for farming, and underutilization of agricultural land. This inhibits Colombia from realizing its comparative advantage in perennials and high-value-added crops, and reduces the agricultural sector’s contribution to economic growth. Higher land inequality is also associated with lower public spending on investment. And violence is much higher in highly unequal municipalities. A growing literature argues that where high inequality undermines household access to economic opportunities, guerrillas, paramilitaries, or organized crime more easily find cheap recruits.

Land Policy Can Help Reduce Involuntary Displacement

Colombia ranks alongside Angola, Sudan, Afghanistan, and Iraq in numbers of internally displaced people (IDPs). CODHES estimates that about 4 million hectares of land has been abandoned by IDPs; three times the amount redistributed through government land reform efforts since 1961 (Global IDP Project 2003). Displacement has thus brought about massive agrarian counterreform, and is likely to contribute to significant and unproductive land concentration in some areas. Higher land inequality is one factor that significantly increases the number of displaced people. This causes untold human suffering, and, because land abandoned by IDPs often is not effectively utilized by those taking over, significantly reduces land use productivity.
A high share (60 percent) of displaced households relied on land as a primary source of livelihood in their place of origin. These people suffer more and longer from the shock of leaving their place of origin than those who earned their living outside agriculture because their agricultural skills are of little use in the urban or peri-urban areas to which they are driven.

The number of displaced people was significantly higher in 2001/2002 than 1999/2000. A greater share had left their homes in response to a specific threat, were female headed households or originally employed in the agricultural sector. Far fewer were able to find jobs at their destination. All this suggests increased “severity” of displacement. Assistance to the displaced population, through government, church, non-governmental organizations (NGOs), and others, now covers more than two-thirds of the sampled households, compared to less than half earlier.

Effective policies to prevent displacement are an urgent priority, and need to achieve five key things:

1. Address three structural factors underlying displacement: (a) land inequality, (b) low public spending, and (c) insecurity and targeted acts of violence. The government has made commendable progress in addressing security, (such as through the Sistema de Alertas Tempranas [Early Warning System]), which should be further expanded.

2. Strengthen the local population’s ability to resist: Government policy recognizes that mechanisms to strengthen household tenure security in a participatory way can be effective in reducing the probability of being displaced or at least improving the chances of return or the ability to later dispose of their assets rather than just losing them. Implementation has, however, been limited to pilot activities that have not been evaluated systematically.

3. Provide prompt assistance to displaced persons: Quick, effective assistance, such as a fund to partly compensate municipalities that effectively deal with large inflows of displaced people, provides significant benefits and increases households’ propensity to return.

4. Help those unlikely to return, to integrate: Some groups, such as households headed by widows, are unlikely to return under any circumstances. It may be better to recognize that fact and help them integrate into labor markets at their destination, while providing them legal assistance to facilitate the transfer of their assets to others.

5. Facilitate return where desired: Others, especially those that owned land or were in agriculture, will have a high propensity to return. Improving physical security to allow voluntary and group-based return, with assistance to maintain agricultural skills and property rights and to start up production, can help them do so.

Redistributive land reform has suffered from a number of shortcomings

Large amounts have been spent on redistributive land reform in Colombia, especially since Law 160 passed in 1994. There is broad social consensus on the importance of redistributive land reform to reduce structural inequality and underutilization of land. The principle of this law—giving grants to supplement beneficiaries’ efforts and allow them to acquire land without intervention of a government agency—is sound. But success has been below expectations, for several reasons.

Flawed process: “Quick fixes” were pursued without first establishing the need for and scope of land reform at the local level. This was exacerbated by the imposition of inappropriate collective landowner-ship structures, without beneficiary participation and often against their will.

Legal issues and design flaws: Grants could by law be used for land acquisition only, not complementary investments. This focused attention on developed land, instead of high potential underutilized land. Making grants proportional to land values (up to a maximum value) encouraged overpayment and collusion. Beneficiaries acquired more land than they could farm, exacerbated by working capital constraints and rental restrictions. No thought was given to exit options for unsuccessful beneficiaries.

Centralized implementation: Instead of trying to move in concert with local development plans, INCORA (Instituto Nacional Colombiano de la Reforma Agraria, or National Institute of Agrarian Reform) pursued a punctual approach, which redistributed properties with scant regard for the broader environment. Limited local government and private sector involvement restricted beneficiaries’ ability to gain access to productive and social infrastructure, markets, and technical assistance. De facto exclusion of civil society and NGOs reduced transparency and independent monitoring and evaluation.

Making Land Reform More Effective

The government’s land reform program has been less effec-
tive than markets in transferring land to productive, small, or landless producers. Case studies support this finding, identifying high levels of indebtedness, inability to access credit, and large-scale desertion as underlying the limited productivity impact of the traditional land reform program. Potential programs to improve access to land by the poor or landless should complement, not substitute for, what can be achieved through land markets.

**Utilizing Land Markets to Enhance Land Transfers to Small Producers**

*Markets have helped provide land access to the poor and more productive.* Studies show that, before adjustment in the early 1990s, land markets were driven by speculative land acquisition that reduced productivity and access of the poor to land. This is no longer the case. Rental and sales markets now facilitate access to land by smaller and often more productive producers. However, greater land access may not decrease overall land concentration for three reasons. First, most land market transactions occur within the same size class, rarely shifting land from large to small farmers. Second, one purchase by a large farmer can affect land concentration more than many small transactions. Finally, displacement and associated abandonment of land that subsequently often is incorporated into larger units create a land accumulation dynamic that can easily outweigh the impact of market-mediated deconcentration of landownership or access.

Although land markets work better than before, many improvements are still needed. Land rental markets could have more impact on land productivity if: (a) contracts were longer-term to encourage investment and production diversification; (b) there were more transfers from large-scale to small or landless producers; and (c) transaction costs and restrictions fell.

Better access to capital markets (and financial instruments to facilitate this) would increase the limited scope for participation in land sales markets by small producers or landless people. This could also increase access to complementary assets and enhance land productivity — working capital constraints make many small owners, especially those that benefited from past land reform, unable to make the most use of the land they own.

Revenue from more effective collection of land taxes could be used to provide local public goods, such as security or roads, which increase land values. Tax coverage needs to be expanded, *valuos* (valuations) updated regularly, and shortcomings in collection addressed.

A key factor limiting market land transfer from large to small producers is that lack of infrastructure or high levels of violence often limit ability to make productive use of land. A program combining *public investment* with private support (which might involve donations) to improve productivity (and land access by small producers) is a key task for local governments attempting to catalyze markets. Central Government support is likely to be needed.

**Regulatory environment for markets.** The contribution of land rental markets to investment and structural change is restricted by high transaction costs of short-term (annual) contracts. These constraints can be alleviated by measures to increase availability of land price information; reduce transaction costs (for example, through model contracts); actively promote long-term contracts; and improve financial market functioning. Where land concentration is due to noneconomic factors (for example, violence and laundering of illicitly acquired monies), other measures are needed. Accurate inventories of actual and potential land use, and participation by the major stakeholders in negotiated solutions will be essential but difficult challenges.

**Dealing with unproductive National INCORA lands:** Large amounts of land distributed in past reforms through INCORA, suffer from restricted property rights, default on (often collective) debts, and restrictions on transferability that limit investment and effective land use. To unlock this potential and increase the welfare of many poor households, guidelines are needed on (a) transferability of this land through rental or sales; (b) low-cost ways to substitute original land reform beneficiaries; and (c) ways to settle debts, especially those incurred by members who have left or related to payments that clearly exceed the reasonable value of the land. Once agreed, these guidelines should be implemented rapidly, combined with individualization of land tenure by those affected wherever this is the desired course of action.

**Policy Implications and Lessons from Experience**

Programs to improve utilization of land and access by the poor need to incorporate the lessons from experience and be firmly linked to local government initiative and activities, together with participation by civil society and the private sector.

*Planes de Ordenamiento Territorial (POTs, or land use plans) can help address shortcomings of past reform.* POTs have been introduced to provide a technical basis for long-term spatial planning in the context of the government’s decentralization policies. They offer a number of advantages: (a) they link local policies and initiatives with vetting by the *Corporación Autonomas Regional* (CAR, or Regional Autonomous Corporations, a department-level planning author-
ity) that transcends sectoral interests, integrating proposals into a comprehensive local development strategy; (b) they can provide information needed to implement national policies, to improve land utilization in a coherent way. However, guidelines, minimum standards of technical quality for analysis of land tenure issues and technical support to assist implementation are needed.

Bringing underutilized land into production by transferring it to small producers can have high economic returns. Successful projects exhibit various organizational arrangements, from cooperatives to profit-sharing joint ventures, and do not always involve transfer of landownership. Successful cases share three characteristics:

- participation by the private sector, and beneficiary decision on the land to be used and operational structure to be adopted;
- long-term economic viability through land prices in line with productive capacity, individual land tenure, access to working capital and credit;
- integration with access to technology, markets, and transport.

There are considerable opportunities to improve land utilization and local economic development and agricultural competitiveness in Colombia. But this requires coordinated action from various levels of government, within an incentive-compatible framework, and drawing on civil society and the private sector.

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What Have we Learned in Rural Development?

[extract from “Reaching the Rural Poor: A Rural Development Strategy for the Latin America and Caribbean Region, July 2002”]

Need to find the right balance. This rural Action Plan argues that LCR cannot succeed in its poverty alleviation efforts without the contribution of the rural sector. However, finding the right balance is still a challenge. The development community has gone from one extreme to another, searching for the appropriate instruments and approaches to translate a holistic vision into effective actions. Too often, implementation capacity fell short of conceptual sophistication or poor policies kept good projects from bearing fruit. It suggests that the approach must be holistic but the balance between macro and micro and among different elements of the complex development agenda is critical. Sound governance through a competent and respected economic technocracy is also essential to deliver results on the ground.

The 1970s. Back in the 1970s, practitioners recognized the complexity of the process; the need for integration among many things and at many levels, in particular policies, and the delivery of public goods and services in different sectors; and the need for strong coordination at the center and for decentralization in implementation. While Integrated Rural Development Projects were right about integration, they were wrong about the way they were implemented. IRDPs were implemented top-down, with no participation, no decentralization and in an adverse policy environment. However, there is much that we can recover from the concept of integrated rural development in the new context of decentralization, differentiation, democratization and better policy framework that characterizes most of LCR countries today.

The 1980s and part of the 1990s. In the 1980s and part of the 1990s, a leaner but less integrated approach was undertaken seems inevitable, some countries in East Asia have succeeded in achieving high, sustained, broad-based growth. Since 1975, they have succeeded in lifting some 370 million of people out of poverty, nearly twice the total number of poor in LCR (some 188 million in 1996). They combined equity with sustained high growth. They applied a holistic, market- and export-oriented strategy, supporting smallholder agriculture, enforcing an equitable land distribution, and building the human capital assets of the rural and urban poor. They combined a holistic vision with solid implementation capacity.

In sum, rural development can make the strategic difference. The stark contrast between the rich natural resource endowment of rural areas, the opportunities provided by the macro and trade framework and the reality of much of rural life should be a call to action. That very contrast is also grounds for optimism if the existing opportunities can be harnessed and the existing development potential can be tapped. The region and the Bank have a unique opportunity. The response to the challenges of globalization, urbanization, democratization and decentralization will trace the development path of the region for decades to come. A rural strategy anchored in worldwide lessons of experience in rural development can make the strategic difference between a shared and sustainable or an exclusive and socially destabilizing growth path.