Making Urban Markets Work for the Poor: Policy, Practice and Possibility

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Introduction

- “Making markets work for poor” cornerstone of new anti-poverty strategy.
- Presentation argues that conceptual weaknesses in ‘traditional’ urban land market analysis result in inappropriate policy prescriptions.
- Presents an alternative framework for urban land market analysis and discusses the policy implications.
Urban land markets and poverty alleviation: policy and practice

- Instructive to review World Bank policy towards land markets.
- Bank’s traditional perception can usefully be summarised by the phrase “not enough land in the right location at the right price”.
- Given obvious high demand, urban land markets seen mostly as a supply problem.
Policy interventions have focussed on attempts to improve land supply, particularly for the urban poor.

Reality in many cases is that the poor already have inexpensive land at the right place.

The key policy question therefore appears to be how to leverage that which the poor already have.
...extant policy & practice

- Bank’s preoccupation with ‘prices’ and ‘quantities’ in land markets results from a particular conceptual view of markets, a view rooted in neoclassical economic theory.

- Neoclassical tools (like the ‘LMA’) have been criticised as largely inappropriate to deal with the sort of questions arising from an ‘actor centred’ view of the operations of land markets.
Key questions about urban land markets from a poverty alleviation perspective are not about ‘prices’ and ‘quantities’.

Providing land in any quantity to the urban poor will not solve the underlying cause of informal settlements, which is poverty.

The World Bank has in effect been asking the wrong questions with respect to urban land markets, resulting in inappropriate or inadequate policy response.
Second problem is a lack of consistency resulting from the ambivalence with which land markets are held.

For example credit markets are encouraged while in the same breath policy makers worry about freer markets in land.

One frequently encounters hostility towards the ‘commodification’ of land markets among many policy makers and researchers.

- Fear of distress sales.
- Fear of increased land values and gentrification.
Common to find official restrictions on operations of land markets.

Fears valid but lack unequivocal empirical support.

In fact available evidence suggests that many of the restrictions on land markets have not achieved their intended objectives.
Traditionally the focus for policy intervention has been on ‘security of tenure’ usually through ‘titling’ programmes.

Conventional view is that secure tenure works to reduce poverty by increasing security against eviction and increasing access to credit markets using property as collateral.
Efficacy of titling programmes poverty alleviation can however be over emphasised.

Many studies show that the poor in most cases already have secure *de facto* tenure.

Many studies have shown that the demand for formal credit by the poor for purposes other than consumption is low.
Access to credit by itself is therefore unlikely to be a catalyst for capital accumulation in contexts characterised by:
- Limited investment opportunities.
- Widespread risk aversion.
- High interest rates.
Urban land markets and poverty alleviation: new directions

- Recent theoretical developments in institutional analysis provide a firmer basis from which we can begin to operationalise the ‘M4P’ framework.
- One of the most significant of these is Elinor Ostrom’s Institutional Analysis and Development (IAD) framework.
IAD framework asserts that there are universal components, or structural variables, present in all markets (and hierarchies).

At heart of the IAD framework is a conceptual unit called the action arena that can be utilised to analyse, predict and explain behaviour within institutional arrangements.

Action arena defined as the social space where individuals interact, exchange goods and services, solve problems.
Significantly from a policy perspective is that three clusters of independent variables are seen as jointly affecting the structure of action arenas.

- The *rules and norms* used by participants to order their relationship.
- *Physical and material* conditions obtaining in the relevant community.
- The *attributes of the community* within which any particular arena is placed.
Framework for Urban Land Market Analysis

Physical/Material Conditions

Attributes of Community

Institutions

Urban Land Market

Actors

Action Situations

Patterns of Transactions

Evaluative Criteria

Outcomes
What then does it mean to ‘make urban land markets work for the poor’?

As a starting point it is perhaps important to reiterate that markets are mechanisms of exchange.

The potential contribution of land markets to poverty alleviation must clearly lie in, or result from, the exchange process.
Implications of this argument is that policy interventions must seek to increase the *volume* of transactions in these markets.

It is only under these circumstances that one can conceive of markets being a tool for poverty alleviation.

If the contrary were true land markets could not possibly work for the poor. This is counter-intuitive.
...new directions

- The conceptual framework brings together institutional arrangements, property rights and transaction costs as determinants of land market liquidity.
- Market liquidity 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.
...new directions

- The overall policy objective in urban land markets must be to reduce transaction costs, thereby encouraging market expansion.

- The three clusters of independent variables affecting urban land markets under the IAD framework provide a basis for policy intervention.
  - Property rights.
  - Physical infrastructure.
  - Culture.
1. Property Rights

- Policy should encourage the development of secure property rights in urban areas.

- Well-defined, secure and well-enforced property rights reduce transaction costs by clarifying property boundaries, validating ownership rights and making those rights easily transferable.

- In a M4P framework, however, property rights must not be seen primarily as a means of encouraging credit. Rather the focus should be on the way property rights support market expansion.
...new directions

- To support such a system of property rights will require the development of local community property offices (CPOs).
- These offices could play a range of roles to facilitate market expansion.
  - Property registries
  - Property conveyance
  - Brokerage
  - Dispute resolution
...new directions

To keep costs low for the users, the CPOs will almost certainly have to be subsidised by governments.

Further costs could be kept relatively low by

- locating CPOs in close proximity the poor.
- using less skilled ‘paraprofessionals.
- use of standard-form contracts.
- use, for record keeping, of inexpensive but widely available database systems held on personal computers.
...new directions

- A system of appropriate property rights combined with the device of CPOs could probably have the greatest impact on market activity.

- This is because together they have the potential to significantly reduce all the three categories of transaction costs in urban land markets.

- They thus form the cornerstone of the information infrastructure required to support increased market activity.
2. Physical Infrastructure

- Provision of especially roads, transport systems and telecommunications.
- Infrastructure have an immediate positive impact on land values.
- Equally important however is that good transport and communication systems aid the diffusion of market information as well as the mobility of participants in markets, thus reducing search and information costs.
3. Culture

Culture probably the least tractable of the three but is important nonetheless.

Greater policy attention must be placed on the extent to which culture determines economic outcomes.

A degree of shared understanding and community trust is a necessary condition for the functioning of impersonal exchange systems. These reduce bargaining and decision costs as well as supervision and enforcement costs.
...new directions

- Policy should aim at strengthening social capital in urban communities.
- This requires measures to build and strengthen social networks and forums.
- The role of non-governmental organisations (NGOs) and community based organisations (CBOs) is crucial in this regard.
Policy intervention in the areas of *property rights, physical infrastructure* and *culture* should have the effect of bringing about the market liquidity argued by Mooya and Cloete (2007) to be necessary for the leveraging of urban land markets for poverty alleviation.

A key indicator would be the extent to which increased trading activity has resulted in increased incomes and assets for the poor. This is expected to be a long term outcome.
In the short term Royston (2006, p. 12) has suggested a useful list of intermediate outcomes which could be used as leading indicators of the extent to which urban land markets are working for the poor.

- Tenure security is increasing.
- Access to livelihoods is increasing.
- Access to broader opportunities is increasing.
- The scale of supply is increasing.
- The risks and costs of exchange are decreasing.
- Equity is increasing.
- Disputes are being resolved.
Thank You