

Executive Summary

The Importance of Land Policies

LAND IS A KEY ASSET FOR THE RURAL AND URBAN POOR. IT provides a foundation for economic activity and the functioning of market (for example, credit) and nonmarket institutions (for instance, local governments and social networks) in many developing countries. Given this importance, institutions dealing with land have evolved over long periods, and land policies will invariably be affected by the presence of multiple market imperfections. Policy advice that is oblivious of either the complexity of these issues or the historical and political repercussions of policy interventions in this area can lead to unintended negative consequences. Research has long pointed to the need for a careful and differentiated approach as a precondition for making clear policy recommendations in relation to land that can help improve both efficiency and equity. Frequently, however, this message does not seem to have been clearly communicated to policy analysts and decisionmakers, with negative consequences. This report aims to summarize key insights from research and practical experience, not only to highlight the importance of careful and nuanced policy advice, but also to illustrate some general principles for formulating such policy advice in specific country settings.

Origins and Evolution of Property Rights

Understanding the origins of property rights and their evolution over time is important to appreciate how property rights to land affect households' behavior and can, in turn, be influenced by government policy. Historically, one reason property rights evolved was to respond to increased payoffs from investment in more intensive use of land

resulting from population growth or opportunities arising from greater market integration and technical advances. In the course of development virtually everywhere, the need to sustain larger populations or to make use of economic opportunities associated with trade will require investments in land that cultivators will be more likely to make if land rights are secure. Appropriate institutional innovations to provide such rights can lead to a virtuous cycle of increasing population and successively greater investment in land, economic growth, and increased welfare. At the same time, failure of the institutions administering land rights to respond to these demands can lead to land grabbing, conflict, and resource dissipation that, in extreme circumstances, can undermine societies' productive and economic potential.

In addition to this evolutionary perspective, the imposition of property rights to land by outside forces or local overlords has affected the nature of such rights in many countries of the developing world. The goal of such intervention was to obtain surpluses from local smallholder populations or to force independent smallholders into wage labor by preventing them from acquiring independent land rights. To do so, a variety of mechanisms, often supported by distortions in other markets, was used. Not surprisingly, such imposition of rights often disrupted the evolution of land rights as a response to population growth or has, by co-opting local institutions or changing how they functioned, implied vast changes in the way land was allocated and managed at the local level.

Given that the historical evolution of property rights is not only a response to purely economic forces, it is not surprising that the arrangements found in many countries are often not optimal from either an economic or a social perspective. For example, in Africa, the vast majority of the land area is operated under customary tenure arrangements that, until very recently, were not even recognized by the state and therefore remained outside the realm of the law. In Eastern Europe, collective production structures have failed to contribute to rural growth. In Latin America and parts of Asia, highly unequal land ownership and access to assets have made it difficult to establish inclusive patterns of growth. As a consequence, there is concern that in many of these countries economic growth may widen pre-existing inequalities and tensions rather than reduce them. Despite such shortcomings, socially suboptimal and economically inefficient property rights arrangements have often remained in place for long periods of time. In fact, far-reaching changes of land relations have generally been confined to major historic transitions.

Importance of Property Rights for Economic Growth

Property rights affect economic growth in a number of ways. First, secure property rights will increase the incentives of households and individuals to invest, and often will also provide them with better credit access, something that will not only help them make such investments, but will also provide an insurance substitute in the event of shocks. Second, it has long been known that in unmechanized agriculture, the operational distribution of land affects output, implying that a highly unequal land distribution will reduce productivity. Even though the ability to make productive use of land will depend on policies in areas beyond land policy that may warrant separate attention, secure and well-defined land rights are key for households' asset ownership, productive development, and factor market functioning.

If property rights are poorly defined or cannot be enforced at low cost, individuals and entrepreneurs will be compelled to spend valuable resources on defending their land, thereby diverting effort from other purposes such as investment. Secure land tenure also facilitates the transfer of land at low cost through rentals and sales, improving the allocation of land while at the same time supporting the development of financial markets. Without secure rights, landowners are less willing to rent out their land, which may impede their ability and willingness to engage in nonagricultural employment or rural-urban migration.

Poorly designed land market interventions and the regulation of such markets by large and often corrupt bureaucracies continue to hamper small enterprise startups and nonfarm economic development in many parts of the world. Such interventions not only limit access to land by the landless and poor in rural and urban areas of the developing world, but by discouraging renting out by landlords who are thus unable to make the most productive use of their land, they also reduce productivity and investment. High transaction costs in land markets either make it more difficult to provide credit or require costly development of collateral substitutes, both of which constrain development of the private sector. A recent study estimates that in India, such land market distortions reduce the annual rate of gross domestic product growth by about 1.3 percent.

Role of Secure Property Rights in Poverty Reduction

For most of the poor in developing countries, land is the primary means for generating a livelihood and a main vehicle for investing,

accumulating wealth, and transferring it between generations. Land is also a key element of household wealth. For example, in Uganda land constitutes between 50 and 60 percent of the asset endowment of the poorest households. Because land comprises a large share of the asset portfolio of the poor in many developing countries, giving secure property rights to land they already possess can greatly increase the net wealth of poor people. By allowing them to make productive use of their labor, land ownership makes them less reliant on wage labor, thereby reducing their vulnerability to shocks.

Given the key role of land as a determinant of access to economic opportunities, the way in which land rights are defined, households and entrepreneurs can obtain ownership or possession of it, and conflicts pertaining to it are resolved through formal or informal means will have far-reaching social and economic effects. The implications not only influence the structure of governance at the local level, but also affect (a) households' ability to produce for their subsistence and to generate a marketable surplus, (b) their social and economic status and often their collective identity, (c) their incentive to invest and to use land in a sustainable manner, and (d) their ability to self-insure and/or to access financial markets. For this reason, researchers and development practitioners have long recognized that providing poor people with access to land and improving their ability to make effective use of the land they occupy is central to reducing poverty and empowering poor people and communities.

Control of land is particularly important for women, whose asset ownership has been shown to affect spending, for instance, on girls' education. Yet traditionally, women have been disadvantaged in terms of land access. Ensuring that they are able to have secure rights to one of the household's main assets will be critical in many respects. This includes meeting the challenges arising in the context of the HIV/AIDS epidemic, where the absence of clear land rights can lead to costly conflict and hardship regarding possible loss of land by widows.

Impact of Secure Property Rights on Governance and Sustainable Development

The ability of local leaders and authorities to control land has traditionally been a major source of political and economic power. Over and above the economic benefits that may be derived from giving

households greater tenure security, measures to increase households' and individuals' ability to control land will have a clear impact on empowering them, giving them greater voice, and creating the basis for more democratic and participatory local development. For example, fiscal decentralization is often hampered by the lack of own revenue and accountability on the part of local governments. Both of these could be increased by taxation of land. In countries where land continues to be a key productive asset, governments could use land taxation more effectively to motivate fiscal discipline and to strengthen the voice of the local population by enhancing the accountability of local officials.

Conflicting interventions in land rights systems by outsiders in the course of history, or a failure to establish legitimate institutions in the face of increasing population pressure and appreciation of land values, have tended to exclude the poor from land access and ownership and resulted in the creation of parallel or overlapping institutions. Therefore ensuring minimum standards for rapid conflict resolution and dispensation of justice, accountability, and transparency in land management and access is critical. Where longstanding, systematic distortions in the area of land overlap with race and ethnicity issues, a buildup of land-related conflict and violence can even result in collapse of the state, with devastating consequences. In Africa, for example, formal tenure covers only between 2 and 10 percent of the land. To avoid leaving the occupants of these lands effectively outside the rule of law, many African countries have recently given legal recognition to customary tenure as well as to the institutions administering it; however, implementing these laws remains a major challenge.

In many countries the state continues to own a large portion of valuable land despite evidence that this is conducive to mismanagement, underutilization of resources, and corruption. Broad and egalitarian asset ownership strengthens the voice of the poor, who are otherwise often excluded from political processes, allowing them greater participation that can not only increase the transparency of institutions, but can also shift the balance of public goods provision, especially at the local level. As appropriation of rents from land appreciation through discretionary bureaucratic interventions and controls remains a major source of corruption and a barrier to the startup of small enterprises in many developing countries, this can help to significantly improve governance.

Property Rights to Land

LAND RIGHTS ARE SOCIAL CONVENTIONS THAT REGULATE THE distribution of the benefits that accrue from specific uses of a certain piece of land. A number of arguments support public provision of such rights. First, the high fixed cost of the institutional infrastructure needed to establish and maintain land rights favors public provision, or at least regulation. Second, the benefits of being able to exchange land rights will be realized only in cases where such rights are standardized and can be easily and independently verified. Finally, without central provision, households and entrepreneurs will be forced to spend resources to defend their claims to property, for example, through guards, fences, and so on, which is not only socially wasteful, but also disproportionately disadvantages the poor, who will be the least able to afford such expenditures.

Desirable Characteristics of Property Rights to Land

Property rights to land need to have a horizon long enough to provide investment incentives and be defined in a way that makes them easy to observe, enforce, and exchange. They need to be administered and enforced by institutions that have both legal backing and social legitimacy and are accessible by and accountable to the holders of property rights. Even if property rights to land are assigned to a group, the rights and duties of individuals within this group, and the way in which they can be modified and will be enforced, have to be clear. Finally, as the precision with which property rights will be defined will generally increase in line with rising resource values, the institutions administering property rights need to be flexible enough to evolve over time in response to changing requirements.

Duration

As one of the main effects of property rights is to increase incentives for investment, the duration for which such rights are awarded needs at least to match the time frame during which returns from possible investments may accrue. Clearly this depends on the potential for investment, which is higher in urban than in rural areas. While indefinite property rights are the best option, giving long-term rights that can be renewed automatically is an alternative. Given the long time spans

involved, attention to the way in which such rights can be inherited is particularly warranted, and has often proven to be critical to enhance women's ability to control land on their own.

Modalities of Demarcation and Transfer

Property rights to land should be defined in a way that makes them easy to identify and exchange at a cost that is low compared with the value of the underlying land. With limited land values, low-cost mechanisms of identifying boundaries, such as physical marks (hedges, rivers, and trees) that are recognized by the community, will generally suffice, while higher-value resources will require more precise and costly means of demarcation. Similarly, where land is relatively plentiful and transactions are infrequent, low-cost mechanisms to record transactions, such as witnessing by community elders, will be appropriate. More formal mechanisms will normally be adopted once transactions become more frequent and start to extend beyond traditional community and kinship boundaries.

Enforcement Institutions

The key advantage of formal, as compared with informal, property rights is that those holding formal rights can call on the power of the state to enforce their rights. For this to be feasible, the institutions involved need to enjoy legal backing as well as social legitimacy, including accountability to and accessibility by the local population. Yet in many countries, especially in Africa, the gap between legality and legitimacy has been a major source of friction, something that is illustrated by the fact that often more than 90 percent of land remains outside the existing legal system. Failure to give legal backing to land administration institutions that enjoy social legitimacy can undermine their ability to draw on anything more than informal mechanisms for enforcement. By contrast, institutions that are legal but do not enjoy social recognition may make little difference to the lives of ordinary people, and have therefore often proven to be highly ineffective. Bringing legality and legitimacy together is a major challenge for policy that cannot be solved in the abstract.

Subject of Rights

Whether it is more appropriate to give property rights to individuals or to a group will depend largely on the nature of the resource and on

existing social arrangements. Group rights will be more appropriate in situations characterized by economies of scale in resource management or if externalities exist that can be managed at the level of the group but not the individual. Group ownership is also often adopted in situations where risk is high and markets for insurance are imperfect or where the resource in question is abundant and the payoff from any land-related investment that individuals could undertake on their own is low. Even if these conditions apply, group rights will be the option of choice only if the group to which such rights are assigned has a clear definition of its membership; if the responsibilities of individuals within the group are well identified; if mechanisms for internal management and enforcement, for example, the imposition of sanctions, are available; and if there is a clear understanding of the ways in which decisions to modify rules can be made.

Evolution over Time

Unless there are clear externalities that can be dealt with most effectively by groups, the relative advantage of group, as compared with individual, land rights will generally decrease in the course of development because of a number of factors. Technical progress reduces the risk of crop failure while at the same time increasing the potential payoff from investments; development of the nonfarm economy provides access to more predictable income streams; and greater access to physical infrastructure reduces not only the risk, but also the cost, of publicly providing property rights. Thus one would expect to see a move toward more individualized forms of property rights with economic development. At the same time, historical evidence suggests that transformation of property toward increased individualization is not automatic. To the contrary, it will be affected by political and economic factors, and thus will often coincide with major conflicts, upheavals, or power struggles.

Exogenous demographic changes, especially in the absence of economic development, will increase the scarcity and value of land. This can challenge traditional authorities and institutions that previously had unquestioned authority over land allocation and dispute resolution. If they coincide with land claims by outsiders and are overlaid with race and ethnicity issues, such situations can lead to serious crises of governance, including civil war. Even neglecting broader noneconomic impacts and possible indirect effects, the direct costs of land conflicts that may arise in this context are high and are borne mostly by

the poor, who are generally least able to afford them. Land conflicts often generate large, negative, external effects. In the extreme, they can undermine the state's authority and effectiveness by leading to the creation of a multiplicity of parallel institutions, as illustrated by the fact that unresolved land conflicts have in some cases escalated to become a significant contributor to state failure.

To avoid such consequences, the institutions managing land rights will need to be able to re-interpret traditions and social norms authoritatively and in a way that protects the poor and vulnerable from abuse of their rights by those with political power and economic resources. This requires attention to legal provisions that can instantly eliminate traditional rights or the rights of specific groups, such as women or herders. Even where an appropriate legal and regulatory basis is in place, operational mechanisms for putting laws into practice in a way that protects vulnerable members of society and precludes the elimination of secondary rights will be important. Seemingly simple alterations of the property rights regime can have far-reaching impacts on the poor.

Empirical Evidence on the Impact of Tenure Security

In many countries of the developing world, insecure land tenure prevents large parts of the population from realizing the economic and noneconomic benefits, such as greater investment incentives, transferability of land, improved credit market access, more sustainable management of resources, and independence from discretionary interference by bureaucrats, that are normally associated with secure property rights to land. For example, more than 50 percent of the peri-urban population in Africa and more than 40 percent in Asia live under informal tenure and therefore have highly insecure land rights. While no such figures are available for rural areas, many rural land users are reported to make considerable investments in land as a way to establish ownership and increase their perceived level of tenure security. This illustrates not only that tenure security is highly valued, but also that in many contexts existing land administration systems fail to provide secure tenure. We discuss first the economic and then the noneconomic benefits of more secure tenure.

A first benefit from increased tenure security that can easily be measured is the increase in land users' investment incentives. Some studies have reported a doubling of investment, and values for land with more

secure tenure are reported to be between 30 and 80 percent higher than those for land where there is a higher probability of losing it. Transferability of land will greatly increase this effect, something that will be especially important in situations where the scope for transacting land between less and more productive producers has increased, for example, because of development of the nonagricultural economy and rural-urban migration. Higher levels of tenure security, not necessarily formal title, will also reduce the time and resources individuals have to spend trying to secure their land rights, thereby allowing them to invest these resources elsewhere. For example, in Peru the formalization of land rights increased the supply of labor to the market by more than 50 percent.

Where effective demand for credit exists, giving formal title to land can help producers gain access to credit and improve the functioning of financial markets. It has long been noted that the impact of such credit access may be differentiated by the size of landholdings, and therefore that attention to the anticipated equity effects will be required. In situations where the credit effect associated with title is unlikely to materialize in the near future, a more gradual and lower-cost approach to securing land rights and improving tenure security, with the possibility of upgrading once the need arises, will allow for provision of most, if not all, the benefits from increased tenure security at lower cost.

While targeting efforts aimed at increasing tenure security for the poor will therefore automatically lead to greater equity, two additional issues are of interest. First, the ability to make decisions about the allocation of land is a key element of political power wielded by traditional authorities or modern bureaucrats. Devolving some of this authority to democratic decisionmaking within the group or to individuals can greatly improve governance as illustrated by the example of Mexico, where beneficiaries mentioned improved governance as a key benefit of property rights reforms introduced after 1992.

Second, ensuring secure land tenure will be of particular relevance for groups that were traditionally discriminated against. In addition to being warranted based on basic considerations of equity, attention to women's land rights will have far-reaching economic consequences where women are the main cultivators, where out-migration is high, where control of productive activities is differentiated by gender, or where high levels of adult mortality and unclear inheritance regulations could undermine women's livelihood in case of their husbands' death. The importance of doing so is reinforced by strong evidence suggesting that the way in which assets are distributed within the household will affect spending

patterns. Greater control of assets by women often translates into higher levels of spending on children's education, health, and food. Similarly, even though the significance of land for indigenous peoples and herders goes beyond economics, even its economic impact has often been underestimated. Transferring property rights to indigenous communities, especially if combined with technical assistance, can allow them to manage these better or to derive greater benefits from the resources associated with their land. For herders, different countries have developed promising approaches to resource tenure and management that recognize the central role of mobility and risk management on an ecological scale that may transcend traditional boundaries.

Ways to Increase Tenure Security

The findings described in the previous section imply that governments have a role to play in providing secure tenure to owners and users of land. Even though formal title will increase tenure security in many situations, experience indicates that it is not always necessary, and often is not a sufficient condition for optimum use of the land resource. The goal of providing tenure security for the long term, administered in a cost-effective way through institutions that combine legality with social legitimacy, can be achieved in a variety of ways depending on the situation.

Customary Land

In customary systems, legal recognition of existing rights and institutions, subject to minimum conditions, is generally more effective than premature attempts at establishing formalized structures. Legally recognizing customary land rights subject to a determination of membership and the codification or establishment of internal rules and mechanisms for conflict resolution can greatly enhance occupants' security. Demarcation of the boundaries of community land can remove the threat of encroachment by outsiders while drawing on well-defined procedures within the community to assign and manage rights within the group. Conflicts historically often erupt first in conjunction with land transfers, especially to outsiders. Where such transfers occur and are socially accepted, the terms should be recorded in writing to avoid ambiguity that could subsequently lead to land-related conflict.

State Land

Occupants on state land have often made considerable efforts to increase their level of security, in some cases through significant investments, but often remain vulnerable to eviction threats. Because of their limited land rights they generally cannot make full use of the land they occupy. Giving them legal rights and regularizing their possession is therefore important, along with ensuring that appropriate means are in place for resolving any conflicts that may arise in the process. In many situations, political or other considerations may preclude the award of full private property rights. If existing institutions can credibly commit to lease contracts, giving users secure, transferable, long-term lease rights will permit the realization of most, if not all, the investment benefits associated with higher levels of tenure security. In these cases, the recognition of long-term, peaceful occupation in good faith (adverse possession) and the award of long-term land leases with provisions for automatic renewal will be the most desirable option. If the leases awarded by state institutions are not credible, measures to increase tenure security or, alternatively, full privatization, will be required to give users sufficient security of tenure and the associated benefits. An indicator of limited credibility of leases is that even where there is strong, effective demand for credit, financial institutions will not accept long-term leases as collateral.

Individual Title

Where, after considering the arguments advanced earlier, formal and individual ownership title will be the option of choice, inefficiencies in the land administration institutions responsible for demarcation of boundaries, registration and record keeping, adjudication of rights, and resolution of conflict can still preclude realization of many of the benefits of secure tenure. If these institutions are not working well or are poorly coordinated, inefficient, or corrupt, transaction costs will be high, thereby reducing the level of transactions below what would be socially optimal, and in many cases excluding the poor completely. In the extreme, lack of clarity about who is responsible for specific areas or infighting between institutions has evolved into a major source of insecurity that has undermined the value and authority of titles or certificates of land ownership distributed during systematic interventions. In

such situations, institutional reform, including improved coordination within the government and with the private sector, will be a precondition for the state's ability to deliver property rights effectively.

If no previous records exist, or where these are seriously out of date, a strong case for systematic, first-time registration can be made on the grounds that a systematic approach, combined with wide publicity and legal assistance to ensure that everybody is informed, provides the best way to ensure social control and prevent land grabbing by powerful individuals, which would be not only inequitable, but also inefficient. In addition, interventions should be designed so that they are fiscally sustainable and so that the costs involved do not prevent individuals from subsequent registration of land transactions. Although it is often not necessary to have uniform standards for land administration throughout the whole country, coverage should aim to be comprehensive.

Even though most countries mandate equality of men and women before the law in principle, the procedures used by land administration institutions often discriminate against women, either explicitly or implicitly. To overcome this tendency, a more pro-active stance in favor of awarding land rights to women by governments, together with more rigorous evaluation of innovative approaches aiming to accomplish greater gender equality in control of conjugal land on the ground, would be warranted.

Land Transactions

LAND TRANSACTIONS CAN PLAY AN IMPORTANT ROLE BY allowing those who are productive, but are either landless or own little land, to access land. Land markets also facilitate the exchange of land as the off-farm economy develops and, where the conditions for doing so exist, provide a basis for the use of land as collateral in credit markets. Capital market imperfections and policy distortions have, however, prevented land sales markets from contributing to increased levels of productivity or reduced poverty in many instances. This has led some observers to take a negative stance on any type of land market activity and to support government intervention, despite the considerable scope of rental markets and the evidence on limited effectiveness of government intervention in such markets.

Conceptual Foundations

To understand why in some cases land transactions may fail to contribute to improving productivity and equity, it is necessary to review the conceptual foundations that underlie the operation of land markets and how some of the market imperfections frequently encountered in rural areas of the developing world will have a differential impact on land rental and sales.

Basic Elements

A large literature has demonstrated that unmechanized agriculture generally does not exhibit economies of scale in production, even though economies of scale from marketing may in some cases be transferred back to the production stage. At the same time, the need to closely supervise hired laborers implies that owner-operated farms are more efficient than those that rely predominantly on large numbers of permanent wage workers. However, credit rationing and the scope to use collateral as one means to overcome imperfections that are inherent to credit markets will favor farmers who own larger amounts of land. In environments where access to credit is important, this can lead to the appearance of a positive relationship between farm size and productivity, possibly counteracting the supervision cost advantage of small owner-operated farms. These factors will have different implications for land rental as compared with sales markets.

Rental Markets

Rental markets are characterized by low transaction costs, and in most cases where rent is paid on an annual basis require only a limited initial capital outlay. This, together with participants' ability to adjust contract terms so as to overcome market failures in capital and other markets, implies that rental is a more flexible and versatile means of transferring land from less to more productive producers than sales. Renting is thus more likely to improve overall productivity and, in addition, can provide a stepping stone for tenants to accumulate experience and possibly make the transition to land ownership at a later stage.

The importance of tenure security for rental markets is illustrated by the fact that where land tenure is perceived to be insecure, long-term contracts are unlikely to be entered into. Indeed, relatively insecure tenure

has been claimed to be one of the key reasons for the virtual absence of long-term rental contracts in most countries of Latin America.

The literature has long pointed out that rental arrangements based on fixed rather than share rents are more likely to maximize productivity. Poor producers may, however, not be offered fixed rent contracts because of the risk of default. In these circumstances, sharecropping has emerged as a second-best solution. Hypothetically, sharecropping contracts could be associated with sizeable inefficiencies, implying that government action could improve efficiency. In practice, the efficiency losses associated with sharecropping contracts were found to be relatively small, and improving on them through government intervention has proven to be difficult, if not impossible. Given that the contracting parties have considerable flexibility to adjust contract parameters so as to avoid inefficiencies, for example, by entering into long-term relationships or through close supervision, the general view is that prohibiting sharecropping or other forms of rental contracts is unlikely to improve productivity. The welfare impact of rental contracts depends on the terms of the contract, which in turn are affected by the outside options open particularly to the weaker party. Efforts to expand the range of options available to tenants, for instance, via access to infrastructure and nonagricultural labor markets, are likely to have a more beneficial impact on land rental market outcomes and rural productivity than prohibiting certain options.

Sales Markets

Transfer of land use rights through rental markets can go a long way toward improving productivity and welfare in rural economies. At the same time, the ability to transfer ownership of land will be required to use land as collateral in credit markets, and thus to provide the basis for low-cost operation of financial markets. This advantage comes at the cost that sales markets will be more affected than rental markets by imperfections in credit markets as well as by other distortions, such as subsidies to agriculture.

Activity in land sales markets will depend on participants' expectations regarding future price movements, creating a potential for asset price bubbles that are not justified by the underlying productive value, as well as a tendency toward speculative land acquisition by the wealthy in anticipation of major capital gains. Ample historical evidence also shows that in risky environments where small landowners do not have

access to credit markets, distress sales of land by the poor can occur, with consequent negative equity and efficiency impacts. The impact of such distress sales is magnified by the fact that where, as in most rural areas, land sales markets are thin, land prices can fluctuate considerably over time. High transaction costs associated with land sales, which are often further increased by government intervention, can result in the segmentation of such markets whereby certain strata deal only with each other or sales remain entirely informal. All these factors imply that land acquisition by the poor through the land sales market will be difficult, and that as a consequence, the potential for productivity-enhancing land redistribution through sales markets is likely to be very limited.

Empirical Evidence

The general conclusions discussed in the foregoing section, and the importance of government policies in shaping the outcomes from land sales markets that can be observed in practice, are supported by empirical evidence from different regions of the world.

Industrial Countries and Eastern Europe

In many industrial nations high levels of activity in rental markets, which cover more than 70 percent of cultivated land in some countries, illustrate that land rental is far from archaic. Indeed, because of lower capital requirements, many producers prefer to rent rather than to buy land. The fact that well-functioning, though often strongly regulated, rental markets in most industrial countries allow households to enter into long-term contracts that do not appear to be associated with a visible reduction of investment incentives, demonstrates the flexibility and possible advantages of land rental. It also highlights that long-term security of tenure is critical to achieve such outcomes.

In countries of Eastern Europe and the Commonwealth of Independent States (CIS), land rental was particularly important in the initial phases of the transition to a market economy, and continues to be relevant for facilitating access to land by younger producers and for consolidating operational holdings in situations where the ownership structure is highly fragmented. The potential for rental markets is particularly high where land plots were restituted to original owners who had little intention of becoming involved in farming, but where macro-