

Linking Property Rights and Capital Accumulation in the Philippines

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This study investigates the link between property rights and capital accumulation in the context of poverty alleviation in the Philippines. Property rights are represented by the provision of land titles to those informal settlers while capital accumulation is concretely manifested through access to credit. The study focuses on explaining how provisions of land titles to the poor affect their access to credit and therefore improvement in life conditions. A former community of informal settlers in the City of Taguig, Philippines was chosen in the study to shed evidence using a case study design. Remarkably, the results signify notable relationship between the provisions of land titles and improved life conditions among the poor.

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The quest for economic development in most developing countries has been elusive. The persistence of poverty contributes to economic stagnation because the poor cannot participate in the market system (Schirmer, 2007). The absence of access to capital excludes the poor in the capitalist economy. Hernando de Soto (2000) claimed that the poor remains to be poor because of the presence of a weak institutions on property rights. The poor are deprived of the opportunity to access credit and capital due to the absence of a formal and legal document representing their ownership on a piece of object.

The focal point of the study is to produce evidence showing the links between property rights and capital accumulation. Property right is represented by the provision of land titles among the informal settlers and its effect on accessing

credit and capital and the improvement of life conditions. It can strengthen the claim that when the informal settlers are given land titles, security of tenure is not just assured but choices and opportunities can be accorded to the poor. Consequently, the poor can be integrated into the system of the market economy.

LITERATURE REVIEW

Institutions are commonly known as the “rules of the game” (North, 1990). They refer to guidelines, rules, policies, and specific laws (Van den Berg, 2001) that provide structure to human relations. Since human interaction is involved, institutions also include informal arrangements or a combination of the formal rules and informal

norms in a certain community of individuals (North, 1994). To invoke the institutional point of view, North (1990; 1994) argued that institutions shape economic structures. In doing this, institutions can propel or hinder the growth of the economy as it influences market mechanisms and processes. For Acemoglu, Johnson, and Robinson (2001) and Rodrik, Subramanian and Trebbi (2002), institutions are better reflected as property rights in the economic and market machinery. Webster and Lai (2003) asserted that through property rights, individuals can economically gain from the object by use and disposal. This is possible since the person owning the property is vested with the authority to maximize the full use of the object.

The government is obliged to fortify institutions that assure the protection of property rights (Leblang, 1996; Alston & Mueller, 2004; Alston, Libecap and Schneider 1996; Levine 2005). The lifeblood of property rights rest in the authority of the government to enforce institutional mechanisms. Enforcement comes with benefits like the reduction of transaction cost, increase in incentives to invest, and increase in the value of an object (Alston & Mueller, 2004). The failure of the state to perform this duty can also result into weak and unstable operations of the market.

The relationship between institutions, property rights, and individual participation in the market system can be tested using the arguments of Hernando de Soto. He (2000) strongly put forward the idea that the economic development can be achieved if the poor are given the opportunity structures to participate in market activities. To put it concretely, the poor must be provided with formal legal instruments that will represent their ownership on a piece of object.

For de Soto (2000), property rights is best represented by land titles. It is through this piece of document that allows the informal settlers at the same time situated in poor conditions to acquire credit or capital that can be used to improve their economic and life circumstances (Rosenberg, 2002). Adams, Cousins and Manona et al (1999) substantiated the ideas of de Soto and Rosenberg

in identifying the rights of the owner towards a piece of property. These rights are as follows:

- a. occupy a homestead, to use land for crops, to make permanent improvements, to bury the dead, and to graze animals, have access for gathering fuel, fruits, grass, minerals, and so forth;
- b. transact, give, mortgage, lease, rent, and bequeath areas of exclusive use;
- c. exclude others from the above-listed rights, at community and/or individual levels; and, linked to the above
- d. enforcement of legal and administrative provisions in order to protect the rights holder.

The assertions of de Soto were tested, supported, affirmed, and even contested by many scholars and practitioners in the field of new institutional economics and development (Adams, et. al. 1999; Magalhaes & Rojas, 2007; Mends & de Meijere, 2006; Ali & Sulaiman, 2006; Navarro & Turnbull, 2010). It includes various specific cases that gave life to the reality of elucidating the potentials and implications of property rights through land tenure in improving the quality of living among households.

There are significant studies related to the ideas of land title provision to the marginalized sector of society that fostered the improvement of economic activities and life conditions of those target beneficiaries. The first case is an empirical study conducted by Alston (1996) in Brazil. The study documented the effects of land title provision by the government to the farmers. Results showed that farmers are able to acquire more farming resources after receiving their land titles. The farmers became confident to apply for credit and other sources of capital to bolster the cultivation of land. The second case is a study conducted by Galiani and Schargrotsky (2005; 2009) in Buenos Aires, Argentina. The informal settlers are awarded with land titles that created tremendous effects to the lives of the poor. After acquiring the land title, the inhabitants are

able to send their children to school, invest in the construction of their houses, and engage in business activities. This happened because of the strong support of microfinance institutions that accommodated those holding land titles. The third case study that was conducted by Di Tella, Galiani and Schargrodsy (2004) made a conclusive argument that the moment informal settlers are awarded with land titles, there is a significant effect in their beliefs and perceptions.

METHODOLOGY

The major contribution of the study is to create a relationship on the courses of actions made by the inhabitants after possessing a land title that emanates from their narrated stories. The responses of the interviewed inhabitants holding land titles are categorized and analyzed using the thematic approach. The chosen responses were coded with a numerical representation so as to enable statistical treatment. To predict actions, logistic regression (Tabachnick & Fidell, 2007) was used to treat the coded themes. The nature of logistic regression rests on the possibility of "...predicting a discrete outcome... from the set of variables that may be continuous, discrete, dichotomous or a mix of any of these" (Agresti, 2002).

OBJECTIVES OF THE STUDY

The primary objective of the study is to determine how the provision of land titles, as a representation of property rights, affect access to credit and improvement in life conditions of the poor, the informal settlers. Specifically, the study wants to illustrate how the provision of land titles to the informal settlers leads to the use of land titles as collateral to credit institutions, engagement in small business activities, repair and improvement in housing structures, and credibility in socio-economic transactions. Ultimately, the study intends to influence policies on land title

provisions with the end goal of helping the poor get out of poverty.

SCOPE AND LIMITATION OF THE STUDY

The focal point of the study is to explain the connection between the provisions of land titles to the informal settlers, access to credit, and improvement in the lives of the poor. Hence, the study is limited to those households awarded with land titles or in the process of acquiring land titles from relevant government agencies that ranges to 120 inhabitants. Moreover, those households awarded with land titles but are not residing in that piece of land and house is excluded from the study.

THEORETICAL FRAMEWORK

The study utilizes the train of thoughts and assumptions espoused by Hernando de Soto (2000) in his influential work, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. He explained the argument that secured property rights enables the accumulation of capital among the poor. In this era of capitalism, de Soto vehemently argued that capital is the most essential requirement for the poor to get out of poverty and be included in the process of development (2000 year, as cited in Woodruff, 2001). However, de Soto (2000 year, as cited in Thanh, 2002) also cautioned scholars that in most poor and developing countries, capital is "dead" due to deficiency in property rights system and the lack of market opportunities. In this scenario, two consequences are apparent. First, there are pieces of land that cannot be converted into capital due to the absence of formal documents of ownership. Second, investors whose resources are directed towards the use of land are confronted with greater risks in the nonexistence of land titles.

There are five critical assumptions of de Soto (2000) in explaining how property rights, capital accumulation, and improved life condition among

the poor happens. It is also important to note that the idea of property rights is measured in terms of a formal document showing ownership and capital accumulation which refers to credit access while improve living condition pertains to the building of concrete houses, engagement in productive activities, and the capability to sustain basic necessities in the household.

Capital is derived from a contract. The holder is responsible in unleashing the potentials embodied in this formal-legal document. This is the first and the foundational assumption of de Soto (2000 year, as cited in Thanh, 2002). The contract is seen as an instrument loaded with economic potentials. The contract also pertains to a formal document of ownership. The owner has the power to make use of the contract by translating it into productive assets. In doing this, the contract is seen as an object that can be used by an individual to participate in market opportunities. To put this in concrete terms, the contract may come in the form of a legal document that can be used as a security in the desire of the person to borrow monetary resources (Sawadogo & Stamm, 2000). In most developing countries, possessions of a contract like a land title allow the poor to access capital (Leblang, 1996).

The presence of an asset that has a formal system of representation is what makes the market economies in most rich nations different from the developing countries, which is the second critical assumption of de Soto (2000 year, as cited in Thanh, 2002). Ownership is often represented by a formal and legal document. It is legal since the state has the obligation to ensure the security of ownership among individuals. In many developing countries, the government is often blamed for the lack of institutional mechanism to protect property rights. In this instance, greater risk of investments on material properties is what confronts the individual owners.

The possession of a formal document representing the potentials accorded to an asset allows for the transformation of the “asset from a less accessible condition to a more accessible one” is what comprises the third assumption of de Soto

(2000 year, as cited in Thanh, 2002). The presence or the absence of a formal document representing ownership is what determines the capability of the owner to access market opportunities. This formal document provides assurance to the owner of his participation in the market system. Transformation and accessibility of the owner to the market may come in the form of making the asset collateral or an object that can be exchanged to a monetary value. This relationship between the market and the individual owner of an asset allows for the conversion of material objects into monetary resources. Ultimately, the presence of a formal document representing ownership secures and protects transactions is the fourth underlying message among the many assumptions of de Soto (2000 year). Risk to invest is reduced when the owner of an asset is protected against uncertainties. It can also be added that through the possession of a legal document, the owner is empowered to cultivate its property free from intimidation of another person or entity.

The last ideational assumption of de Soto rest on the fluid transfer of assets from one person or entity to another (2000 year, as cited in Thanh, 2002). Market mechanism calls for the exchange of goods among individuals. An asset is one premium good being transferred from one person to another depending on the agreed value. The formal document representing an asset is what allows for the easy transfer of possession from person to persons. The absence of formal representation of ownership hinders market activities.

Illustrating the Framework

From the viewpoint of Hernando de Soto, a graphical illustration is shown in Figure 1 to manifest the relationship between the provision of property rights through the awards of land titles among the poor, access to credit, and improvement in life conditions. To simply put, when the poor are given land titles to secure property rights, it is expected that they will take advantage of market opportunities to access credit that will enable them to improve their life situation and condition.

RESULTS AND DISCUSSION

Access to Credit and Capital

Majority of the inhabitants are not willing to use their land titles as collateral to obtain monetary resources as shown in Table 1, failing to meet

the expected significant value of 0.999. Most of the respondents reasoned that they will resort to personal loans and other forms of informal lending mechanisms rather than take the risk of using their land titles as collaterals in formal lending entities like banks and microfinance institutions in obtaining capital.

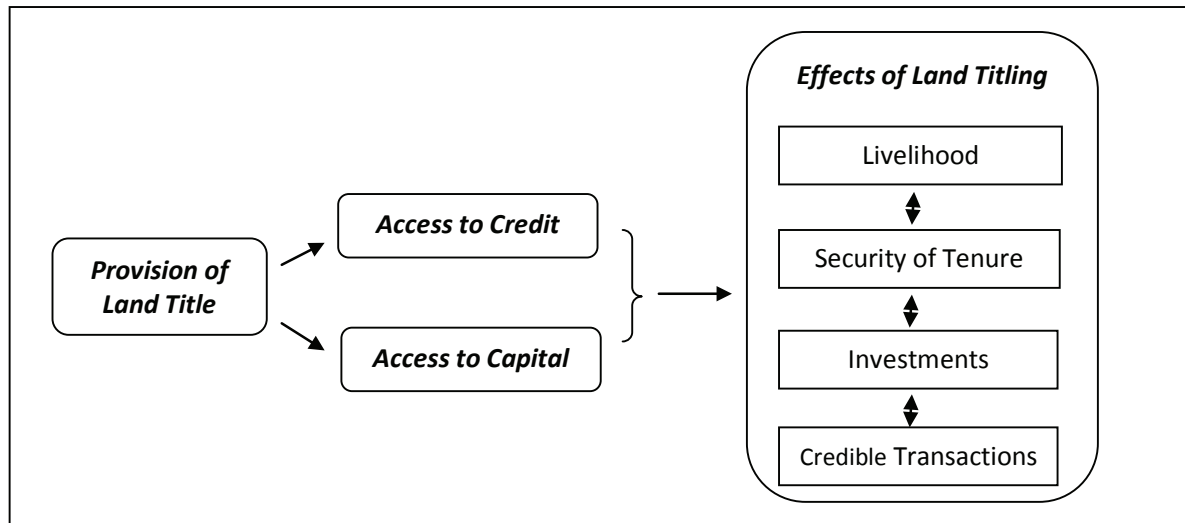


Figure 1. Graphical illustration of the framework.

Table 1.

Predicted Outcome of Using the Land Titles for Collateral Purposes

	B	S.E.	Wald	Df	Sig.	Exp (B)
Step1a months	-6.118	4559.501	.000	1	.999	.002
Constant	16.562	13678.503	.000	1	.999	1.559E7

Table 2.

Probability Among Land Title Awardees to Engage in Livelihood Activities

	B	S.E.	Wald	Df	Sig.	Exp (B)
Step1a months	-.016	.256	.004	1	.949	.984
Constant	.415	1.355	.094	1	.759	1.514

Engagement in Livelihood

Many of the respondents are able to engage themselves into productive and livelihood activities after acquiring land titles. It shows that provision of land title is a predictor of the desire to engage in livelihood activities. The

beneficiaries are commonly engaged into small grocery stores, laundry, and tailoring shops while others converted portion of their houses into dormitories. Other inhabitants leased-out a substantial portion of their land to establishments like convenience stores, bakeshops, and coffee shops.

Table 3.*Security of Tenure Relative to Possession of Land Titles*

	B	S.E.	Wald	Df	Sig.	Exp (B)
Step1a months	.097	.257	.143	1	.705	1.102
Constant	-.461	1.346	.117	1	.732	.630

Table 4.*Credibility in Transactions Relative to Possession of Land Titles*

	B	S.E.	Wald	Df	Sig.	Exp (B)
Step1a months	-.074	.278	.072	1	.789	1.077
Constant	.344	1.421	.059	1	.808	1.411

Security of Tenure

There is a strong consensus among those awarded with land titles the feeling of a secured tenure in those pieces of land where their houses are built. Most of the inhabitants said that threats of eviction and demolition are eliminated as they possess documents legalizing their ownership over a parcel of land. As a consequence, many of the awardees invested resources in developing their houses.

Credibility in Transactions

Possession of land titles confers the former informal settlers with credibility to engage in socio-economic activities. It is unanimously declared by the inhabitants that utility companies and banking and credit institutions offered them services. The awardees also added that having a recognized dwelling place and home address are important requirements to avail economic services.

CONCLUSIONS AND RECOMMENDATIONS

When the informal settlers are awarded with formal and legal instruments of ownership

in the form of a land title, it is expected that socio-economic empowerment, alleviation from poverty and improvement in the life conditions may happen. This conceptual prognosis is made to be real in the case of former informal settlers awarded with land titles in Barangay Fort Bonifacio situated in the City of Taguig in the Philippines. After receiving the land titles from the government, the experiences of the inhabitants show certain variations and minimal deviations from the theoretical arguments of de Soto. First, few inhabitants are attracted to use their land titles for purposes of collateral to lending institutions. There are notable cases of inhabitants selling their properties in exchange for monetary resources. Majority of the beneficiaries would keep their land titles and resort to informal lending mechanisms and other loan sharks. Second, majority of the inhabitants felt secured, perceived to be credible in engaging to consumer and bank transactions after acquiring their land titles. Third, many of those inhabitants provided with land titles engaged themselves into productive activities like small business and related livelihood and investments in building their houses.

The study is remarkable in terms of the desired effects in providing the poor with land titles. Hence, it is important to revisit existing institutional policies and relevant laws that may further achieve optimal opportunities brought

by the possession of land titles. The following thoughts maybe considered to influence policy directions in the country.

First, the government should revise its mechanisms in awarding land titles to the informal settlers. It should begin with the reduction of limitations and restrictions in the use of land titles. In this manner, the awardees can fully maximize the potentials of their property rights. Second, the government should create strategies in preparing the awardees to receive their land titles. Education on the rights accorded to the property, opportunities available, and benefits of possessing land titles are some of the strategic options. Third, lending and microfinance institutions should be regulated by relevant agencies of the government to be more accessible to the poor through streamlining of requirements and process to avail capital and monetary instruments to those poor households.

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