



Deutscher Tropentag, October 8-10, 2003, Göttingen

“Technological and Institutional Innovations
for Sustainable Rural Development”

Property Rights and Land Tenure Security in El Salvador

ROLANDO KAPMEYER

Georg-August-Universität Göttingen, Tropenzentrum, Germany

Abstract

The proposition that legally secure and complete individual property rights over land boost investment has been examined in historical, theoretical and empirical literature. This proposition suggests that property rights are a key to unlocking economic growth in low-income economies. If legally insecure property rights weigh most heavily on low-income households, then public policy designed to enhance the security of individual property rights over land would seem to be a “win-win” policy scenario that promotes both economic growth and income equality. Therefore land titling programmes should enhance poor-households’ welfare by facilitating the use of land as collateral for credit access, and also for reducing the risk of losing land-fixed investment. The outcome depends critically on the way liberalized land and product markets functions in the existing world of imperfect rural markets.

This study analyses the impact of changing property rights on land in El Salvador, a country where major land reforms and policy reversals during the last three decades have cause widespread tenure insecurity. I develop theoretical and empirical arguments based on security of tenure as independent exogenous variable. Regression analysis is used to explore the channels through which property rights influence socio-economic outcomes.

It is found that formal land documents reduce tenure insecurity, enhance the value of land, encourage uptake of perennial crops and thereby boost crop yields. Formal title deeds are superior to land reform documents, in that the value of land increases. Land title has no effect on credit, contrary to common assumptions and there is statistically proved evidence that it results from two main issues: from the extra risk attached to former guerrilleros who supported a debt write-off in the years 1999 to 2000 and second from the fall in land prices which makes small parcels of land not usable as collateral. The results also show a strong and significant positive impact of tenure security on land-fixed investment, nonetheless the positive effect of tenure security on investment are dampened by an unfavourable liquidity constraint effect for households. Support for continuing the process of land titling appears justified on both equity and efficiency grounds.

Keywords: Credit, land reform, property rights