



Property Rights, Productivity, and Common Property Resources: Insights from Rural Cambodia ¹

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Summary. — This paper uses data from the 2003/04 Cambodia Household Socioeconomic Survey to investigate the effects of property rights to land. Plots held with a paper documenting ownership in rural Cambodia are found to have higher productivity and land values than other plots, while property rights have weak effects on access to credit. The paper also investigates whether the introduction of private property rights leads to decreased availability of common property resources. The data offers only weak support for this hypothesis. The general insight is that policies to strengthen land property rights can have important, positive effects on the rural economy, even in an environment of low state capacity.

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Key words — property rights, agriculture, common property resources, Asia, Cambodia

1. INTRODUCTION

Land rights in developing countries have received much attention in development policy and research in recent years. In the fiscal year 2004, the World Bank committed nearly one billion US\$ to land administration, land titling, and other land reform projects (Conning & Deb, 2007). Various studies have investigated the effect of land rights on agricultural investment and productivity.² This study contributes by investigating the effects of formal land rights, defined as government-issued land ownership documents, in a country where they have so far not been studied systematically, namely Cambodia.

Cambodia is an illuminating case study due to its special circumstances, and a priori it is unclear whether formal land rights can be expected to be effective. On the one hand, years of Khmer Rouge rule, civil war, and social upheaval have severely eroded traditional, informal institutions. In this context, we might expect the introduction of formal rights to be important. On the other hand, state capacity in Cambodia is weak. If the ability of authorities to enforce rights is limited, the introduction of formal rights may be ineffective. This paper analyzes the effects of formal property rights on owner-operated plots, which covers a large majority of agricul-

tural land in Cambodia. The results show that government-issued land ownership documents do in fact have a significant effect on the value of output in crop agriculture, and on land values. This paper attempts to investigate whether this effect works through the perceived tenure security (the “assurance effect”), through the credit market, or the land market. Results indicate that the main channel of causality is perceived tenure security. Land rights are found to have moderate effect on interest rates (households with formal rights pay less), although they have no effect on the propensity to use credit.

The study also investigates whether the spread of formal, private property rights leads to decreased availability of common property resources. This question has so far received little attention in the literature. It is particularly important in Cambodia, where natural resources are an important source of rural livelihoods. The data offer weak support for the idea

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that formal, private property rights lead to erosion of common property resources.

Section 2 discusses how property rights may affect agricultural outcomes. Section 3 describes the history of land property rights in Cambodia and Section 4 presents the data set and provides descriptive statistics. Section 5 investigates the effects of land rights on agricultural productivity. Endogeneity issues are taken into account through the use of a 2SLS estimator. Section 6 analyzes the effects of property rights on land values, while Section 7 investigates the channels of causation from land rights to productivity and land values. Section 8 tests the hypothesis of a negative effect of formal property rights on the availability of common property resources, and Section 9 concludes.

2. POTENTIAL EFFECTS OF PROPERTY RIGHTS

(a) *Theory*

Property rights have the potential to increase agricultural investment, and therefore productivity and land values, through at least three channels (Besley, 1995). First, property rights increase incentives to invest simply by increasing the confidence of the landowner that he will be able to reap the benefits from investment (the “assurance effect”). This channel might be important in Cambodia, where problems of tenure insecurity and land conflict are widespread. Massive social upheavals during the Khmer Rouge regime and decades of armed conflict have severely weakened traditional customs regulating land use, and modern institutions for handling land disputes remain weak (Cooper, 2004; Williams, 2000). Land grabs by powerful individuals are frequently reported (see, e.g., Phnom Penh Post, 2004, 2005, 2006a, 2006b, 2006c; Economist, 2007). LICADHO, an NGO that monitors land conflicts in 12 of Cambodia’s 24 provinces, reports that in the year 2005 alone, 9,832 families in those provinces were affected by land grabs, counting only the cases that started in 2005 (LICADHO, 2006, p. 3).

Property rights may also affect productivity by easing access to credit. In order to obtain a loan, the borrower is often required to provide collateral, and land is an excellent collateral. It cannot be moved and its quality can only be changed slowly. Auffret (2003) analyze determinants of productivity in Cambodian

agriculture, and found that credit constraints are the most important obstacle faced by farmers. Until recently, the outreach of formal credit institutions in Cambodia has been extremely weak, but the importance of not-for-profit “micro-finance institutions” (MFIs) has increased rapidly in recent years (IFC, 2006). In the year 2000 the largest of these institutions, ACLEDA, transformed itself into a for-profit bank, and since then it has continued to increase its number of borrowers in rural areas at a high pace. In 2004, when the survey data used in this paper were collected, ACLEDA had 122,000 active borrowers, with a large share of these in rural areas (ACLEDA, 2005). ACLEDA always takes collateral for loans, and so do many of the MFIs, such as PRASAC Murshid (forthcoming, chap. 9). Apart from this, it is also common for informal lenders to take collateral. Hence, a priori there appears to be some scope for property rights to affect productivity through the credit channel.

Finally, property rights can increase agricultural productivity by facilitating trade in land. The costs of organizing trade will be lower if clear and comprehensive property rights, including transfer rights, are defined for each plot of land. An active market for land potentially increases agricultural productivity by ensuring that land is held by those who can use it most productively. This relationship is conditional on the functioning of other markets, however. If markets for labor, capital, or insurance are imperfect, trade need not necessarily transfer land to the most productive households (Deininger & Feder, 2001, chap. 6). Land markets in rural Cambodia are active (Ballard & So, 2004). On the other hand, imperfections certainly also exist in complementary markets and the incidence of distress sales appears to be high. For example, Chan and Sarthi (2002) found in a study of nine villages that 50% of households who sold land did so to pay for health expenses.

(b) *Empirical evidence*

Empirical studies of the effects of property rights to land on agricultural outcomes have produced mixed results. Only one other, unpublished, study has investigated the effects of property rights in rural Cambodia econometrically. Deininger (2005) (cited in World Bank, 2006) used the same data set as the one used in this paper, and found that titles increase land values (measured as households’ own

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