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Land tenure security and investment incentives: puzzling evidence from Burkina Faso

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Abstract

The commonsense logic associating higher land security and higher incentives to invest has been recently called into question in the case of African agriculture. To be meaningful, empirical tests have to be carefully designed so as to take account of the possible endogeneity of the land rights variable. This is done in this paper by applying suitable econometric methods to the original data collected in Burkina Faso. The results obtained cast doubt on the existence of a systematic influence of land tenure security on investment. By reviewing the justifications for scepticism in the recent literature, we are able to conclude that the traditional village order, where it exists, provides the basic land rights required to stimulate small-scale investment. © 2002 Elsevier Science B.V. All rights reserved.

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1. Introduction

A central argument put forward by many economists in defence of full-fledged private property rights is that such rights enhance investment incentives (Demsetz, 1967; Ault and Rutman, 1979; De Alessi, 1980; Feder, 1987, 1993; Feder et al., 1988; Feder and Feeny,

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1991; Barzel, 1989; Libecap, 1989; Binswanger et al., 1995; Zimmerman and Carter, 1997; Feder and Nishio, 1997). It is emphasized, for example, by those who point to the necessity of establishing freehold titles to land in order to stimulate agricultural growth in sub-Saharan Africa (see, e.g., Johnson, 1972; Giri, 1983; Falloux, 1987; Firmin-Sellers, 1996). There are several forces making for a positive impact of individualistic property rights on investment. Broadly speaking, when such rights prevail, landowners are expected to be both more willing and more able to undertake investment.

They are more willing to invest for essentially two reasons. First, when farmers feel more secure in their right or ability to maintain long-term use over their land, the return on long-term land improvements and conservation measures is higher, and they have therefore a greater incentive to undertake investments. This is the 'assurance effect'. Second, when land can be more easily converted to liquid assets through sale (that is, when superior transfer rights have the effect of lowering the costs of exchange if the land is either rented or sold), improvements made through investment can be better realized, thereby increasing its expected return. Investment incentives are again enhanced (Besley, 1995: 910–912; Platteau, 1996: 36). This is the 'realizability effect'. On the other hand, farmers are more able to invest because, when freehold titles are established, land acquires collateral value and access to credit is easier. This 'collateralisation effect' is especially important regarding formal lending sources which often have imperfect information on the borrower (Feder and Nishio, 1997: 5).[1]

Verifying empirically the impact of land tenure security on investment behavior is a more difficult task than what may appear at first sight. The reason is that there is a causality problem of inferring from the existence of a significant relationship between tenure security and agricultural investment that causality actually runs from the former to the latter. Interestingly, such a problem arises both when tenure security is supported by legal titles and when it is enforced informally. When land is titled and when, moreover, title acquisition and title maintenance involve real expenditures, it is a priori possible that farmers tend to register land parcels that benefit from comparatively high levels of investment, or that registered farms are those which have better profitability conditions justifying such expenditures (Carter et al., 1994; Roth et al., 1994a). In this case, registration does not stimulate investment but is positively related to it.

When land rights remain informal, the causality problem arises from the fact that they may depend in part on past investments. In sub-Saharan Africa as well as in other countries with a recent history of land abundance, some land improvements, particularly the planting of trees, is a well-recognized method of enhancing tenure security for holders of temporary or fragile claims (see, e.g., Bruce, 1988; Noronha, 1985; Robertson, 1987; Atwood, 1990; Place and Hazell, 1993; Sjaastad and Bromley, 1997; De Zeeuw, 1997). Again, there exists a two-way relationship between land rights and investment.

[1] The 'ability to invest' effect can be framed as an incentive effect. Indeed, more individualistic land rights resulting in improved collateral options may be expected to reduce the equilibrium interest rate, and since the interest rate is set equal to the marginal productivity of capital invested in land, investment is stimulated (Besley, 1995: 909–910). More importantly, the increase in the farm's collateral value is likely to increase the amount it can borrow (perhaps from zero to some positive value). Either change in the conditions of credit supply will reduce the farmer's shadow price of capital (Carter et al., 1994: 155–156).