

Comments on  
“The Legal and Regulatory Requirements for  
Effective Rural Financial Markets”

*(with a focus on real property issues)*

*A presentation by Jolyne Sanjak  
during “Paving the Way Forard for Rural Finance”*

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# Summary View:

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- ✓ A very useful, comprehensive diagnostic
    - ✓ coverage, depth, and interesting examples
  
  - ✓ I share the authors' view on the importance of secured lending (moveable and non-moveable)
  
  - ✓ We differ in understanding of 'land titling'
    - ✓ right issues
    - ✓ clarify some interpretation of concepts and of programmatic responses
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Property Markets 1

Financial Markets 2

*'Buyers'*

*Borrowers*

Legal, Institutional and Informational Infrastructure  
... 'Property Registration' ... 3

*'Sellers'*

*Lenders*

# Context of Rural Land Markets:

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- inequitable land distribution (at least in LAC) and market segmentation
- tenure informality/irregularities and poorly functioning institutions yield high transactions costs
- lack of medium to long-term financial products
- inefficient use of land (extensive cattle operations, lack of irrigation, speculative uses of land)
- the lack of political will and social consensus
- culture ('the land is not merchandise'; foreclosure 'taboo'; sell only to kin or trusted persons)



# On the side of the lender:

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- They look for clients with capacity for repayment
  - They look for guarantees (real and moveable property and other types of collateral); secure, enforceable, liquid (market value and transferable without high transactions costs)
  - They need information to calculate and price risk
  - They require an adequate flow of capital (link to secondary markets)
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# On the side of the Borrower:

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- A need for credit for the acquisition of assets (e.g., land, machinery, etc.)
- A need for working capital
- A need for credit products that are tailored to the reality of agricultural production (natural risks and seasonal income flows) and for lower income levels



## *‘Property Rights Systems’*

refers to the laws defining land tenure including the assignment of rights through contracts; forms of ownership of moveable property and of enterprise; the institutions that record (both physical and legal attributes), authenticate and enforce such rights; and, all the complementary laws which affect the ability of one to exercise transactions with property rights.



# Proposed Clarifications for the Paper:

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- *‘Land Titling’ programs have evolved*
- *Regarding the illustrations of use rights*
- *On cadastre (multi-use; costs of)*
- *On systems that “penalize small rural land-use rights”*
- *Besides ‘land titling’ (complementary legal/regulatory reform; complementary and innovative approaches to rural finance)*

# Aside on the Impacts of Titling:

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- Greater tenure security? *Yes, generally, but not always (and, in many instances, even without title there is local tenure security)*
  - Increased investment in improvements to land? *Yes, we do observe an increase in longer-term, durable investments*
  - Greater access to credit? *Sometimes, but not as early promoters of title anticipated and not as immediately; depends on other factors too*
  - Increased market value of land? *Absolutely*
- ↳ *Effective governance of property --- 'titling' plus -- will amplify these results*
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# On Staschen's Comments:

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- secured lending seems to facilitates bigger loans, lower interest rates, and securitization -- *a continuum of risk management tools that includes 'titled' land as collateral*
- 'unwillingness to pay' parallels 'taboo' on enforcement of collateral -- agrarian reform era but anecdotes suggest new precedent -- 'cultural change?' -- Also, foreclosure is generally seen as a last recourse, recognizing the 'costs' to each party -- need for a credible threat
- rural finance part of broader financial market evolution and rural finance objectives go beyond microfinance and short-term financial needs ...as you say for SMEs and the longer-term, secured lending becomes more important --SMEs are quite important in ag/rural economy strategies

# Concluding Thoughts:

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- ✓ Continue to build effective property rights systems **that serve multiple purposes**
- ✓ Work on the **complementary elements** of the legal framework that enable title to market linkages
- ✓ Inform the design of information systems from **the client perspective**
- ✓ Expand **innovative financial product** availability with a wide variety of approaches to risk management - including but not limited to lending secured by real property.

*It is really too bad we haven't been having this conversation for the last half decade or more.*

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# *THANKS*

*I would welcome further opportunity to share with you materials, examples, and contacts so that we might work together at the nexus of two critical issues areas – finance and property.*

