

LEGAL AND INSTITUTIONAL IMPEDIMENTS TO THE DEVELOPMENT OF EFFICIENT LAND RENTAL MARKETS IN LATIN AMERICA

Karen Macours, Manuel Diaz, Javier Molina and Hector Robles

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1. Introduction

Access to land as an important mechanism for rural poverty reduction has regained a lot of attention and thoughts in the development policy world. In many Latin American countries in particular, high levels of rural poverty and the role social tensions resulting from the highly unequal land ownership distribution have played in some of the recent conflicts, have led to a renewed willingness to address the highly unequal access to land.

While redistributive land reforms, initiated in the 60s in many countries, as the “traditional” policy measures to provide access to land to the poor, can still play an important role, they are politically very demanding and therefore often not, or only on a relatively small scale, feasible. The market-based land distribution programs, as advocated and funded by the World Bank in more recent years, provide an interesting alternative, yet the high financial requirements linked to the loans to land purchases, might limit the scope of these programs too.

Despite the long history of policy interventions in the land markets in Latin America, the ownership distribution of land, as reflected in the Gini coefficients (see table 1), remains highly skewed. This unequal ownership distribution is, in Latin America, directly translated into an unequal access to land, as redistribution through land rental markets is limited, which contrasts sharply with the role of those markets in other parts of the world. Census data indicate that in Latin America typically around 5 to 15 % of the land is rented out, compared to 20 to 30 % in Asia, 40% in the US, and up to 67 % in Belgium.¹

The lack of land rental market activity in Latin America is of particular concern since it indicates a missed opportunity for efficiency, equity and dynamic gains, and hence for poverty reduction. Efficiency gains can result from making access to land flexible in response to evolving life cycle stages, changing opportunities for landowners, and idiosyncratic shocks. Furthermore, rental contracts can also help compensate for market failures to which tenants might be subject. E.g., access to land through fixed rent arrangements or sharecropping partnerships might sometimes be preferred in credit-constrained environments, as they allow farmers to invest in farming capital (machinery) rather than in the acquisition of land through the land sale market. Equity gains can result from helping the poor and young gain access to land under conditions that are less demanding than those required to participate in land sales markets. Finally, this access can be an entry point into an agricultural ladder leading to land ownership (Sadoulet et al, 2001; de Janvry et al, 2001).²

¹ There are a number of reasons to believe that the Census data underreport the actual share of rented land in Latin America (see section 4). However it is unlikely that underreporting completely explains the differences with other regions completely.

² It is furthermore important to note that many of the benefits typically associated with access to land in ownership, such as a source of income and food security can result as well from secure access to land in land rental market.

The results of several empirical studies that analyze the functioning of land rental markets in the Latin American context, are consistent with such an efficiency and equity enhancing role of land rental markets. Carter and Salgado (1998) show that in Paraguay, the land rental market is progressive, i.e. redistribute land from land-rich to land-poor households, which contrasts with the regressive nature of the land sales market. Progressive land rental markets are also found in the Dominican Republic (Macours, 2002) and Guatemala (Vakis, 2002). The results for Nicaragua (Deiniger and Chamorro, 2000) are consistent with land tenancy markets in enhancing equity and efficiency, as they transfer land to more efficient producers with lower land-labor ratios and higher profit levels. Coutinho et al. (1982) even report evidence of sharecropper's productivity in a particular region in Brazil being significantly higher than that of landowners. While there is no direct empirical evidence of the dynamic gains from land rental markets in Latin America, evidence from in other parts of the world is consistent with the existence of agricultural ladders (e.g. see Spilman (1919) for the US, and Ravenscroft (1999) for Italy).

Land rental markets in Latin America are not only small, but also characterized by a strong segmentation, with formal commercial rental on the one hand coexisting with contracting within narrow (local) circles of confidence, with a high level of informality (with very few written contracts) and short-term contracts, on the other. The fact that many contracts occur within narrow circles of confidence limits the efficiency and equity potential of the land rental markets, as large landowners rent out to other large landowners, and small to small, leading to only marginal improvements in the distribution of land (Carter and Chamorro, 2001).³ The informality of contracts, and in particular their short-term nature, also imposes severe restrictions, as it impedes investments on the rented land, causing sub-optimal use and depletion of the land quality (Bandiera, 2001). It is however important to point out that there exist also many success-stories of land rental in Latin America where institutional innovations have helped to relax some of the existing constraints. Furthermore, in many countries informal short-term contracting between families or friends, co-exist with more formal, commercial rentals. In a companion paper, we will analyze empirical evidence of several case studies in order to learn lessons from the successes.

This study aims at identifying the key impediments in the legal and institutional framework to the development of well-functioning land rental markets in 13 Latin American countries. We focus in particular on the main causes of insecurity of property rights as this has been identified to be an important cause of the limited development, the segmentation, and the informality that characterizes the land rental markets in Latin America (de Janvry et al., 2000, Macours, 2002).⁴ We investigate the reasons for the insecurity of property rights, not only focusing on the lack of registered titles, which is prevalent in many Latin American countries,

³ Within each strata, though, there can be a very dynamic transfer of lands and social mobility, e.g. small and medium landholders giving out lands, and poor tenants improving their conditions of living through access to those lands based on different type of arrangements (sharecropping contracts, grants, rentals). A problem of traditional-informal markets among the capital-poor landholders and tenants is access to other factors, and long term efficiency. For instance, in coffee producing ejidos in Veracruz, Mexico, landless peasants -through different traditional arrangements (fixed rents, sharecropping and land loans in exchange of labor, or just grants)- have rather extensive access to land, on which they can plant perennials such as coffee or citrus trees; at some point they are able to buy the land or sell the plants and buy land elsewhere (Díaz, 2000).

⁴ Security on property rights has also been argued to have important effects on incentives for efficient and sustainable land use, on the functioning of the land sales and on access to credit (Feder and Feeny, 1991). Deininger and Feder (2001) provide an overview of empirical studies analyzing the investment and credit effects of secure property rights.

but also on the existing legislation affecting property rights and land tenure arrangements and the institutions responsible for the implementation and enforcement of this legislation.

The lack of formal security of property rights, is especially important to investigate in the Latin American context, where absentee landownership, large urban-rural, rural-rural and international migration have often weakened the informal customary rules that governed property rights at the local level. While it is important to recognize that access to land is not always the most effective instrument to help the rural poor escape from poverty (Lopez and Valdez, 2000), the development of land rental markets becomes even more important in contexts where an often chosen path out of poverty might be to leave the rural areas: well functioning land rental markets where property rights are guaranteed will result in a win-win situation, with potential benefits for both the landowners who leave (as the rental income allows them to increase and diversify their income sources), and for those who chose to stay.

This study analyses the reasons for insecurity of property rights and the difficulties with contract enforcement in land rental markets in order to have a better understanding of the property rights and contract enforcement issues in rural markets in Latin America in general. In an era in which many Latin American rural markets become more and more integrated in global markets, there is a need to investigate ways to improve commercialization of agricultural products and vertical contracting with the agro-industry. The reliability and enforcement of contracts, and hence on the need for reliable conflict resolution mechanisms and property right guarantees is likely to play a key role in these processes.

2. Methodology

In order to identify the impediments to the development of a well-functioning land rental market, a questionnaire was sent to experts on agrarian law on 13 Latin American countries. These 13 countries were chosen to offer a heterogeneous picture in terms of income levels, importance of agriculture in the economy, and historical and institutional development. They represent different parts of Latin America, from Mexico, over Central America (Guatemala, Nicaragua, Honduras and Costa Rica), the countries at the Atlantic Coast (Colombia and Venezuela), the Andean countries (Ecuador and Peru), Brazil and the Southern cone (Argentina, Chile and Uruguay). The questionnaire contained questions on the different levels at which the legal and institutional framework in each country might create incentives or disincentives to rentals: 1) General weakness of property rights and enforcement of property rights; 2) Laws restricting or favoring rentals; 3) Laws protecting tenants and land occupants and 4) Lack of formal specification and enforcement of rental contracts.

The survey aimed at identifying the exact laws and court rulings, in order to obtain specific information for each case. Similarly, questions were posed to address the legal mechanisms for conflict resolution concerning land disputes as well as enforcement of contracts. In addition, some questions of opinion were added.

A report was written for each of the 13 countries, based on this questionnaire. In the rest of this paper, we refer to these as the “country reports”. To complement the qualitative information obtained from these country reports, we also draw on a series of land market studies initiated by CEPAL in 1999, and on secondary data sources (census data and the World Bank Business Environment survey) that are identified in the text and the tables.

To analyze the impediments to the development of well-functioning land rental markets, we distinguish between problems in the legislation itself on the one hand, and institutional problems leading to weak law enforcement or implementation, on the other. It is important to point out that other factors might affect supply and demand in land rental markets. The perception and knowledge of the legislation and the functioning of the institutions is likely to have a major impact both on landowners who are considering to rent out (supply) and on potential tenants considering to rent in (demand). The perceptions of “social justice” by potential tenants might be another factor limiting demand, as they might be unwilling to pay rents to people who are in their eyes illegitimate owners of the land. Also the need for a minimum endowment of other assets (machinery, production capital, etc.), the opportunity costs for both landowners and potential tenants, social customs, etc, ...are likely to affect the willingness to rent. While this study aims at identifying the legal and institutional impediments, this does not mean that we consider these other factors less important. The methodology used for this paper however, does not allow addressing these other factors. The policy recommendations of this paper hence also do not address some of these other impediments. This does not imply that we consider policies that could resolve e.g. the lack of minimum endowments of assets by potential tenants, such as group rentals, “assisted” land rental markets, or rental with the option to buy as less relevant or important.

In the rest of this paper we analyze the information provided by the legal experts. We first discuss the different factors in the legislation that are likely to influence land rentals in Section 3. In Section 4, we turn to the institutions that play an important role. Section 5 analyzes how those different legal and institutional factors explain the different characteristics of the land rental markets in Latin America, and finally Section 6 draws conclusions and indicates the policy recommendations.

3. Legislation

Table 1 summarizes the information on specific laws by country. We distinguish between legislation that clearly restricts land rental markets on the one hand, and laws that attempt to regulate land rental contracts directly on the other. We also discuss some key characteristics of the overall legal structure.

3.1. Restrictions

- Prohibitions

In a first category of legal impediments are laws that directly prohibit certain types of rentals and/or rental on certain types of land. While outright prohibition of fixed-rent contracts does not exist in any of the 13 countries, legislation in Ecuador and Honduras prohibits sharecropping contracts.⁵ Furthermore, in Argentina any contract with payments other than a fixed price or a fixed share are prohibited and in Chile rental to foreigners is prohibited in border areas, while rental of indigenous land is restricted to certain types of tenants. In other countries, such as Guatemala and Ecuador, rental is prohibited or strongly constrained in reserves or areas protected for environmental or national security reasons (borders, coastal land, islands, and other forms of public property) (Appendix 1).

⁵ In Honduras, there is however, one certain well-defined type of sharecropping contract that is allowed, i.e. the “contrato de coinversión” which has to be written and requires an actual payment of rent for the land, a specification of this rent, and of the share of inputs, benefits and losses in the contract.

- Limitations on Agrarian Reform Land

In many countries, there exists limitations on rental of land acquired through the Agrarian Reforms, going from outright permanent prohibition (Brazil), or prohibition without clearance from the agrarian reform institute (Uruguay), to temporary prohibition until the debts on the land are fully paid and a full title is acquired (Honduras, Nicaragua, Colombia and Costa Rica).⁶ In countries where the land titles were distributed to groups of beneficiaries, rather than to individuals, another problem that might arise is that the consensus of the whole group might be required before land can be rented out (e.g. in the Mexican ejidos) (see Appendix 2).

- Social Function of Land

The agrarian reform legislation in many countries also reflects the principle of the “social function” of land. This principle, that can be used to expropriate land that is not used according to its social function, is in fact still specifically acknowledged in the legislation (often in the Constitution itself) in all countries except Chile, Guatemala, Mexico, Peru and Nicaragua. While in some countries expropriation can only occur in certain, very well specified and limited cases and therefore does not tend to affect the rental markets (e.g. in Argentina and Uruguay), in the other countries, rules are much less clear and open for interpretation, causing a deterring effect on land rental. In Brazil, the threat of expropriation results from the fact that the legislation targets expropriation in areas with a lot of tenants, causes a similar, though less direct, effect. Finally, it is worth mentioning that the idea of the social function of land, as a key principle of the agrarian legislation for most of the past century, might still be very much alive in rural communities, and in the political agenda of many rural social movements (particularly of indigenous groups) even in those countries where it has been taken out of the legislation (e.g. Peru, Mexico, and Nicaragua), and is therefore still likely to affect decisions by the agents in the rental market (Appendix 3).

- Ownership Rights for Occupants

Almost all countries (except Honduras, Costa Rica, Nicaragua and Uruguay) grant ownership rights to occupants after a certain number of years of occupation and under certain conditions. Laws granting rights to occupants are often used to legalize informal titles or titles obtained through invasions or illegal occupations of land. While these laws can be an important instrument for titling programs, problems arise in those countries where occupation through rental agreements is not explicitly excluded (e.g. in Brazil) or where inappropriate application of these laws (due to unreliable or incomplete registers and judiciary) can de facto lead to granting property rights to tenants (e.g. in Guatemala and Ecuador). The informality of the rental contracts might contribute to this effect, as without written contracts, landowners might ex-post find it difficult to prove the rental nature of the occupation. The problems are also likely to be larger in those countries where property rights are granted after a short period of time (e.g. 5 years in Ecuador, Brazil and Mexico, compared to 20 years in Colombia) and without appropriate verification of the existing ownership claims (e.g. in Peru) (Appendix 4). The most severe problems exist in Venezuela and Bolivia (Munoz, 1999) where the agrarian law grants immediate permanent user rights to tenants, resulting in the unwillingness of landowners to rent out their land for fear of losing it, as well as in Brazil, where tenants are able to claim ownership both by legal and political means.

⁶ Note that de facto, such legal prohibition might not be relevant anymore, when, as for example in Nicaragua, the debts on all agrarian reform land have been cancelled.

3.2. Regulations

A second set of laws that affects the functioning of the land rental markets are different types of regulations that typically originate in the need to protect both landlords and tenants in a tenancy arrangement. In all countries, the legislation on agricultural land and the norms regulating land tenancy are in the first place determined by the general rules on real estate in the civil code, which usually does not distinguish between the different contractual forms (fixed rent, sharecropping, associative agreements, land loans in exchange for labor services, grassing and other types of concessions, etc.). In most countries in Latin America this legislation is heavily influenced by the Napoleonic code. In the 19th century, the Napoleonic code was imposed in the countries that were part of the French empire, and later voluntarily adopted, although with considerable modifications first in Haiti and the Dominican Republic, later in Chile and Bolivia. The civil codes in Brazil, Mexico and Peru that originate from the beginning of the 20th century on the other hand, incorporate a mixture of ideas from the German, the French and the Swiss civil codes.

Individual freedom, freedom of contracting and inviolability of property rights are fundamental principles of the Napoleonic code, which is reflected in the legislation affecting agricultural land in Latin America. The principle of protection of individual property, without any other limits than those imposed by the owners and the law, and the principle of autonomy of contracting for both parties, i.e. with the determination of contract terms left to the consensus of the two parties without regulation by law are reflected in the civil codes of most countries. Nevertheless, most countries do impose certain norms on the contracting, in order to both guarantee the security of property rights of the landlord, and sufficient protection for the tenant.

Furthermore, agrarian reform policies often introduced overprotecting measures in favor of tenants (Mexico, Bolivia, Ecuador, Brazil), that either persist or in spite of being removed from the agrarian legislation, persist in other secondary legislation, and make it time-consuming and very costly to reclaim property rights in case of tenancy conflicts.

- Rent Controls (Price, Duration and Size)

Table 1 shows that only Guatemala and Colombia have specific rent controls (i.e. maximum rent prices) in their legislation.⁷ In contrast with the tenancy regulations in many Western European countries, few Latin American countries regulate the minimum duration of rental contracts: only Argentina and Brazil impose minimum duration of 3 years for rental contracts and in Argentina, shorter (seasonal) contracts are allowed for a maximum period of 1 year (2 seasons), under the condition that those are not renewed with the same tenant. Interestingly, more countries define a maximum duration of rental contracts, varying from 10 years in Peru, Nicaragua and Argentina, to 15 years in Uruguay.⁸ In some countries maximum durations only apply to certain categories of land, with restrictions for land in indigenous communities in Chile of 5 years, and for agrarian reform land of 15 years in Costa Rica and 30 years in Mexico (although renewable).

⁷ Paraguay is another country with specific rent controls, i.e. 12 % of fiscal value of land for fixed rent contracts, 20% of products in sharecropping and 50% of landlord also puts in inputs, besides land (Molinas, 1999).

⁸ Uruguay has provisions for exceptional, priority investment cases: minimum-term (4-year contracts for milk production), short-term (annual sharecropping, etc.) and longer-term contracts (30-year contracts for catchments, etc.).

Costa Rica has ceilings on the surface that can be rented in, for land reform land, while Honduras puts limits on the total amount of land that can be cultivated by one household. By contrast, in Argentina a minimum size of plot has to be respected, that corresponds with a “productive economic unit”, as defined by each of the provinces. Uruguay has controls on minimum productivity required by type of land and crop, applicable to rentals. It is apparently the only country to formally allow land subcontracting (Appendix 5).

- Termination and Compensation Clauses

In a number of countries (Ecuador, Guatemala, Honduras, Uruguay and Mexico), registration of the contracts is obligatory (Appendix 6), and often the law specifies the minimum set of conditions that needs to be specified in the contracts, such as the termination clauses, the form, amount or share of payment and compensation terms.⁹ Furthermore, often the Civil Code itself contains a number of articles that regulate some of these issues, independent of whether there is a written contract or not: e.g. in Uruguay, tenants are protected against early eviction for 1 year, or in case of non-compliance for 60 days. In Honduras, early termination of a rental contract is only possible because of non-payment by the tenant, of the necessity of doing reparations or by juridical order. In Nicaragua, contracts cannot be terminated before the harvest of the products, and in Colombia, compensation for damage is specified in the laws.

Interestingly, in all countries analyzed in this study, either the law or the individual contracts, specify termination clauses (except for Venezuela) and rules for compensation of the residual value of investments are made by the tenant (except for Costa Rica in the non-agrarian reform sector, Venezuela and Mexico).

3.3. Legal Structure

Apart from the specific laws discussed above, the overall legal framework itself can cause property rights insecurity, because of inconsistencies between the different parts of the legislation, or because of the lack of constitutional guarantees against frequent changes in laws, allowing political instability to spill over into juridical insecurity.

- Inconsistencies

While the land markets in Latin America were originally regulated by the general rules of real estate in the civil code, important legal changes occurred in the 20th century. Mexico, together with Italy, were among the first countries to introduce an agrarian juridical system, independent of the civil code, in 1917. The evolution of agrarian law in Mexico was strongly influenced by the fight for land during the revolution, which explains the three basic principles in article 27 of the constitution on property rights: 1) property originates with the State, and hence the State can impose limits on property in the public interest; (2) right of land restitution for the indigenous and of access to land for the campesinos for subsistence; and (3) the importance of the social use of land and of the rural community. Inspired by the Mexican example, many Latin American countries, created special agrarian laws during the 20th century, often as the cornerstone for redistributive agrarian reforms.

Hence, while the Napoleonic code starts from the fundamental principle of private property, the agrarian laws in Mexico, and the adaptations in other countries start from the very

⁹ When registration might be *formally* compulsory, it is not necessarily *constitutive* of rights, as some countries allow –ordinarily or extraordinarily- verbal trials.

different principle that property originates with the nation. The coexistence of the civil code and the agrarian laws is hence bound to lead to a number of inconsistencies between the legislations. In Mexico, the reform sector is regulated by the agrarian law, while the non-reform sector is regulated by the civil code. The problems of inconsistencies between the two are mainly limited to issues where they overlap, such as border issues. However, in other countries, the agrarian laws apply for all agricultural land, and contradictions and inconsistencies between the two systems leave a lot of space for interpretation, and hence uncertainty and insecurity.

While some countries have gone through legislative reforms in the beginning of the 90s and either abolished the agrarian reform laws (Peru) or corrected some of the deficiencies (Argentina, Uruguay, Chile, Costa Rica and Colombia), the inconsistencies are still very acute in other countries (e.g. Brazil where two conflicting bodies of agrarian legislation cohabit), or have even been aggravated in the most recent legislation, such as the adoption of a truncated new agrarian law in Venezuela in December, 2001.

It has also been documented by Deininger, Diaz and Lavadenz (2001) that many inconsistencies remain in Mexico, even after the 1992 constitutional reform of article 27 in Mexico which was meant to boost land markets and investment in rural areas. Ejido property rights are limited (ejido land given as collateral cannot be traded in, land transactions can only apply among entitled ejido members, etc.), while institutional barriers do persist for ejidos to adopt *dominio pleno* (full property rights). In terms of land contracts, agrarian legislation is lacking and many laws have subsidiary application (civil, commercial, environmental, fiscal, etc.)

Some countries also have contradictions in legislation, originating from the subsequent adoption of different types of property right regimes through history. E.g. in the Dominican Republic (DR), property rights were originally regulated by Napoleonic-type civil code, in which property rights fundamentally result from possession. However, in the beginning of the 20th Century, during the American occupation, the “Torrens” system was adopted, where property rights fundamentally result from title, not from possession. Because the civil code remained in place, this clearly results in inconsistencies, and multiple possibilities for contradicting claims over the same plot of land. The situation in the DR was further aggravated with the agrarian reform legislation in the 60s, leading to yet another type of title (agrarian reform title) for beneficiaries of land, that was often not appropriately expropriated, and hence with previous owners still having titles to the land (Gil, 2000). Superposition of titles, resulting from different phases of agrarian reform is also very acute in Nicaragua.

Finally, many countries have some form of communal ownership of land, which itself does not fit into a legislation based on the Napoleonic Code, that fundamentally starts from private ownership. This causes problems, e.g. in Peru, as the civil code does not provide rules for conflict resolution between members of the community (Zegarra Mendez, 1999).

- Frequent changes in laws.

The country studies of Venezuela, Peru, and Argentina identified the possibility of frequent changes in laws as a major reason for uncertainty and insecurity of property rights. Such frequent changes result from the opportunity for every new government to change the laws according to its specific interests, and even to “generate” specific laws, e.g. in cases of expropriation in Paraguay (Molinas Vega, 1999). Costa Rica offers an interesting counterexample, as it adopted a mechanism that limits the possibility of frequent,

opportunistic law changes. The Sala Constitucional checks all new legislation for consistency with the Constitution, and hence increases legal security, and eliminating arbitrariness in jurisdiction.¹⁰

4. Institutions

We now turn to institutional features determining the implementation and enforcement of the existing laws. We focus in particular on the juridical system and the land administration organizations as the key institutions affecting the land rental markets.

It is however important to point out that there also informal institutions in which property rights are embedded. In many circumstances, local social capital can substitute for court systems and registered title, as an enforcement mechanism to guarantee security of property rights (e.g. Katz, 1999). This tends to be especially the case in homogeneous rural communities, where customary rights, based on long traditions of common pool resource management, are respected and enforced. The role of social capital as an enforcement mechanism is however likely to decline where increases in absentee landownership, out-migration due to rural-urban migration (e.g. Mexico, Brazil) and immigration due to rural-rural movements (e.g. Guatemala and Colombia) distort the social fabric.¹¹

4.1. Juridical System

Major problems with the implementation and enforcement of the laws by the juridical system were identified as major obstacles in all countries, except Uruguay, where there are special lawsuits to deal with tenancy conflicts. Procedures for conflict resolution are typically regulated by the civil code, which in all countries foresees a judicial resolution, but in some cases also defines possibilities for resolution through conciliation (e.g. in Mexico, Uruguay and Argentina), or arbitration (e.g. Mexico, Costa Rica, Chile, Peru). Despite these legal provisions, problems often arise with the actual implementation.

The country case studies show that juridical systems tend to suffer from a lack of accessibility, high costs, slowness, and in many countries also from corruption, arbitrariness or political capture. In the cases of Brazil, Ecuador, Honduras, Nicaragua and Peru, the costs and slowness of the juridical system were identified as a major constraint for the development of the land rental markets.

In Table 2, we report some indicators of quality of the government and courts, of corruption and of the predictability of laws and regulations from the World Bank Business Environment Survey.¹² The indicators show institutional low quality in Ecuador and especially in

¹⁰ Another mechanism that limits frequent law changes is a “constitutional lock” that prevents laws from being changed within 2 years of the adoption of the law.

¹¹ Furthermore social capital may serve different purposes, either enhancing markets functioning (trust in land contracting, risk sharing arrangements, collective action in favor of law enforcement) or preventing freer transfer of property rights (moral sanctions against rentals and profit making, discrimination against women, ethnic minorities and outsiders, etc.) (Putzel, 1999).

¹² This is a survey specifically designed to collect data from a sample of firms in the manufacturing and services sectors in each country, to compare indicators of constraints facing businesses across countries. The firms sampled are in the manufacturing and services sectors, and do not include farms, and therefore need to be interpreted carefully in the context of our study. Nevertheless, they might be a – be it rough- indicator of the overall perception of quality of institutions in the countries under study.

Venezuela, Chile, Costa Rica and Uruguay seem to have relatively better institutions. The affordability of courts shows a similar pattern, with Nicaragua, Peru, Brazil and Argentina also scoring low. Brazil and Argentina seem to have particular slow court systems. An ill-functioning juridical system with limited credibility clearly impedes adequate conflict resolution, increasing property rights insecurity.

Creation of local institutions specifically designed for resolving land related conflicts, such as CONTIERRA in Guatemala, could help reduce this insecurity. Local institutions such as the local agrarian tribunals and an ombudsman-type institution, Procuradaria Agraria, created in Mexico as part of the 1992 reforms, can help balance the interests of the economically weak with the interests of state authority and economic powerful agents. The Procuradaria Agraria is charged with functions of an agrarian attorney, legal defense and assistance, and representation in favor of the rural poor.

Another interesting example is the case of local guarantee mechanisms for group rentals in Uberaba (Brazil), which is worth further investigation. In Uberaba, a system of land rental auctions was also set up, helping to resolve asymmetric information on supply and demand, in a region with a lot of absentee landowners.

Finally, local leaders or NGOs can play a role in the resolution of conflicts at the local level. For example, in Guatemala, conflicts that do not extend beyond the borders of communities, are often resolved with the intervention of village elders, while the Mesa de Conciliación de Conflictos de Tierra en Alta Verapaz unites representatives of different classes and interests groups to mediate in larger conflicts. In Ecuador, the NGO CARE has helped with the formation of paralegal leaders to help resolve land conflicts. Also in Nicaragua NGO's (e.g. IRAM) have promoted the existing systems of conflict mediation by local leaders.

4.2. Land Administration

Weak land administration institutions are another major factor that increase property rights insecurity, when they fail to provide certainty on who exercises the property rights over land and/or exact identification of the plots. For all countries in the study, except Uruguay, problems with the lack of actualized titles were identified. While in some countries, such as Argentina, Chile, Colombia and Costa Rica, problems are concentrated in certain regions of the country only, or in certain sectors (commons and private property in Mexico), in most countries lack of titling is a more widespread phenomenon. In countries such as Peru, Guatemala, Honduras, Venezuela and Ecuador, even a large majority of agricultural land does not have a regularized and actualized title, registered in the property registry (see Table 2). Furthermore, in few countries there is a sufficient and up-to-date coverage of agricultural land in the cadastral register. The lack of registration and actualization of property titles, does not only increase tenure insecurity, because it leaves possibilities for countervailing claims on land, but also because it leads to information and transparency problems.

The problems with the land administration start in a lot of countries with the lack of specific obligation to register land (or lack of enforcement of such obligation, where it exists – see Table 1).¹³ This lack of compulsory registration is particularly important given the high costs

¹³ It is important to distinguish between the formal obligation of registry and *constitutive* registry. In the first case, property rights are recognized even when not registered, but protection against third party interests may not be provided by the state. In the second case, property does not exist without a public title for all legal purposes.

that are often associated with registering a plot of land: those costs are not only related to the administrative fees that often need to be paid, but also to the wages of lawyers or notaries. The services of such professionals are often indispensable due to the complexity and lack of transparency of the land administration. Furthermore, land administration organizations are often very centralized with offices only in the capital city, further decreasing access and increasing costs of registration. Finally, registration of land might imply the obligation of paying land taxes (e.g. in Colombia), which is likely to discourage registration.¹⁴

Even when titles are registered in the registry, an additional problem arises from the lack of appropriate specification of the plot characteristics, such as its exact borders. A lack of automatic linkages between the property register and the cadastral register lies at the origin of this problem.

Furthermore, the problem of actualization is often even larger in the cadastral register, which often reflects measurements of plots at a certain point in time, but is not appropriately adjusted in case of subdivisions or border adjustment, even although these might be reported in the property registry. In many cases, even this reporting of subdivisions to the registry does not occur, e.g. in case of inheritance, with the titles often remaining undivided, while the plots might de facto, be split up.

While the problems with regularization and titling have been recognized in most LA countries, programs specifically designed to resolve these problems, often with the strong support of multilateral or bilateral donors, have typically been slow and have encountered a number of shortcomings. This is partly due to the complexity of defining property rights – from a legal, technical and political point of view- in many Latin American countries, resulting from the limited legitimacy and legal inconsistencies of property rights systems, weak institutional support and persistent clashing claims among rural unemployed, indigenous peoples, colonizers, agribusiness and peri-urban actors (marginalized dwellers, housing authorities and real estate businesses). Tenancy insecurity often results because there exists multiple claimants for the same plots of land: e.g. in Nicaragua superposition of different types of “titles” is common, with superposition of land reform titles with registered titles (due to inappropriate expropriations during the agrarian reforms), or registered titles competing with customary rights (e.g. of indigenous groups) or with titles obtained through prescription. In Mexico, PROCEDE¹⁵ has confronted many problems in indigenous peoples’ lands, forest, coastal and peri-urban areas. High operation costs, slow bureaucracy, long-lasting legal procedures and disputes, as well as political opposition, all are problems that have made PROCEDE’s completion elusive. Sustainable regularization of such situations often demands complex conflict resolution, a lot of time and funding. Given the complexity of the issues at hand, it is not surprising that corruption and political capture is often a major problem for the regularization efforts.

¹⁴ However, the example of Bolivia shows that tax policies do not necessarily lead to more informality, as tax payments there are a manner guaranteeing property rights, while not paying taxes for 2 years can induce expropriation (Munoz, 1999).

¹⁵ Regularization and titling program for ejido and community lands (started in 1993).

5. Explaining the Characteristics of Land Rental Markets in Latin America

5.1. Rental Level

The development of the land rental market in the countries included in this study is illustrated in Table 3. The data, taken from national censuses, show that the share of land that is rented out to others is less than 5% in all countries, except Uruguay (12.2%) and is lowest in Peru (0.9%) and Venezuela (1.7%). A similar pattern is found when looking at the share of holdings rented from others. In all the countries analyzed, interestingly, the share of holdings rented from other land for which the data were available, is higher than the share of the land that is rented out to others. This suggests that land rental is often constrained to relative small plots of land. The difference between the share of area and the share of holdings is particularly large for Brazil and Guatemala.

However, there are a number of reasons to believe that this data is underreporting the extent of indirect and informal access to land, and should be considered as a lower bound. First of all, the share of land in holdings that are not owned or in owner-like possession, is much higher in all countries. While this category might include other types of land, such as land in community ownership (e.g. in Peru a large share of this category is land in tribal holdings or traditional form of tenure), it likely also includes land in rental contracts, different than fixed rent. Tenancy arrangements in national property, protected areas, land reform sector, and common access lands, are usually underreported due to legal sanctions or the lack of sound categories to register tenancy arrangements (different types of sharecropping, transactions among non-titled and illegal occupants, illegal crops, informal agribusinesses). Secondly, the census data is collected by holdings (economic units of production), and often do not allow to distinguish how much land is rented if the holdings have more than one tenure type (e.g. in the case of owning land and renting additional land, the census data often do not report how much land is in each tenure category; this is the case of Mexico where ejido parcels are made out of 2 to 5 plots of land, apart from common use lands and non-ejido properties, which are usually treated as one piece of land). Therefore, the sum of all land not in ownership and of all land in holdings with more than one tenure type, can be considered as an upper bound of the reported share of land rented out. Table 3 shows that those upper bounds still show the highest share for Uruguay, followed by Venezuela, Argentina and Chile.¹⁶ Finally, underreporting might also result from certain rental prohibitions. Table 3 also shows the importance of underused land, as reported in the country case studies. In all countries except Costa Rica, Argentina, Chile and Uruguay, there was a lot of underused land.

If we try to relate these comparative statistics back to the legal and institutional factors affecting the land rental markets, it is useful to distinguish between factors that affect supply (i.e. the choice of the landowners to rent out), demand (i.e. the choice of the tenants to rent in) or both. The laws that impose prohibitions on certain types of rental contracts or restrictions on agrarian reform land will clearly have a negative effect on both supply and demand. In countries where laws granting prescription rights do not specifically exclude possession through tenancy (de jure and de facto), they are likely to have a negative effect on supply. Also the effect of laws on the social function of land depends on the exact specifications, with a positive effect on supply in countries where renting out land can be used

¹⁶ In some countries land obtained from squatting is not considered as land in ownership like possession (e.g. for Paraguay the distinction was made explicitly). This could explain the relatively high share of rented land in Venezuela.

to avoid expropriation, and a negative effect on supply in countries where renting is taken as a signal of inappropriate use.

The effect of laws regulating land rental on the functioning of the land rental market is more ambiguous. While it has been argued that certain regulations need to be in place (FAO, 1999) for land rental markets to function properly, there are also potential negative effects: (1) restrictive regulations might decrease the willingness to rent on the supply or the demand side; (2) restrictive regulations might also lead to more informality in the land tenancy contracts as a way of circumventing the rules imposed by law (3) negative equity effects where reforms are implemented within weak institutional frameworks (limited information and low participation), and not complemented by measures to balance power asymmetries.

The inconsistencies and the frequent changes in laws, as well as the institutional weaknesses, are likely to have a negative effect on supply and demand, as they increase uncertainty and hence insecurity of property rights.

5.2. Informality

An important additional reason to believe that the share of land rented out is underreported is the informality that characterizes a lot of land tenancy in Latin America. Landowners or tenants might not report that they are renting land because it might be prohibited under certain forms (e.g. sharecropping in Ecuador), or because the rental agreements are verbal and informal.

The informality of a lot of rental agreements was reported in many of the country studies, and it is an important characteristic of the land rental markets in Latin America. It was specifically mentioned as one of the constraining factors of a better functioning of the land rental markets in the country case studies of Honduras, Guatemala, Colombia, Peru, Nicaragua, Costa Rica, Brazil and Ecuador. The formalization of contracts can help to prevent conflicts or facilitate their resolution as they leave less room for reinterpretations of the terms of the contract. In Mexico, despite the new legal framework to rent ejido lands, informality is still widespread, making a case for further institutional adjustments in terms of both, enforcement mechanisms and incentives to comply with applicable norms (public register, agrarian, environment, labor, civil laws).

A number of the factors discussed in this study are likely to be partly responsible for the informality of many contracts. The legislation that prohibits certain types of contracts or restricts rental in land of the agrarian reform will induce informality. The laws specifying excessive or inappropriate regulations are likely to increase informality, as that might offer a way around the imposed regulations.¹⁷ Lastarria-Cornhiel and Melmed-Sanjak (1999) report for example on how the legislation regulating tenancy arrangements in order to protect tenants in Argentina in the 40s induced landowners to evict existing tenants and revert to verbal short term contracts.¹⁸ Laws on prescription rights on the other hand, as well as the inconsistencies in the legislation, are likely to increase informality, as a written contract offers more protection for the landowner.

¹⁷ Other reasons for the frequency of informal contracts might be the cost of registering, the lack of titles and high levels of illiteracy in the rural areas of some countries.

¹⁸ Similar reactions to restrictive tenancy laws have also been widely documented for India.

5.3. Segmentation

Informal contracts are likely to be correlated with trading within narrow local circles of confidence, often impeding a more efficient reallocation of land. Trading within circles of confidence can also explain the segmentation in the land rental market (with poor renting to poor and rich to rich) as a key characteristic of the land rental markets in Latin America (Honduras, Nicaragua, Colombia, Peru and Ecuador). The segmentation in the land market is particularly problematic as it severely constraints access to land for the poor and landless. Segmentation will result from all the factors identified in this study that increase the insecurity of property rights. In sum, the more insecure landowners are, the more they are likely to restrict rental within narrow local circles of confidence (and along class lines) where people know and trust each other.

5.4. Short-Term Contracts

The different factors increasing tenure security, can also help to explain the short-term nature of many land rental contracts. In particular, laws granting boundless possession rights to long-term occupants are likely to restrict the duration of rental contracts strongly, and induce landowners to change the tenants on their plots frequently. An additional reason for the short terms of many contracts might be the speculative ownership of land, as landowners will want to keep the flexibility to sell their land in short time spans. Also agribusiness might put a premium to land access flexibility rather than to long term land access certainty, due to the changing nature of global markets. In northern Mexico, mining agriculture, short-term and informal land contracting are practiced by export businesses, seeking several advantages: first, lower taxes as well as environment and labor regulations dodging; second, more flexible adjustments to demand in the vegetable and fruit sector (short cycle and seasonally adjusting demand).

6. Conclusions and Policy Recommendations

This study has illustrated the large diversity among countries in terms of legislation and institutions affecting land rental markets. The discussion of the problems with the actual legislation shows that, while arguably no country has the perfect legal set up, the overall legal framework in Uruguay, Chile, Guatemala, Mexico, Nicaragua and Peru is largely consistent with a well-functioning land rental markets. On the other hand, the legislation in Brazil, Ecuador, Honduras, and Venezuela contains important constraints for the development of an efficient land rental market. Considering the overall institutional framework of the different countries, we can conclude that all, except Uruguay, have institutional problems that are constraining the development of the land rental market. While problems in countries such as Chile, Argentina, Costa Rica or Mexico are relatively minor, in countries such as Colombia, Nicaragua and Peru the development of an efficient land rental market is, despite a legislation that is largely favorable, seriously constrained due to institutional weaknesses.

The findings of this study point to some important recommendations for land policy in Latin America. For those countries that have major legislative impediments to the land rental markets, a throughout revision of property rights related laws seems imperative. A reconsideration of the laws prohibiting certain types of rental agreements or associative contracts and restrictions on rental for land reform land would be an important first step.

Recent efforts in Brazil, to make legislative changes that would allow for group rentals by landless peasants in land consortia and condominiums, offer an interesting example.

The legislation, originating from the land reform efforts, such as laws granting possession rights for occupants and laws on the social function of land, should be carefully analyzed for its potential adverse effects on the land rental market, and adjusted where necessary. Finally, inconsistencies between the different set of laws existing within one country should be eliminated and constitutional guarantees against frequent changes in laws need to be put in place. For any revision of the legislation to be effective, it is crucial that it accounts for the social and political complexities of each Latin American country, making room for wide consultation and participation in order to reflect the informal and segmented nature of many of the tenancy arrangements, which are embedded in social relations and institutions. In addition, there has to be a set of provisions for narrowing down faulty implementation of new laws, that is, visible improvements in law enforcement.

Also the legislation that regulates price, duration, size, termination and compensation for land rental agreements should be carefully analyzed in each country, setting clear rights and obligations for both landlords and tenants (exit and non-fulfillment penalties, tenant protection against third party claims and unlawful eviction, termination clause, compensation for land improvements, dispute resolution, etc.).

While acknowledging that the particularities of each country demands different strategies regarding legislative reforms for each country, it would nevertheless be worth to investigate the impacts of and potential lessons from the legislative reforms in Uruguay in 1991, as they reduced restrictions and regulations of land rental contracts by the state considerably. Among other things, more forceful legislation and monitoring mechanisms were put in place to create credible sanctions against unsustainable practices, as well as incentives for long-term, capital improving land rentals.

This study has pointed to the fact that the major impediments to develop secure property rights that will facilitate the land rental market are the institutional weaknesses. In terms of policy recommendations, a distinction can be made between long-term and short-term measures to improve property right security. On the long run, reaching coverage and permanent actualization of the land registries and cadastral registers could contribute importantly to improved tenure security. For example, making land registration compulsory by law should be an important step in this direction as well as creating linkages between the property registers and the cadastral registers, enabling automatic updating in these two institutions simultaneously. In the short run, however, solutions might need to be less ambitious and focusing on measures at the local level. These measures could increase confidence and hence tenure security. Simplification of procedures and decentralization of both the land administration institutions and law enforcement mechanisms is likely to solve some of the main shortcomings that were identified.

While decentralization could help to increase access, high institutional costs of running a decentralized system of courts often prohibits its implementation. New mechanisms such as setting up first-instance local courts where they are most needed -when possible- or itinerant and verbal hearings, apart from paralegal mechanisms of conflict resolution might be good alternatives.

Reliable local conflicts resolution mechanisms could be an important step in improving accessibility, transparency and speed of property rights enforcement. While there is a potential problem of local agents (local courts, police, village leaders and the like) being biased against tenants or owners, granting the authority for conflict resolution to an elected leader might help to resolve this. More importantly even, is the integration of the local conflict resolution mechanisms in the national (juridical) system, enabling the possibilities to appeal and hence decrease the possibilities of political capture on the local level.

In order to decrease the informality of many tenancy arrangements, the design of a set of standard contracts, from which landlords and tenants would be able to pick, is worth exploring. These contracts should contain the minimum guarantees for both landlords and tenants, while at the same time being flexible enough to be appropriate in different settings and conditions. The adoption of such standard contracts, and the formalization of rental contracts in general could be encouraged by providing incentives, such as tax exemptions and/or subsidized titling (when justified) to the landowners. Where informality of contracts is a result of low levels of education or lack of knowledge, systems of legal assistance, information and training for managing land contracts could be put in place, which might help to guarantee more secure access to land through rental for the poor.

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Table 1: Development of the land rental markets in 11 LA countries*

	Honduras (1993)	Guatemala (1979)	Colombia (1988)	Peru (1994)	Costa Rica (1980)	Mexico (1991)	Argentina (1988)	Brazil (1996)	Chile (1997)	Uruguay (1990)	Venezuela (1997)
% area of rented land	2.4	4.4	2.6	0.9	4.2	2.4	4.6	3.3	3	12.2	1.7
% area NOT in owned/ownerlike possession	15.2	-	11.4	9.9 ^a	-	4.2	7.9	6.2	5.2	14.1	24.2
% area not owned or with more than 1 tenure	15.2	-	15	12.5 ^a	-	4.2	24.5	6.2	19.8	42.7	25.2
% holdings rented from others	-	11.8	5.9	2.3	-	-	6.9	11.2	4.5	16.2	3
% holdings NOT in owned/ownerlike possession	-	-	13.4	29 ^a	-	-	13.4	25.8	13.5	24.4	51.7
% holdings not owned or with more than 1 tenure	-	-	17.4	36.5 ^a	-	-	27.8	25.8	24.9	42.7	52.6
Importance of underused land	a lot	a lot	a lot	a lot	some	a lot	some	a lot	some	some	a lot
Land Gini	76.5	85.3	82.9	92.3	80.63	60.66	85.62	84.1	-	81.3	91.7

- : missing

* : Data for Nicaragua and Ecuador were not available

^a: includes holdings under tribal or traditional form of tenure (22.8% of holdings and 6.9 % of area)

Source: % holdings and area: Agricultural Censuses; Importance underused land: country reports; land Gini: Deininger and Olinto (2000)

Table 2: Laws affecting the functioning of the land rental markets

	Argentina	Brazil	Chile	Colombia	Costa Rica	Ecuador	Guatemala	Honduras	Mexico	Nicaragua	Peru	Uruguay	Venezuela
LEGAL RESTRICTIONS													
Restrictions fixed rent contracts	no	no	no ⁴	no	no	no	no	no	no	no	no	no	no
" on AR land permanent	no	yes	n.a.	no	no	no	no	no	no	no	no	yes ¹³	-
" on AR land: temporary	no	yes	n.a.	yes	yes	no	no	yes	no	yes	no	yes ¹³	-
Restrictions sharecropping	yes ¹	no	no ⁴	no	no	yes	no	yes ⁸	no	no	no	no	no
" on AR land permanent	yes ¹	yes	n.a.	no	no	yes	no	yes ⁸	no	no	no	yes ¹³	-
" on AR land: temporary	yes ¹	yes	n.a.	yes	yes	yes	no	yes	no	yes	no	yes ¹³	-
LR titles incomplete/provisional	no	yes	no	yes	yes	yes	yes	yes	no	yes	yes	no	yes
Social functions of land	yes	yes	no	yes	yes	yes	no	yes	no	no	no	yes ¹⁴	yes
Social function deter rental	no	no	n.a.	yes	yes	yes	n.a.	yes	n.a.	n.a.	n.a.	no	yes
Threat of expropriation	no	yes	no	no	yes	yes	no	yes	no	no	no	no	yes
Possession rights for occupants	yes	yes	yes	yes	no	yes	yes	yes	no	no	yes ¹¹	no	yes
LEGAL REGULATIONS													
Rent control	no	no	no	yes	no	no	yes ⁷	no	no	no	no	no	no
Ceiling on land cultivation	no	no	no	no	yes ⁶	no	no	yes	no	no	no ¹²	no	yes
Min length contract	3 years ²	3 years	no	no	no	no	no	no	no	no	no	no ¹⁵	no
Max length	10 years ²	no	no ⁵	no	yes ⁶	no	no	no ⁹	30 years ¹⁰	10 years	10 years	15 years	no
Registration land title obligatory	-	no	-	-	yes	yes	yes	-	yes	-	no	yes	-
Registration contract obligatory	yes ³	no	no	no	no	yes	yes	yes	yes	no	no	yes	no ¹⁶
Termination clauses specified	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	no
Compensation specified	yes	yes	yes	yes	yes ⁶	yes	yes	yes	no	yes	yes	yes	no

n.a. : not applicable

- : missing answer

¹: Contracts with any payments different than a fixed price and/or a fixed share (e.g. labor services, prestamos,...) are prohibited

²: But exceptions: 20 years in case of improvements on the land; shorter (season) contracts allowed for 1 year (2 crops), and not renewed with the same person

³: For contracts higher than certain value

⁴: subleasing prohibited; renting in border areas prohibited and rental of indigenous land limited

⁵: except for land in indigenous communities (5 years)

⁶: only for land reform land

⁷: Maximum price is set for fixed rent contracts; sharecropping contracts are regulated by the customary rules of the communities.

⁸: only form of sharecropping that is "contrato de coinversion" allowed if written, rent for the land, share of inputs and benefits and losses specified (hence no share of products)

⁹: except for if owner is child: 5 years

¹⁰: only in reform sector

¹¹: although officially rental excluded, in practise this does constitute a threat

¹²: there is a law on taxes to be paid for cultivation over 3000 ha, but to-date, not yet specified how much - does increase insecurity

¹³: need authorization of the RA institute to transfer land obtained through the Ley de Colonization (?)

¹⁴: Law of Colonization does specify that after first satisfying a number of other priority criteria, priority is given to land of absentee owners, or not used by the landowner himself.

¹⁵: there is a minimum period of 4 years for for milk production; but there are a different types of short-term contracts possible

¹⁶: only have to register it if more than 6 years

Table 3: Indicators of institutional quality

	Argentina	Brazil	Chile	Colombia	Costa Rica	Ecuador	Guatemala	Honduras	Mexico	Nicaragua	Peru	Uruguay	Venezuela
Land not formally registered ^a	some	some	some	some	few	a lot	a lot	a lot	a lot	a lot	a lot	none	a lot
Titles not updated ^a	some	a lot	some	some	few	a lot	a lot	a lot	some	a lot	a lot	none	a lot
% land without title ^a	-	30	20-36	13	-	-	-	75	-	70	50-78	~0	-
Quality of central government ^b	3.6	3.5	3.6	3.4	2.9	4.3	2.9	2.8	3.3	3.9	3.0	2.8	3.6
Predictability of laws and regulations ^b	3.8	4.2	3.0	4.2	3.3	4.1	3.6	3.4	3.9	3.7	3.4	3.3	4.4
Corruption ^b	2.6	2.5	1.9	2.8	2.5	3.5	2.6	2.8	3.3	2.9	2.8	2.1	3.0
Courts: overall quality ^b	4.2	4.3	3.5	4.1	3.5	4.3	4.3	3.8	3.9	3.9	4.3	3.7	4.9
Fair and impartial	4.3	3.8	3.0	3.9	2.9	4.5	4.2	4.1	4.2	4.5	4.4	3.5	4.6
honest	4.2	3.8	2.8	4.2	3.1	4.4	4.3	4.3	4.6	4.5	4.7	2.4	4.8
quick	5.5	5.5	5.0	5.2	4.9	5.2	5.1	5.0	5.0	4.9	5.2	5.2	5.3
affordable	4.3	4.6	3.2	3.9	3.0	4.1	3.8	3.5	4.0	4.2	4.3	3.3	4.7
consistent	4.6	4.3	3.3	4.3	3.5	4.7	4.6	4.3	4.7	4.5	4.8	3.4	4.8
enforceability	3.9	3.4	2.7	4.0	3.5	4.5	4.4	4.2	4.3	4.2	4.3	2.7	4.2
confidence rights will be upheld	3.5	3.3	2.2	3.2	2.5	3.5	3.3	3.8	3.4	3.9	3.7	2.8	3.7

a: Source: country reports

b: Source: World Bank Business Environment Survey, 2000. (Indicators are on scale from 1-6 (1=best), except for corruption which is on a scale from 1-4.)