



Property Rights and Consumption Volatility: Evidence from a Land Reform in Vietnam

NIELS KEMPER

University of Mannheim, Germany

LUU VIET HA and RAINER KLUMP*

Goethe-University, Germany

Summary. — During Vietnam’s transition from a socialist to a market economy, household’s property rights over agricultural land were considerably strengthened through a land certification program. This resulted in active formal credit and land markets, either of which potentially affects consumption levels and volatility. This article evaluates the program impact with respect to consumption outcomes. In particular, it identifies the channel of impact through which improved property rights affect consumption volatility. We find that land certification increases consumption levels for rural households, but also consumption volatility for a subgroup of households identified by an instrument. We show that the certification program affects consumption outcomes of this subgroup through, presumably more risky, credit-based agricultural investment at the intensive margin.

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1. INTRODUCTION

Vietnam’s transition from a socialist to a market economy has had profound impact on the agricultural sector, most notably through a land reform during which land ownership was decollectivized and land holdings were certified with land titles. Strengthening individual property rights over land was hoped to increase agricultural efficiency. According to [Feder and Onchan \(1987\)](#) and [Feder, Onchan, Chalamwong, and Hongladarom \(1988\)](#) as well as more anecdotal evidence collected by [De Soto \(2000\)](#) there are at least three channels between strengthening property rights over land and agricultural efficiency: First, land titles improve incentives for agricultural investment. Second, in land markets tradable land titles transfer land to the most efficient producer. Third, land certificates may serve as collateral for loan transactions in formal credit markets and therefore improve access to the formal credit sector. Consequently, land titles may affect consumption outcomes through a variety of channels. In this article we will distinguish between these channels and analyze their impact on consumption outcomes, and, in particular consumption volatility.

There has been substantial research on efficiency outcomes of the land reform in Vietnam, especially on the functioning of the newly introduced land markets and their redistributive consequences (see, for instance, [Deininger & Jin, 2008](#); [Do & Iyer, 2008](#); [Ravallion & van de Walle, 2004, 2006, 2008a, 2008b](#)). Also, the effect of land titling on agricultural investment behavior has been examined ([Do & Iyer, 2003, 2008](#)). Further, the impact of land titles on borrowing from formal credit markets has also been studied. While [Do and Iyer \(2003, 2008\)](#), do not find an effect looking at the time period during 1992–97, [Kemper, Klump, and Schumacher \(2011\)](#) find a strong effect of the land titling program on formal borrowing using more recent data, although the effect is substantially

stronger in the southern than in the northern part of Vietnam due to differences in the institutional legacy of the country.

While improved property rights over land are believed to raise consumption levels, a neglected effect of land titling is that it also potentially affects consumption volatility through credit and land markets. On the one hand, land titles may be used as collateral. This improves access to formal credit markets. And credit may either be used for consumption smoothing (which should, on average, reduce consumption volatility) but may also be used for agricultural investment (which should, on average, increase consumption volatility given that agricultural investment is risky). Land markets, on the other hand, offer the possibility to rent-in land and rent-out land to smooth consumption streams (which should, on average, decrease consumption volatility if households use land markets for smoothing purposes) but may also stimulate agricultural investment on rented land (which should, on average, increase consumption volatility). However, it should also be taken into account that the functioning of newly introduced rural land and credit markets may be subject to various market failures affecting households (see [Boucher, Barham, & Carter, 2005](#), for examples from Central America).

It is the purpose of this paper to examine the link between land titling and consumption outcomes and, in particular,

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consumption volatility of households in rural Vietnam. Doing so, we estimate the program impact on consumption outcomes for both the population of rural households as well as a subgroup of this population. Impact is measured on consumption outcomes such as the per capita consumption expenditures level, the percentage point change in per capita consumption expenditure levels as well as the volatility of either of the two measured by the standard deviation. Drawing on the Vietnam Health and Living Standard Surveys from 2004, 2006, and 2008 we find that land titling increases consumption expenditures levels for the population of rural households, but not for the subgroup of this population, while volatility in either measure increases for the subgroup, but not the population. We attribute these findings to, presumably more risky, credit-based agricultural investment, proxied by the use of fertilizer, at the intensive margin of the subgroup.

To estimate program impact on the subgroup, we instrument households land titling status on (the absence of) a delay in program rollout of the certification program. The program started in roughly 60% of Vietnam's rural districts in 1993–94, when the program officially began, and started later in all remaining districts. While early and late program start appear to be random, it has a clear effect on households' certification status a decade later. As a consequence, households in areas without delay are more likely to have a positive certification status in 2004, a decade after the start of the program, than households living in areas with delay. We argue that the (absence of a) delay persisted through a "fuzziness" in post-socialist property relations caused by the decollectivization of property rights over land following the Doi Moi reforms. Areas with an early program start are less likely to have conflicts over property later on, while areas with conflicts over property are more likely to have land cadastrally not measured (as precondition for the issuance of certification) which, in turn, clearly reduces the probability of a positive certification status for households living in these areas in 2004. This channel is strongly pronounced in the northern part of Vietnam where the economy was organized under a socialist property regime for several decades, while the southern part only had a relatively short-lived episode of socialist economic order (and farmers successfully resisted the full collectivization of agricultural production).

There are a variety of studies on the land reform-credit sector-investment nexus: Siamwalla (1990) and Feder and Feeny (1991) on Thailand, Pender and Kerr (1999) on India, Carter and Olinto (2003) on Paraguay, Do and Iyer (2003, 2008) on Vietnam (using earlier data than this study), Boucher *et al.* (2005) on Honduras and Nicaragua as well as Torero and Field (2005) on Peru. We contribute to this literature by examining the link between land certification and consumption volatility and identify the channel of impact in a country-context where land certification clearly increased participation of households in the formal credit sector.

This article is structured as follows. Section 2 discusses the relationship between the land certification program and consumption outcomes. Section 3 describes the data employed in the analysis. Section 4 examines the delay in the rollout of the certification program and explores the channels between the absence of a delay and households certification status a decade later. Section 5 discusses the identification strategy for the empirical analysis and specifies the populations of interest. Section 6 presents the empirical results and Section 7 concludes. The Appendix contains tables, variable definitions, and information on the web appendix which contains

instructions for the reproduction of the results presented here.

2. THE LAND CERTIFICATION PROGRAM AND CONSUMPTION OUTCOMES

(a) *Creating property rights: The land certification program*

This section describes how private property over land was created in the Vietnamese transition process. Collectivized agriculture discontinued to exist in the mid-1980s. The inefficiencies of collectivized agricultural production led to widespread discontent among peasants and resulted in strong pressure from peasants to reform the agricultural sector (Kerkvliet, 1995). In 1986 Vietnam started the transition from a socialist to a market economy. The Doi Moi (renovation) program included substantial reforms of the agricultural sector. The land law of 1988 (resolution 10) initiated the individualization of rights over land at the following terms: The allocation of land to households for a time period of three to 15 years (with the possible renewal of tenure) and the privatization of agricultural investment decisions and the usage of output. These individual long term use-rights of households were documented. According to observers, the allocation of land and documentation of individual land-use rights was largely completed by 1990 (Ngo, 1993).

In 1993 another land law was enacted by Vietnam's National Assembly which further strengthened property rights over land. While land officially remained property of the state, the allocation of land to households was accompanied by comprehensive long term use-rights. Up to the day land is allocated for 20–50 years, with the possibility of extension upon expiry. The land law states:

Land is the property of the entire people, uniformly managed by the State. The State shall allocate land to [...] households and individuals for stable and long-term use.

[Article 1 of 1993 Land Law]

These use-rights were documented in a land certification program. The law states:

Those who are using land on a stable basis...shall be reviewed and granted certificates of land use right by authorized State bodies.

[Article 5 of 1993 Land Law]

The newly created land-use certificates (LUCs) allowed for buying, selling, exchanging, leasing, inheriting, and mortgaging of land. Hence LUCs aimed at increases in efficiency in land markets, but also in credit markets as commercial banks were allowed to mortgage later on in the transition process (Decree 17/1999). In rural areas the Vietnam Bank of Agriculture and Rural Development (VBARD) came to accept LUCs as collateral for loans.

LUCs therefore facilitated transactions in both credit and land markets. In our sample 83% of the households have at least one certified plot, 20% borrow from VBARD and, respectively, 9% rent-in land and 5% rent-out land in land markets (see Table 1 in Appendix C). All figures are for 2004, a decade after the start of the certification program.

The certification program was administered by the General Department of Land Administration (GDLA). It established a countrywide four-level system of institutions corresponding to the administrative structure of Vietnam: GDLA at the government level, the Department of Land Administration at the

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