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REAL ESTATE MARKETS AND POVERTY ALLEVIATION IN NAMIBIA'S URBAN INFORMAL SETTLEMENTS: AN INSTITUTIONAL APPROACH

BY

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SUMMARY

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This research investigates, using the New Institutional Economics theories of property rights and transaction cost, two interrelated problems. Firstly, the question of whether real estate markets in the urban informal settlements of Namibia could be used to alleviate poverty or, to put it differently, create wealth. The second problem relates to the question of whether specific forms of property rights matter for engendering pro-poor outcomes in real estate markets and, if so, what form these are likely to take. Corresponding to these questions are two working hypotheses respectively. Firstly, it is hypothesised that real estate is a significant asset held by the urban poor in Namibia and that there is potential for capital accumulation by trading up in real estate markets. Secondly it is hypothesised that, by affecting the incentive structure of, and transaction costs in real estate markets, systems of property rights affect market outcomes, thus ultimately determining whether these markets may be efficacious for poverty alleviation.

The study employs the comparative institutional methodological approach in a case study framework to examine effects of three types of property rights regimes on low income real estate markets in settlements located on Windhoek's periphery. The main empirical data for the study were collected by means of a questionnaire survey of 440 households in two settlements called Goreangab and Okahandja Park respectively. This survey was supplemented by 14 unstructured interviews with selected respondents and by key-informant interviews with officials from the Windhoek City Council (WCC), the Namibian Housing Action Group (NHAG), and the Namibian Housing Enterprises (NHE).

The study finds that real estate is indeed a major asset held by the respondents. The study finds that, while there are robust rental markets for rooms and backyard structures, there is very limited sale activity. The study also finds that in the absence of formal property rights, social networks and hierarchical organisations rather than impersonal markets provide the institutional structure to transaction activity. It is found that the degree of formality of property rights correlates to perception of security, that property rights affect investment in housing and that property rights (to some extent) affects the degree of market activity.

The study therefore concludes that while not insignificant gains are to be had from rental markets, there is at present limited potential to derive benefits from sale markets in Namibia due to a lack of trading activity. The first hypothesis is thus only partially confirmed. It is also concluded that while social networks guarantee access to urban land for the poor, they tend to lock them in enclaves of ethnic and kinship relations, inhibiting the development of wider, impersonal markets argued to be necessary for capital accumulation. Further, it is concluded that formal property rights create incentives for investment and therefore matter for capital accumulation, but that they are not necessarily accessible to the poor. The second hypothesis, that property rights affect market outcomes, is substantially confirmed.

Overall the study concludes that there is good potential for leveraging real estate markets in Namibia's (and other developing countries') informal settlements for capital accumulation but that these need to be primed first. This means deliberate interventions with the aim of bringing about increased trading activity. In this regard specific proposals have been made for policy intervention in three key areas, namely, the creation of appropriate property rights systems, together with supporting organisational infrastructure, the expansion of physical infrastructure and the building of shared understanding and trust in urban communities.

The study makes a number of key contributions to knowledge about the relationship between real estate markets and poverty alleviation in the area of theory, methodology, policy and empirical data.

Key words: *Property rights, transaction costs, poverty alleviation, real estate markets, informal settlements, urban, capital accumulation, Windhoek, policy, institutions*

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LIST OF ACRONYMS

CPO	Community Property Office
GRN	Government of the Republic of Namibia
MDGs	Millennium Developments Goals
MLRR	Ministry of Lands, Resettlement and Rehabilitation
MMW4P	Making Markets Work for the Poor
MRLGH	Ministry of Regional, Local Government and Housing
NGO	Non-Governmental Organisation
NHAG	Namibian Housing Action Group
NHE	Namibian Housing Enterprises
NPC	National Planning Commission
NUMP	New Urban Management Programme
SDFN	Shack Dwellers Federation of Namibia
SWAPO	South West Africa People's Organisation
UNDP	United Nations Development Programme
WCC	Windhoek City Council

CHAPTER ONE: INTRODUCTION

1.1 Background

Land and real estates assets comprise 50-70% of the national wealth of the world's economies (World Bank, n.d.). These are significant figures which underscore the importance of the real estate sector to economic development. Yet it is a well-known fact these assets remain dormant or are underutilised in most developing countries (World Bank, *ibid.*). There is clearly therefore a need to investigate how the potential of land and real estate can be unlocked to aid the process of economic development and poverty alleviation in these countries. This assessment must, as the World Bank (*ibid.*) puts it, be carried out in full recognition of the institutional and economic context in which real estate is embedded.

Namibia is classified as a lower middle income country with a 1997 per capita income of US$2,220 (Hansohm, 1999). This is relatively rich by African standards. This statistic however obscures the great inequalities in the distribution of wealth which exists in this country. It has been estimated that 5% of the population earns more than 70% of the national income with the poorest 55% earning a meagre 3%. On the consumption side the richest 1% of households consumes as much as the poorest 50% (Schade, 2000:111). Schade further observes that Namibia's Gini Coefficient of 0.701 (calculated in 1993/94) is the highest measured worldwide to-date indicating a highly unequal and skewed income distribution (see also Tvedten & Nangulah, 1999). A large proportion of the population therefore live in abject poverty. Using food consumption ratio as an indicator, the incidence of poverty was estimated at 47% in 1993/94 (Schade, *ibid.*:113)

Schade (2000) attributes the causes of poverty to high unemployment and *unequal distribution of assets, particularly land* which in turn reflects the legacy of apartheid. Under this system Black people were prohibited from formally owing land. Tvedten & Nangulah (1999) argue that poverty reduction can only be achieved if there is an active public policy of redistribution of assets, including land. In this context, the Namibian Government has been engaged in an ambitious land reform programme since independence from South Africa in 1991. While this programme is motivated mostly by a desire to address historical injustices, it is regarded by many as essential to the alleviation of poverty (Hansohm, 1999).

The focus of the land reform effort in urban areas have been to provide secure property rights to thousands of Namibians who were deliberately denied these rights under apartheid. Also needing secure property rights are thousands of residents of squatter settlements which have proliferated after independence (Jacobs & Egumbo, 1996). These often lead precarious lives amidst immense poverty on the periphery of urban areas (Peyroux, 1995).

A key policy innovation is the proposed ‘flexible land tenure system’ which has been piloted in some urban settlements. The system will be scaled up to the rest of the country as soon as the legislative framework is in place. Briefly, the flexible land tenure system is a three-tiered approach to the provision of full (freehold) property rights to those who would otherwise not afford them due to low incomes. The system is expected to be quicker and cheaper in its procedures than the current formal system. The system is ‘step-wise’ and the entry level or movement between levels is dependent on one’s ability to pay for required services after agreement with other residents. It aims to be a bridge or ladder between informal and formal property rights, between collective and individual ownership

1.2 Research Problem

In his path-breaking *The Mystery of Capital*, Hernando de Soto (2000) uses the analogy of nuclear fission to emphasise the enormous latent value subsisting in real estate which can be unlocked to fight endemic poverty in developing countries, the trigger, according to him, being appropriate formal ownership regimes. The key argument in Hernando de Soto's thesis is that informal property rights in third world countries prevent the emergence of impersonal exchange systems he sees as necessary to unlock the immense ‘dead capital’ locked in real estate. He advocates the formalisation of property rights as a necessary condition for fighting poverty in these countries.

Hernando de Soto's thesis is based on the fundamental assumption that the provision of individual property rights can bring about a 'triple transformation', where property can be transformed into collateral, collateral into credit and credit into income (Payne *et al,* 2007). These ideas have provided compelling and persuasive intellectual support for the many land titling programmes going on around the world. As Payne *et al* (*ibid.*) observe, many international donors and national governments have over the last two decades extensively promoted land titling programmes as a means of increasing tenure security, improving access to formal credit and reducing poverty.

A major problem with the de Soto thesis and programmes based on similar ideas is that they, despite their ubiquity around the world, have limited empirical support. This leads Payne *et al* (2007) to comment that despite the intellectual and financial investments made to date on land titling programmes, there was a lack of independent evidence to support or challenge the application of land titling as the most appropriate policy option to achieve the important objectives of social and economic development and reducing urban poverty. A recently completed review found no evidence of serious efforts at *ex post* assessments of titling programmes around the world, something that the authors describe as surprising and disturbing, given that there is no other area in development aid and lending policies where a policy has been continuously promoted for more than a decade without being subjected to rigorous evaluation concerning its ability to deliver the expected targets (*ibid*.).

This research takes as a point of departure the widely held view that formal property rights are key to engendering pro-poor outcomes to interrogate the link between real estate markets and poverty. Namibia is used as a case study to answer a range of questions with broader international relevance. In common with many developing countries, the Namibian government has been promoting urban land reform of which the proposed flexible land tenure system, briefly described above, is the central plank. These reforms see the granting of 'secure' property rights, as crucial to poverty alleviation in informal settlements.

In the mid 1990s, it was estimated that the total number of households living in informal settlements without secure tenure in Namibia was around 30,000 (Durand-Lasserve, 2003; MLRR, 1997). With an estimated household size of 5 persons, this amounted to 150,000 people, which was equivalent to 10% of the national population and a third of the urban population at the time (MLRR, 1997:7). A survey conducted in 2002 put the number of households in informal settlements at 70,000 (MRLGH, 2002:9). Thus around 300,000 Namibians (17% of the population or half the urban population) now live in informal settlements. The living conditions in these settlements are characterised by high poverty levels, tenure problems, low standards of services and poor environmental conditions.

There is general consensus that the problem of informal settlements must be tackled through some form of formalisation, of both these settlements and of the property rights of the residents. Three sets of problems have made this process difficult in the Namibian context (MLRR, 1997). Firstly there are problems of 'cloudy' property rights caused by the transition from communal tenure, particularly in the former homelands. In these areas land was held in communal ownership prior to independence. Land rights were allocated by traditional rulers and were not registered in the formal registry. De facto towns or urban areas developed in these areas but were not formalised until after independence. In the settlements around these towns, the traditional system of land allocation still works, although the land now officially belongs to the state and under the jurisdiction of the local authority. There is thus a great amount of uncertainty regarding property rights, hindering efforts at formalisation (*ibid*.).

The second set of problems hindering formalization of informal settlements emanates from the cost of developed land. The cost of developed land is unaffordable to most low income groups. Due to the high levels of poverty, most Namibians can only afford marginal monthly repayments for land and housing. The high cost of serviced land and formally developed housing is attributed to the complex procedures involved in the planning and development of land and the high standards of infrastructure required by local authorities (*ibid.*).

The final set of problems results from inadequate development procedures. The formal system of settlement establishment was designed for 'greenfield' developments. Under this approach, vacant land is identified, planned for, and provided with services. Development of formal housing then follows, with subsequent occupation of completed dwellings. This approach has not been able to keep up with the level of influx to towns because it is, *inter alia*, slow and cumbersome. Further, the present legislation does not cover regularisation and formalisation of existing settlements.

Local authorities accept the informal settlers, but would like to formalise the areas so that the residents get formal rights and the local authority can collect taxes and charges for utilities (MLLR, 1997). For the low income families the problems are related to security of tenure and difficulties in getting services. To respond to these needs and highlighted obstacles, the development of a flexible land tenure system has been devised (Durand-Lasserve 2003), and a final draft of the legislation has been published. This system aims to introduce a parallel system for the urban poor that would run beside the existing system, but also be a stand-alone system at the local level (Augustinus, 2003).

According to the final draft of the Flexible Land Tenure Act, the objectives of the act are three fold (GRN, 2004b). The first objective is to create alternative forms of land title that are simpler and cheaper to administer than existing forms of land title. The second objective is to provide security of title for persons who live in informal settlements or who are provided with low-income housing. The final objective is to empower the persons concerned economically by means of these rights.

A reading of these objectives suggests that the provision of property rights to inhabitants of informal settlements is seen as a means to the end of improving their economic welfare, a view that finds resonance in international development practice. As has been pointed out the proposed system has been piloted in a couple of sites in the northern town of Oshakati, but the focus so far has been on technical feasibility, particularly of lowered survey standards. A number of fundamental questions remain unanswered, revolving around whether and how the flexible land tenure system, and by extension similar property-rights based approaches, can bring about poverty alleviation. Specifically, under what conditions will real estate markets bring about pro-poor outcomes? Is there a demonstrable link between property rights, real estate markets and poverty alleviation? If so what is the 'transmission mechanism'? If not, why not?

Additional questions have general relevance for the rest of the urban informal settlements. Given that residents of these settlements already enjoy de facto rights, do formal property rights matter? What is the structure and institutional manifestation of real estate markets in urban informal settlements? What is the case for reform? What is the (potential) contribution of real estate to poverty alleviation?

1.3 Conceptual/Analytical Framework

The research uses the conceptual and analytical tools provided by the New Institutional Economics (NIE), particularly theories of property rights and transaction costs. NIE has developed as a movement within the social sciences which unites theoretical and empirical research examining the role of institutions in furthering or preventing economic growth. NIE is thus an interdisciplinary 'enterprise' combining economics, law, organisational theory, political science, sociology and anthropology to understand the institutions of social, political and commercial life. Its goal is to explain what institutions are, how they arise, what purposes they serve, how they change and how - if at all - they should be reformed (Klein, 1999). As Ankarloo (2002) rightly points out 'institutions' have risen to pre-eminence in recent political and scientific discussion. This, according to him, reflects the widespread realisation that a well functioning market economy presupposes an effective institutional framework. In the light of global turbulence, financial unrest and persistent poverty in many parts of the world there is a convergence of ideas that economic development without good institutions and an effective state is impossible.

The work in NIE revolves around a few key concepts, namely, 'transaction costs', 'property rights' and 'institutions' (Ankarloo, 2002).

1.3.1 Transaction Costs

This is considered the main theoretical achievement of NIE and may be defined as the cost of using the price mechanism, though there are several contesting definitions. In general transaction costs approximate search and information costs, bargaining and decision costs, policing and enforcement costs (Ankarloo, quoting Dahlman, 1979 147-148, Eggertsson, 1990; Furubotn & Richter, 1998)

1.3.2 Property Rights

These are mainly defined as the right to use, derive an income from and sell an asset. The economic problem now becomes how and when property rights are exchanged in the economy and the resultant consequences.

1.3.3 Institutions

Institutions tend to be seen as synonymous with 'organisations' in everyday language, but the concept is much more complex. Institutions are defined as the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct) and formal rules (constitutions, laws, property rights) (Mantzavinos, 2001; North, 1991 cited in Leitmann & Baharoglu, 1999), and their enforcement characteristics. Institutions in this light are seen as rules of the game in the economy and organisations (the 'players of the game') arise in response to the institutional structure (Ankarloo, 2002). Klein (1999) uses the terms 'institutional environment' and 'institutional' arrangements to distinguish the rules from the players. He sees institutional arrangements as specific guidelines or 'governance structures' designed to mediate particular economic relationships. This is the closest approximation to the popular conception of institutions as hierarchies or organisations, but is much wider. Thus business firms, long term contracts, public bureaucracies, non-profit organisations etc are examples of institutional arrangements.

A key thesis in NIE is that economic agents establish institutions to reduce the uncertainty inherent in human interaction (social, economic and political) and / or to overcome market failures caused by the presence of risk and imperfect information and the weakening of property rights. NIE can be useful in helping to understand why markets fail, or in some cases do not exist at all. It can also provide a basis for determining the appropriateness of alternative allocation mechanisms (such as the state versus the market).

The relevance of the three key concepts discussed above to the analysis of real estate markets is readily apparent. By definition, the essential function of real estate markets is to facilitate the transfer of property rights. In addition players in these markets invariably have to contend with high degrees of information problems, high transaction costs and are heavily constrained by institutional imperatives.

A detailed review of the NIE and its potential application to the study of real estate markets is given in Chapter 2.

1.4 Aim, Objectives and Hypotheses

This research investigates, using the conceptual and analytical tools of the New Institutional Economics, two interrelated problems. Firstly, the question of whether real estate markets in the urban informal settlements of Namibia can be used to alleviate poverty or, to put it differently, create wealth. The second problem relates to the question of whether specific forms of property rights matter for engendering pro-poor outcomes in real estate markets, and if so, what form these are likely to take. Corresponding to these questions are two working hypotheses respectively. Firstly, it is hypothesised that real estate is a significant asset held by the urban poor in Namibia and that there is potential for capital accumulation by trading-up in real estate markets. Secondly, it is hypothesised that, by affecting the incentive structure of, and transaction costs in, real estate markets, systems of property rights affect market outcomes, thus ultimately determining whether these markets may be efficacious for poverty alleviation.

The intention is to interrogate the empirical basis for the claimed benefits of titling programmes and to clarify conditions under which the proposed flexible land tenure system and similar innovations might work. In pursuit of these broader aims, and to generate the empirical data with which to address the two research questions and their respective hypotheses, the study has the following specific objectives, *inter alia*

i. To investigate the general nature of real estate markets in Namibia's informal settlements.

ii. To investigate actors involved in informal real estate markets, in terms of who they are, their behaviour and the incentives and constraints they face.

iii. To investigate the real estate market *process* in these settlements in terms of transaction costs and institutional arrangements.

iv. To investigate the effects of property rights, both formal and informal, on household investment, household welfare and the exchange process.

v. To make specific policy recommendations regarding how real estate markets may be leveraged for poverty alleviation.

Following on from the conceptual framework developed in chapter two, the thesis of this study is that both (relatively) high transaction costs and inappropriate and/or inadequate property rights configurations account for the failure to unlock the potential of real estate to create wealth. The contention is that relatively low transaction costs and secure property rights in real estate markets are a necessary (but not sufficient) condition for the unlocking of the potential of real estate to alleviate poverty. It is argued that these two factors create conditions that make it possible for large numbers of secure and impersonal transactions in a decentralised market to take place.

1.5 Preliminary Literature Review

The ‘urban problem’ in Namibia has been studied from a number of perspectives, including anthropological, demographic, and socio-economic. The main topics for research have been the continuous growth of the capital and the problems that this entails, the living conditions in the sprawling Katutura settlement and the development conditions and significance of informal settlements (Seckelmann, 2001).

However there are hardly any studies addressing urban real estate markets in general and informal urban real estate markets in particular. Such studies as do exist have never gone beyond a mere passing mention of real estate markets and even less of the interface between these markets and poverty. Thus there is a basic knowledge gap about the nature and characteristics of real estate markets in the informal urban areas. This is despite observations that there is a 'thriving' informal land market, at least in the sprawling Katutura area of Windhoek (Seckelmann, 1997).

A 1994 study of 101 households in the Katutura area by Peyroux provides a number of interesting facts about the informal settlements. One result suggests that property rights are ranked very lowly in the priority ordering of respondents (Peyroux, 1995). This is of course contrary to conventional wisdom. Unfortunately the issue of property rights and markets is tangential to this essentially (social-anthropological?) study and is superficially treated. In addition there are doubts about the representativeness of the sample due to its small size.

In general such limited studies as do exist reveal a number of weaknesses. Perhaps the most important one is that they tend to be mere empiricisms not informed by theoretical frameworks. For this reason they tend to lack sufficient analytical rigor and the knowledge created cannot be generalised to other contexts. To paraphrase a popular phrase, without theory to bind together their collection of facts, they have very little they can pass on.

In similar fashion, a survey of the international literature reveals a number of gaps. The major problem identified is lack of basic information regarding the functioning of urban land markets in Africa and other developing countries (Antwi & Adams 2003; Gough & Yankson, 2000; Payne, 1997). This is particularly the case for informal settlements. Basic questions, for instance, about the numerical size of the informal sector, the volumes of transactions, sums of money involved, the amount of land changing hands, the general pattern of the distribution of land transactions, land prices, or land values have not been satisfactorily answered (Doebele, 1994; Kironde, 2000). We remain relatively ignorant about the behaviour of the actors, the incentives and constraints they face, the cost of exchange that they incur and the mechanisms by which exchange is facilitated.

Another problem identified is that many of the studies are not informed by rigorous theoretical frameworks. This naturally reduces their applicability to different contexts. For this reason Deobele (1994:54) argues that "stronger discipline should be imposed on the growing number of case studies to prevent them from being particularistic descriptions, which resist generalisation and thus reduce their potential for predictivity".

1.6 Originality and Contribution of Research

This research aims to make contribution to knowledge at a number of levels. Firstly, at the conceptual/theoretical level it represents the latest attempt at extending the frontiers of New Institutional Economics. The development of a new theory always requires the collection of new data that will be adequate for new tests and that were not available in the former theoretical environment (Menard, 2001). NIE is not regarded as theory in the conventional sense but is seen as 'well on its way' (*ibid.*). There are many challenges and much work to be done, presenting tremendous opportunities for improvement and refinement (Kheralla & Kirsten, 2001).

The research therefore extends the tenets of NIE to the analysis of a wider range of phenomena. The original focus of NIE was the analysis of business firms or profit maximising institutions. It has since branched out and has been used to study a wide variety of institutions, including those in the public sector. There is however very limited application of NIE to the analysis of real estate markets in general and even less to the interface between these markets and poverty alleviation.

At the empirical level the research aims to cover the gaps in knowledge highlighted in the literature review above. Fundamentally it makes a contribution to the debate on whether more formal markets are harmful or beneficial to the urban poor. It aims to clarify institutional aspects of informal real estate markets generally and with respect to the specific Namibian situation. In particular it seeks to provide answers to the specific questions that lie at the interface of real estate markets and urban poverty in Namibia. Answers to these questions could have profound implications for the design and implementation of land policy in Namibia and other developing countries.

The originality of this research can be seen in three ways. Firstly it develops and employs a conceptual/analytical framework that has not been employed anywhere (to the best of our knowledge) to analyse the phenomena under study. Secondly the research uses a single analytical framework to investigate both formal and informal markets simultaneously. Lastly, the research is the first systematic and independent review of the potential contribution of the proposed flexible land tenure system to the fundamental objective of poverty alleviation in Namibia.

1.7 Methodology

The research uses the comparative institutional approach, in a case study framework, as the main methodological stance. The study uses a combination of 'desk' research, key informant interviews, detailed structured interviews and case studies to obtain primary and secondary data. The main empirical data was obtained from a sample of 440 households in two informal settlements in Windhoek. Other respondents were senior officials from the City of Windhoek, the Namibian Housing Enterprise (NHE), the Shack Dwellers Federation of Namibia (SDFN) and the Namibian Housing Action Group (NHAG). The study is qualitative in nature, and uses mostly descriptive statistics to summarise and analyse the empirical data.

A detailed methodology discussion follows in Chapter Four.

1.8 Terminology

For the purposes of this dissertation, the words *real estate* will be taken to mean both vacant land in its ordinary meaning and all improvements on land. The meaning of the word *property* must be inferred from its context and will take either its ordinary meaning (land and its attachments) or its legal meaning (a set of rights and responsibilities concerning a thing). In many cases the word *property* will be used as a synonym for *real estate*. Similarly *poverty alleviation* and *capital accumulation* are used interchangeably.

Land reform will mean *both* the attempts to redistribute commercial land from (mostly) white to (mostly) black Namibians *and* attempts to provide formal property rights to residents in informal urban settlements.

1.9 Scope and Limitation

The study aims to be an analysis of the role of informal real estate markets in poverty alleviation. The focus therefore is on informal residential markets in urban informal settlements in Namibia. These settlements are located in Windhoek which is the capital and by far the largest and most populous urban area in the country. In addition, the methodological approach calls for a comparative analysis of low income formal residential markets. Other types of real estate markets i.e. industrial, commercial, and agricultural, both formal and informal, are outside the scope of the research.

1.10 Structure of Thesis

The thesis comprises eight chapters grouped around five themes as indicated in the table below. Chapter 1 is the *introduction*. Chapters 2 and 3 consist of the *literature review*. Chapter 2 develops the conceptual framework used in the study and presents a critical review of the international literature on real estate and poverty. Chapter 3 reviews the key concepts, as well as the evolution of international policy, regarding urbanisation, informal settlements and poverty alleviation. Chapter 4 is the *methodology* discussion. Chapter 5 discusses the broad *empirical context* of the study in Namibia. Chapters 6 and 7 present the *findings and analyses* of the study. Chapter 8 is the penultimate chapter, presenting the conclusions of the thesis.

Table 1.1 Structure of thesis

Themes		**Chapters**	
1	Introduction	1	Introduction
2	Literature Review	2	Real Estate Markets and Poverty Alleviation: Conceptual Framework and Literature Review
		3	Urbanisation, Informal Settlements and Poverty Alleviation: Concepts and Policies
3	Methodology	4	Methodology
4	Empirical Context	5	Namibia, Windhoek and Katutura: A Socio-economic Profile
5	Findings and Analyses	6	Presentation of Data
		7	Analysis and Discussion
		8	Summary, Contribution and Further Research

CHAPTER TWO: REAL ESTATE MARKETS AND POVERTY ALLEVIATION - CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

2.1 Introduction

This chapter has two main aims. The first is to 'craft' a conceptual framework for the entire study, using the conceptual tools of the New Institutional Economics (NIE), principally theories of property rights and transaction costs. The second is to review the 'state of the art' in terms of the theoretical and empirical literature on real estate markets and poverty alleviation. The aim is to identify key knowledge gaps and consequently articulate the research agenda to which this research contributes to.

This chapter is organised into nine sections. The conceptual framework is developed in the following three sections. Section 2.2 introduces the key concepts in the NIE. Section 2.3 discusses the theoretical and empirical relevance of institutional analysis to real estate markets in general. Drawing on the preceding sections, section 2.4 develops a conceptual framework linking real estate markets and poverty alleviation.

Review of the theoretical and empirical literature as it relates to real estate and poverty is presented in Sections 2.5 to 2.8. Section 2.5 examines the seminal thinking of Hernando de Soto, whose ideas on property rights and poverty have had a profound effect on the debate about the nexus between real estate and poverty. Section 2.6 extends the review to examine the wider theoretical and empirical literature in this area. Drawing on the previous sections, section 2.7 summarises the knowledge gaps in this area. Section 2.8 articulates the research agenda and, within that, the specific contribution of this study. A concluding summary follows in the penultimate section.

2.2 Key Concepts in the New Institutional Economics

The purpose of the NIE is both to explain the determinants of institutions and their evolution over time and to evaluate their impact on economic performance, efficiency and distribution (Nabli & Nugent, 1989 cited in Kherallah & Kirsten, 2001). The NIE is based on a few concepts 'that are logically coherent and that provide powerful tools for delineating the questions to be explained and for shedding light on a large set of facts and relationships among these facts' (Menard, 2001:85). The central ones (and those directly relevant to this study) are the following; institutions, transaction costs and theory of property rights. Others include the theory of collective action, evolutionary economics theory, constitutional choice theory and public choice theory. These are peripheral for our purposes and will therefore not be discussed here.

2.2.1 Institutions

A central proposition of the NIE is that institutions matter and that they are amenable to economic analysis (Mathew, 1986 cited in Williamson, 2000; Williamson, 1990 cited in Pratten, 1997). Institutions have been defined as the humanly devised constraints that shape human interaction and their enforcement mechanisms (North, 1990). Heltberg (n.d) defines institutions as rules, norms, habits and formal hierarchies that shape agents' actions and expectations. North argues that institutions exist to reduce the uncertainties involved in human interaction. These uncertainties arise as a consequence of both the complexity of the problems to be solved and the limited computation abilities possessed by the individual (North, 1990).

Simply put, institutions simplify human interaction by a system of rules and procedures. By limiting the choice set of actors in complex or uncertain situations, discretionary action is constrained and human interaction is structured into predictable and manageable ways. Institutions however do much more than constrain behaviour. They also provide incentives and therefore potentially provide a powerful tool to explain a wide range of economic and social outcomes.

Institutions can be informal (sanctions, taboos, customs, traditions and codes of conduct) or formal (constitutions, laws, property rights) (North, 1991 cited in Leitmann & Baharoglu, 1999; Ensminger, 1996; North, 1990). In fact the relationship between informal and formal institutions is of considerable interest to institutionalists. It is widely known that informal institutions do exert a powerful influence on formal institutions and on economic outcomes. For instance, there is evidence that the same formal rules or institutions imposed on different societies will result in different outcomes (North, 1990). This may be explained by the differences in informal institutions. As Nee (1998, 85ff) puts it, informal constraints, operating in the shadow of formal rules, can both limit and facilitate economic action. The actual effect would depend on the degree of congruence between the two. Close coupling of informal norms and formal rules creates synergies and promotes high performance in organisations and economies. Transaction costs are lowered because monitoring and enforcement can be accomplished informally. On the other hand a misfit or 'decoupling' between informal and formal institutions increase transaction costs and have negative implications for economic or organisational performance.

Contrary to popular practice the NIE makes a distinction between institutions and organisations. North for instance uses a sports team analogy to clarify the difference. Institutions are like the rules of the game and organisations the players. He defines organisations as 'groups of individuals bound by some common purpose to achieve objectives' (North, 1990; see Khalil, 1999). The relationship between the institutions and organisations is dynamic. Thus while organisations are formed to take advantage of incentives provided by, and are subject to constraints imposed by the institutional structure, they are also a catalyst for institutional change. In fact the distinction between the two can be blurred in certain cases where, depending on the level of analysis, one entity can be conceived either as an institution or as an organisation. In addition, and for practical reasons, institutional analysis may focus on organisations as the object of study.

Institutions come into being either by creation or evolution (North, 1990). Thus at one extreme institutions may evolve spontaneously as a result of the actions of individuals, or may be a product of deliberate design at the other (Furubotn & Richter, 1998). The guiding principle in the NIE is that institutions emerge to reduce frictions and uncertainties, collectively called transaction costs (D'Arcy & Keogh, 1996; Eggertsson, 1990). This view, closely associated with the work of Oliver Williamson, sees institutions therefore as efficiency enhancing. North (1990) on the other hand argues that the major role of institutions in society is to reduce uncertainty by establishing a stable but not necessarily efficient structure to human interaction. The observed institutions may merely reflect the interests of those who have the power in society and may not necessarily be efficiency enhancing (Ensminger, 1996). Perhaps the more realistic view is that since institutions reflect influence and power in the society in question, they are likely to reduce transaction costs for certain groups and activities but not for others (Keogh & D'Arcy 1999).

There is some consensus however that institutions have a profound effect on the performance of economies (Bates, 1989), largely by their effects on the costs of exchange and production (North, 1990). According to Heltberg (n.d.) institutions serve a number of important economic functions, such as handling situations with missing or asymmetrical information, facilitating and enforcing market and non-market transactions, substituting for missing markets, co-ordinating the formation of expectations, encouraging co-operation and collective action and reducing transaction costs. If we accept the Northian view that some institutions will be efficiency enhancing while others not, 'good' institutions will be those which reduce overall transaction costs (D'Arcy & Keogh, 1996).

2.2.2 Transaction Costs

The concept of transaction cost is probably the most significant theoretical contribution of the NIE. Its roots can be traced to Coase's (1937) seminal paper, *The Nature of the Firm* (Landa, 1994). A transaction occurs 'when a good or service is transferred across a technologically separable interface' (Williamson 1985, 1 cited in Furubotn & Richter 1998, 41). In this sense a transaction is seen as the physical delivery of resources. Transaction being 'the alienation and acquisition between individuals of the *rights* of future ownership of physical things' (Commons 1934, 58 cited in Furubotn & Richter, *ibid*.: 42) refers to transfer of intangible rights. This later sense is generally the one applicable to land and real estate markets, as the physical commodity cannot be physically transferred.

There appears to be no consensus in the literature on the exact meaning of transaction costs. There is however a lot of common ground. Eggertsson (1990) defines transaction costs as the costs that arise when individuals exchange ownership rights to economic assets and enforce their exclusive rights. This is close to Demsetz's definition where transaction costs are referred to as the cost of exchanging ownership titles (Demsetz, 1988) and to Barzel's, (1989) who see them as costs associated with the transfer, capture and protection of rights. North (1990) for his part says that transaction costs consists of the costs of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements. These definitions broadly capture the sense in which transaction costs are conceived in this study.

There are several types of transaction costs but in this study we are interested in those costs arising from the need to use the market system. The six basic transaction activities of search, inspection, contracting, execution, control and enforcement (Furubotn & Richter, 1998) give rise to costs. These market transaction costs arise principally due to information problems. Thus North (1990) sees the costliness of information as the key to the cost of transaction. According to him, measurement and enforcement costs are the source of social, political and economic institutions. Eggertsson (1990: 15) lists market transaction costs as follows:

i. The search for information about the distribution of prices and quality of commodities…, the search for potential buyers and sellers and for relevant information about their behaviour and circumstances.
ii. The bargaining that is needed to find the true position of buyers and sellers.
iii. The making of contracts.
iv. The monitoring of contractual partners to see whether they abide by the terms of the contract.
v. The enforcement of a contract and the collection of damages when partners fail to observe their contractual obligations.
vi. The protection of property rights against third party encroachment.

Furubotn & Richter (1998, 44ff) summarise the cost of using the market into three categories; search and information costs, bargaining and decision costs and supervision and enforcement costs. *Search and information costs* in the context of real estate relate to the process of finding the right transaction partner. Typical costs here are advertising costs, communication costs, and information costs arising from the need to evaluate relative prices and quality. *Bargaining and decision* costs are incurred once a suitable prospective transaction partner is found. Thus legal fees, valuation fees, estate agent's fees and various statutory charges come into the picture. Depending on its opportunity cost, time spent in negotiations may be a significant cost. *Supervision and enforcement* costs arise after the transaction has been consummated and relate to the need for monitoring and enforcement of agreements. Thus in the context of real estate rent or capital sums must be paid, premises vacated or delivered, construction must conform to time and budget etc. In this there is considerable scope for cheating, shirking and other forms of opportunistic behaviour. Information plays an important role here. “There are costs involved in measuring the valuable attributes of what is being exchanged and costs involved in protecting rights and enforcing contractual obligations. In so far as there are high supervisory and enforcement costs, violations of contracts are to a certain degree unavoidable” (Furubotn & Richter 1998:45).

High transaction costs cause market failure. In order for exchange to take place, the gains from the exchange must be significantly higher than the cost of exchange. Thus if the transaction costs are too high, exchange will not take place or will be severely constrained (Eggertsson, 1990), and we speak of market failure. Alternative ways of resource allocation, such as state provision, then becomes necessary. That is why the analysis of transaction costs is important to the understanding of markets and the role of the state.

According to Willimamson (1979 cited in Furubotn & Richter, 1998) economic (and political) transactions can be characterised by three critical features: (1) uncertainty, (2) the frequency with which transactions occur, and (3) the degree to which transaction-specific investments are made. All the three are understood to exert systematic influence on economic behaviour. In general, transaction costs are positively related to uncertainty and transaction-specific investments and negatively related to the frequency of market transactions. Thus low transaction costs are consistent with low levels of uncertainty, low levels of transaction-specific investments and high frequency of market transactions. Low transaction costs result in increased efficiencies in the economy and have a positive effect on economic outcomes.

2.2.3 Property Rights

Property rights theory holds a distinguished place in the NIE. Property rights are the rights of individuals to use resources (Eggertsson, 1990). Property rights of individuals over assets consist of powers to consume, obtain income from, and alienate these assets (Barzel, 1989). According to Furubotn & Richter (1998:72) the rights to an asset 'consist of the rights to use, it, to change its form and substance, and to transfer all rights in the asset, or some rights, as desired'. Eggertsson (1990) identifies three basic categories of property rights. First there are user rights which determine what an individual can legitimately do on his property. Second there is the right to earn an income from an asset and to engage in contracts with others for this purpose. Third, there is the right to alienate or sell ownership rights over an asset to others.

A few idealised forms of property ownership can be distinguished, depending on the identity of the holder of exclusive rights. These are private ownership, state ownership, communal ownership and common ownership or open access (Furubotn & Richter, 1998; Eggertsson, 1990; Barzel, 1989; Demsetz, 1988). Thus exclusive rights may be held by individuals, which is *private ownership*, or by the state which is *state ownership*. *Communal ownership* is whereby a well-defined community controls access to a resource by excluding non-members and regulating its use by members. On the other hand *open access* tends to occur where it is impossible or costly to assign exclusive property rights for a resource to any entity, such as the open seas (Eggertsson, 1990).

A key thesis in property rights theory is that property rights develop to internalise externalities when the gains of internalisation become larger than the cost of internalisation (Demsetz, 1988; see also World Bank, 2003). Simply put, exclusive rights to an asset will be established and enforced when owners expect positive net gains from exclusivity (Eggertsson, 1990). The hypothesis is that as the value of an asset increase people are more likely to establish rights over it and that these rights will be made more precise (Eggertsson, 1990; Barzel, 1989). To use a real estate example, the theory predicts that there will be demand for exclusive rights as evidenced by formal title once land values have risen to such a level as to exceed the costs of titling programmes. In the presence of competition, exclusive rights provide the means by which private individuals are able to appropriate for themselves the benefits flowing from enhanced land values.

This theory of property rights have been called evolutionary, suggesting an inexorable (and positive) process towards more exclusive property rights for all societies. Eggertsson is critical of this view, labelling it the naïve theory of property rights. According to him (1990) this view sees property rights as the outcome of private costs and benefits and ignores the political process and the free-riding problem. Property rights are of course supplied by political actors whose incentives may lead to outcomes not necessarily consistent with the predictions of theory. In the context of land, Alston *et al* (1999:17) puts it as follows:

> Government policy will determine who receives title (through the allocation formula), when it is assigned (through marking and survey policies, pricing and other requirements, and settlement requirements), whether it is secure (through enforcement practices and conditions), and whether and how conflicts are adjudicated through the police and courts. Each of these attributes of the property rights system will be determined through the political process. The assignment and enforcement of property rights involves an assignment of wealth and political power that no politician can take lightly. Politicians have multiple constituents to respond to and limited budgets to allocate. Their decisions are made so as to maximise re-election prospects or other wise to promote the advancement of their political careers.

The 'naïve' theory of property rights however has useful predictive power and can be extended to take account of interest groups and political markets. Eggertsson (1990) calls this the 'interest-group theory of property rights'. Thus the structure of property rights is seen as an outcome of the interaction between interest groups and political markets. The politically charged nature of the debate on rights to land in Namibia is of course well known and is directly relevant to this discussion.

In general the property rights approach aims to show that the content of property rights affects the allocation and use of resources in specific and statistically predictable ways (Furubotn & Pejovich, 1972, cited in Furubotn & Richter, 1998). New institutional economists are particularly interested in the effects on economic behaviour of ill defined or weak property rights. Economists concerned with property rights often consider any restrictions on those rights, called 'attenuation of rights', to be undesirable (Eggertsson, 1990; Barzel, 1989). As Barzel goes on to explain a person's ability to realise the potential value of property depends on the extent of their property rights, which as discussed above consist of the ability to use (and exclude), to alienate, and to derive income from the property. The ability, or power, to exclude prevents the property from becoming common property, and the ability to alienate and to derive income permits the realisation of gains from exchange. Since restrictions in general reduce freedom of action, restrictions on a person's property rights reduce the value of the property to its owner (Alston *et al*, 1996; Barzel, 1989), making such restrictions appear to be harmful (Barzel, 1989). The implication of this in terms of real estate is the promotion of deregulated markets and of freehold ownership.

Well-defined and secure property rights are seen to be the *sine qua non* for the emergence and continued function of decentralised markets, and the efficient use of resources (Firmin-Sellers, 1996; World Bank, 2003). The argument for secure rights with respect to land, as an example, has been stated follows: the more secure one's property rights (1) the more secure is the future rental stream that the land produces, (2) the better one is able to use land as collateral and (3) the larger is the market for sale (Alston *et al*, 1996). Well-defined and secure property rights are argued to stimulate demand for resources, encourage investment, promote markets and have positive effects on asset values. Conventionally, well-defined and secure property rights refers to those which are granted by the state, usually evidenced in writing and are enforceable by the police and formal judicial system. For real estate this means formal titles, lease and sale contracts. However informal rights as found in much of Africa may be well defined and offer considerable security.

The relationship between property rights and transaction costs is intimate and will be readily apparent from our definition of transaction costs above. Barzel (1989) for example defines transaction costs as the costs associated with the transfer, capture and protection of property rights. The definition, exchange and enforcement of property rights is costly (Eggertsson, 1990). The definition of rights to land for example requires expensive surveying and titling programmes. Exchange and enforcement costs with respect to land and real estate have been discussed in the section above and are equally costly. In addition the creation and maintenance of the necessary legal and bureaucratic infrastructure is expensive.

Realising the potential value of an asset presupposes exchange. To the extent that high transaction costs prevent or severely constrain exchange, this potential cannot be realised. The conventional wisdom is that well-defined property rights lower transaction costs. Indeed there is a widely held view that high transaction costs arising from defective formal property rights account for the underdevelopment of most developing countries. North (1990:67) puts it as follows:

> When we compare the cost of transacting in a third world country with that in an advanced industrial economy, the costs per exchange in the former are much greater- sometimes no exchange occurs because costs are so high. The institutional structure in the third world lacks the formal structure (and enforcement) that underpins efficient markets. However frequently there will exist in third world informal sectors (in effect underground economies) that attempt to provide a structure for exchange. Such structure comes at a high cost however because the lack of formal property right safeguards restricts activity to personalised exchange systems that can provide self enforcing types of contracts.

This is a key argument in Hernando de Soto's *Mystery of Capital*. De Soto (2000) argues that informal property rights in third world countries prevent the emergence of impersonal exchange systems he sees as necessary to unlock the ‘dead capital’ locked in the immense real estate holdings. He advocates a formalisation of property rights as a necessary condition for fighting poverty in these countries.

2.3 Institutional Analysis and Real Estate Markets

In this section the NIE is extended to the analysis of real estate markets in general. In the first part we examine the characteristics of these markets with the view of assessing their susceptibility to institutional analysis. The second part explores the applications of the NIE to real estate analysis.

2.3.1 Nature of Real Estate Markets

Conventionally, real estate markets can be defined as “arrangements by which buyers and sellers of virgin land, agricultural estates, industrial buildings, offices, shops and houses are brought together to determine a price at which the particular property can be exchanged” (Harvey, 1996). D'Arcy & Keogh (1999) refer to property markets as institutional arrangements through which real property is used, traded and developed and the wide range of actors involved in these processes. Adlington *et al* (2000) see real estate markets as encompassing all transactions which involve dealing in rights in land and buildings. The markets may be formal or informal. Their function is to establish a pattern of prices and rents so that given sufficient time, resources are allocated according to their most profitable use (Adlington *et al*, 2000; Harvey, 1996). This in practice may not be achieved due to inefficiencies in the market (i.e. transaction costs), as well as the effects of government intervention.

DiPasquale and Wheaton (1996,) makes a distinction between real estate as space and real estate as an asset. This distinction arises because of the separation between ownership and occupation in real estate. Rent is determined (by tenants) in the market for space while prices are determined (by investors and owner-occupiers) in the sale market. The use and asset markets are therefore quite distinct. They are linked by the development market wherein new real estate is created. Thus real estate markets can be conceived of in terms of users, investors and developers. Each of these form distinct market segments namely the letting market, the capital market and the development markets respectively. The respective ‘prices’ are rentals, capital values, and profit or yields. In addition, all this is embedded in an institutional environment (see section below).

It is perhaps a trite point to make, but what the real estate market deals in are 'interests' or property rights, not the land or real estate themselves (Harvey 1996; Balchin *et al*, 1988). This immediately begins to shed light on the property market in institutional terms (D'Arcy & Keogh, 1998). The range of possible interests is wide, from freehold rights, to leaseholds to mortgages to complex property security derivatives. These interests may be formal or informal. Following on from our discussion of property rights, it will be expected that these interest have effects on the use of property via the incentives and constraints that they create.

There has been a good deal of interest (and scholarly activity) in questions about the efficiency, or lack of, of real estate markets. The traditional view has been that real estate markets are generally allocatively inefficient. This judgement follows from the legal and physical characteristics and the nature of the market process (Keogh & D'Arcy, 1999). As these authors go on to say, the case is conventionally made in terms of the heterogeneity, indivisibility and illiquidity of real estate, the externality and public goods associated with land and property, and the transaction costs and lack of information associated with trade in property. Evans (1995) adds the complexity arising out of bundling of attributes into single properties (for example size, location, design etc).

That real estate markets are deemed inefficient is not surprising, considering that the benchmark used to make this judgement has often been the neo-classical concept of a perfectly competitive market. As Evans (1995:6) notes "most of the (early) literature on the property market is written as though it was the very paradigm of a neo-classical perfect market - many buyers, many sellers, homogenous product full information etc" (also see comment by Watkins 1998:57). According to D'Arcy & Keogh (1998) this approach to the analysis of real estate markets lack institutional or behavioural content and tend to ignore many of the defining characteristics of real estate such as high transaction costs, illiquidity and information problems. Property is heterogeneous, participants in the market may be few and lack full information. Balchin (1988) lists factors constraining the smooth functioning of property markets as follows; the imperfect knowledge of buyers and sellers, the uniqueness of each site and building, the unwillingness of some owners to sell despite the certainty of monetary gain, the time absorbing and costly process of searching for property, the expense and legal complexity of transferring property, the length and legal rights of property interests and the need to conform to statutory requirements.

The foregoing points to the presence of relatively high transaction costs in property markets. While it may be impossible to achieve a completely efficient property market, there is virtue in attempting to minimise inefficiency and the role of institutions in this respect is important. Our interest in this study is to examine institutions (and organisations) underpinning urban informal real estate markets in Namibia. We are particularly interested in the effects of these institutions on transaction costs and economic outcomes.

2.3.2 Application of NIE to Analysis of Real Estate Markets

Property is, in conventional social philosophy, an institution (Denman, 1978). Real estate markets can easily be conceived of in institutional terms. Firstly there is a broad institutional form which provides the context for market activity. Secondly, real estate market processes occur in the context of organisational structures (D'Arcy & Keogh, 1996). Keogh & D'Arcy (1999) illustrate a three-level hierarchy for the institutional analysis of real estate markets (see table 2.1). At the topmost level, the real estate market exists within an institutional framework defined by the political, social, economic and legal rules by which the society in question is organised. At the next level, the real estate market itself can be considered an institution with a range of characteristics which determine its structure, scope and functions. At the bottom level, the main organisations which operate in the market can be considered in terms of the way they are structured and the way they change.

In general the higher levels tend to structure the lower levels. The direction of influence however is not only downwards. This point was stressed in the discussion about the relationship between institutions and organisations. The relationships between institutions and organisations between and within these levels are dynamic and interactive (Keogh & D'Arcy, 1999). Institutions and organisations at all levels in the hierarchy will exert influences on each other, and on economic outcomes, in complex ways.

Table 2.1 The institutional hierarchy of real estate markets

The Institutional Environment
Political Institutions
Social Institutions
Economic Institutions
Legal Institutions

The Real Estate Market as Institution
Market (and non-market aspects)
Decentralised and informal
Legal and conventional aspects of property rights
Legal and conventional aspects of land use and development

Property Market Organisations
Users
Investors
Developers
Property service providers
Financial service providers
Professional bodies
Government and non-government agencies

Source: Keogh & D'Arcy, 1999:2407.

According to D'Arcy & Keogh (1996) the political system contributes to the institutional environment of property in a number of ways. Examples include the establishment of consensus on governance, the definition and protection of property rights, the definition of political rights and the distribution of power in the society. The economic structure provides the environment in which economic expectations are shaped and the organisation of financial and asset markets. Legal systems for their part encompass general legislation and property related legislation. Finally social structures embody attitudes towards the role of property in society and are reflected in patterns of property ownership and the way in which property is transacted and held.

The hierarchical structure in table 2.1 provides a useful framework for the analysis of real estate markets. The structure has clearly been developed with formal real estate markets in mind, but can be easily applied to informal ones. Depending on which level or variable is treated as exogenous, a number of research questions can be tackled in both types of real estate markets. For example, given the institutional environment, what sorts of property markets emerge (formal or informal)? Given institutions such as the nature of property rights, what incentives do users, developers or investors face? What constraints do property market organisations face, given the institutional environment? Given the organisation structure of the property market, what transaction costs must participants in the market face?

The NIE could contribute to the analysis of property markets in a number of ways. Fundamentally, institutional analysis directs attention to the importance of the institutional environment within which property market activity takes place and the institutional structure of the property market itself. A broad range of property issues then become amenable to institutional analysis. For example, within the framework of institutional analysis, D'Arcy & Keogh (1999; 1996) argue for the explicit consideration of the 'property market process'. According to Armitage & Keogh (1996) the property market process is specific to the market in question and may be defined variously in terms of the institutions which collectively constitute the property market, the legal framework which constrains the operation of those institutions, and a set of conventions which govern the way that actors operate and perceive opportunities in the market. To this we can add the effect of these institutions and conventions on economic outcomes.

The property market process approach stresses the (institutional) evolution of market systems and the importance of the different stages of market development. The approach focuses on factors such as the range of property products, the legal structure of property rights and the professional infrastructure which supports trade in property (D'Arcy & Keogh, 1996). The evolution of property markets towards more 'maturity' is essentially the evolution of institutions supporting these markets.

Keogh & D'Arcy (1994 cited in Armitage & Keogh 1996) identified six factors which they say are associated with property market maturity. These are (1) the accommodation of a full range of use and investment objectives, generally through the development of diverse property products, (2) flexible market adjustment in both the short and long run, implying effective trade and the ability to react to new information and opportunities, (3) a sophisticated property profession with its associated institutions and networks, generally regulated by law and/or professional codes of practice (4) extensive information flows and research activity, (5) market openness in spatial, functional and sectoral terms, (6) standardisation of property rights and market practice, meeting the need for greater certainty about the nature of the property interests traded in the market.

It is obvious that these factors will be absent or weakly present in informal real estate markets, leading to the conclusion that these markets are less mature than formal ones. Implicit in this view is that informal real estate markets are or must be encouraged to evolve towards greater maturity i.e. more formality.

2.4 Real Estate Markets and Poverty: A Conceptual Framework for Research

As pointed out before, one of the distinguishing features of real estate markets in comparison to other markets are relatively high transaction costs (Liu *et al*, 1990; Clapp *et al*, 1995). After Furubotn & Richter (1998), transaction costs in real estate markets can also be broken down into three categories. These are search and information costs, bargaining and decision costs, and supervision and enforcement costs

As argued above, realising the latent benefits of real estate presupposes exchange in the capital, rental or development markets. The point has been made that high transaction costs may cause markets to fail or not to function well. Well-defined and secure property rights for their part play an important role in creating incentives, lowering transaction costs, increasing demand for and investment in real estate. All these have potentially the effect of fostering exchange in real estate markets and enhancing social and economic welfare.

As Alston *et al* (1999) emphasise, real estate is often the major, if not only, asset held by the poor and 'their ability to claim and sell land and then to move on to settle, claim and sell yet again and again is a critical element in social and economic advancement'. Through this process, according to the authors, individuals eventually accumulate enough wealth to stay on site permanently. The key in this process are property rights. The authors argue that secure tenure allows the development of wider markets, encouraging land to be used for highest-valued uses and allowing owners to capture capital gains from sales (Alston *et al*, *ibid*.) The authors also make the point that if property rights are enforced, uncertainty of control is reduced, allowing individuals to focus on productive activities, instead of spending scarce resources on defending their claims. All this has salutary effects on poverty alleviation.

The context is settlement on the Amazon frontier but the principle has clear relevance to the urban poor in most developing countries, where the desirable end-state may be full integration into the formal sector. Research in urban settlements of Ecuador, Hungary, the Philippines and Zambia for example show that housing is by far the most important productive asset held by urban poor (Moser, 1998). In many ways, informal settlements can legitimately be conceived as frontier regions for new immigrants, being a point of entry into the formal urban economy (see for instance Berner, 2000). While Alston and others emphasise property rights in their analysis, transaction costs are equally important as it is these which ultimately determine if markets will function well.

The thesis of this research is that both (relatively) high transaction costs and inappropriate and/or inadequate property rights configurations account for the failure to unlock the potential of real estate to create wealth. The contention is that relatively low transaction costs and secure property rights in real estate markets are a necessary (but not sufficient) condition for the unlocking of the potential of real estate to alleviate poverty. These two factors create conditions that make it possible for large numbers of secure and impersonal transactions in a decentralised market to take place.

Contrary to conventional wisdom however we argue that higher transaction costs and insecure property rights are not an inevitable feature of informal real estate markets. Antwi & Adams (2003:69) puts this argument succinctly thus: “From one’s understanding of the economics of property rights, there are no automatic reasons why insecurity and lack of clarity of property rights should result simply because transactions are organized informally. Indeed informal transactions may predominate precisely because this mode of organizing transactions may be better attuned to available opportunities. This would be the case if the costs of organising transactions differently far outweigh the benefits…”

Indeed many studies (for example Antwi & Adams, 2003; de Soto, 2000; Omirin & Antwi, 2004) have shown that navigating the formal system may be too costly for the poor. In the context of real estate transactions the formal system prescribes the use of lawyers, conveyancers and other professionals who come at a cost. In addition there are costs arising from bureaucratic procedures such as delays and corruption. If these costs are excessive activities will be driven into the informal sector. Thus informality may be an optimal solution to the complications of the formal legal process (de Soto, 2000; Pamuk, 2000).

On the other hand informal real estate markets are not without their own problems. Fekade (2000) for instance notes that participants in informal markets are faced with problems such as conflicting and unrecorded ownership claims, multiple sales of the same property and other costs arising from insecurity of property rights. In similar fashion Kironde (2003) observes that while the informal real estate market is credited with supplying land at low cost, it exhibits a number of problems, principally high transaction costs and defective property rights. These, according to Kironde, include lack of information on land availability relying on communication by word-of-mouth, considerable possibility of fraud, and lengthy negotiations. In addition he argues that there is no general framework for setting prices and that land acquired has no official title. Kironde offers no empirical support for these conclusions but nevertheless highlights issues of interest.

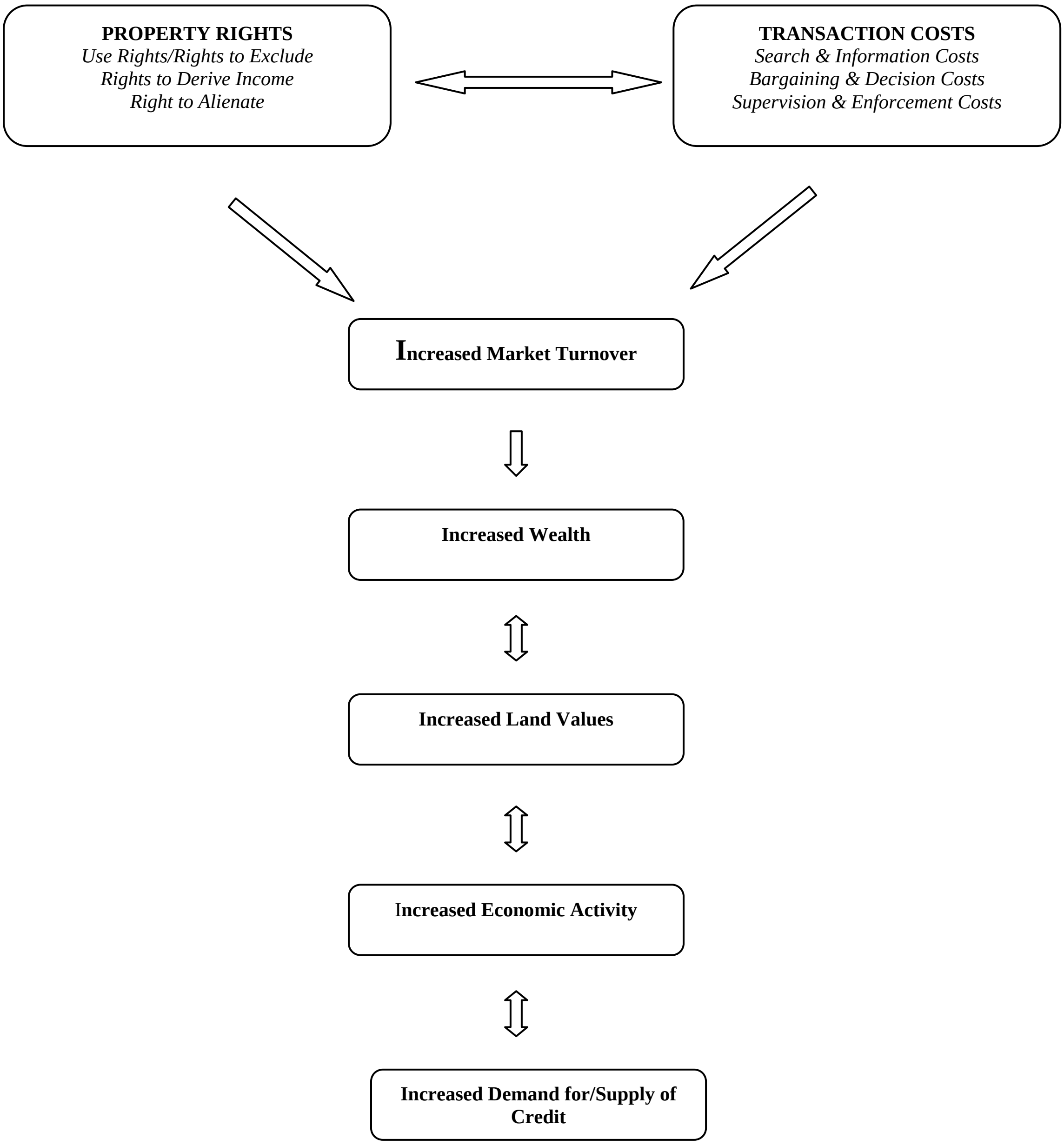
The question of the relative levels of transaction costs and security of property rights, as well as their effects on real estate markets and incentives, is therefore a matter of empirical investigation in each specific case. This forms the raison d'être for this research.

The link between property rights, transaction costs, real estate markets and poverty alleviation is illustrated in figure 2.1. As the figure indicates, there is a dynamic two-way relationship between property rights and transaction costs. Well defined, secure and well enforced property rights reduce transaction costs - by clarifying property boundaries, validating ownership rights and making those rights easily transferable (Lanjouw & Levy, 2002). The need for extensive search of ownership is thus obviated (Pamuk, 2000). Similarly it reduces resources spent on private enforcement (Field, 2003). Low transaction costs for their part stimulate the demand for secure property rights as a prerequisite for engaging in market exchange.

Secure property rights and low transaction costs are predicted to increase market turnover, by expanding market depth and making it easier for exchange to take place. Increased market activity provides opportunities to realise capital gains, as well as gains from the letting and development markets. This in turn should increase aggregate wealth, resulting in increased demand for, and values of assets including real estate. Increased aggregate wealth and higher land values should stimulate increased general economic activity, increasing the demand for credit and therefore the need to use real estate as collateral. A self-reinforcing virtuous cycle should then kick in.

Crucially, all these outcomes are predicated on the existence of facilitative institutional arrangements/regulatory frameworks.

Figure 2.1 Property rights, transaction costs, real estate markets and poverty alleviation: a conceptual framework.



It will be noted from figure 2.1 that the demand for credit (and therefore the need to use real estate as collateral) will only reach significant levels once a certain threshold of economic activity has been attained. As many studies have shown, the demand for formal credit in informal settlements for purposes other than consumption is low (Gilbert, 2002; Smith, 2003; Varley, 2002; Ward *et al*, 2004; Ward, 2003;). This can be explained by the lack of opportunities to invest such credit. Deininger & Binswanger (1999) note that titling will confer benefits, but only under conditions where informal land transactions are common, a credit market that permits the use of title as collateral exists and profitable investment opportunities exist. The latter two conditions are likely to be absent in many informal settlements. Credit supply depends on the lenders' confidence that they can foreclose (Smith, 2003). However for cultural and economic reasons it may not be possible to repossess land as a consequence of default, rendering formal credit markets impossible.

The emphasis in some of the literature on the link between formal property rights, access to credit and improved welfare is therefore premature. The immediate task is to increase turnover in markets. This of course means directing attention to those factors that impede exchange. The key therefore is to gain a better understanding of transaction costs in informal real estate markets and how they are mediated before taking prescriptive action. This means examining how formal and informal institutional arrangements work to facilitate or hinder the functioning of real estate markets in informal settlements. Property rights, due to both their incentive effects as well as their effects on reducing transaction costs, are clearly important.

Following on from our conceptual framework, real estate markets in informal settlements will need the following attributes if they are to be a tool for poverty alleviation:

- Well defined, secure and enforced property rights
- Liquidity i.e. frequent numbers of impersonal transactions
- Low levels of uncertainty with regard to individual transactions
- Low levels of transaction specific investment, such as security deposits.
- Facilitative regulatory framework/institutional arrangements.

This conceptual framework is consistent with, and dovetails with the emerging consensus in conceptualisation of poverty, the so called vulnerability/capital assets framework. Under this conceptualisation, poverty is seen as vulnerability to insecurity, impoverishment and reduced self-respect of households which lack assets that they can mobilise and manage in the face of hardship (Rakodi, 1999; Moser, 1998). Poor households are seen to be managers of portfolios of assets which constitute a stock of capital which can be stored, accumulated, exchanged or depleted and put to work to generate a flow of income or other benefits (Rakodi, 1999). These assets include tangibles such as labour and human capital, housing and largely intangible assets such as household relations and social capital (Moser, 1998).

According to Rakodi (1999) the crucial determinants of households' ability to achieve increased well-being are their access to these capital assets and the effects of external conditioning variables which constrain or encourage the productive use and accumulation of such assets. Moser (1998) goes on to point out that operationally the vulnerability/capital assets framework facilitates interventions promoting opportunities, as well as removing obstacles, to ensure the urban poor use their assets productively. A more detailed discussion of this approach to poverty is given in chapter 3.

The following sections review the theoretical and empirical literature relating to real estate and poverty.

2.5 Hernando de Soto and 'The Mystery of Capital'

The 'popular economics' of Hernando de Soto is perhaps a fitting place to begin a survey of the literature. In the words of Jones (2003) de Soto has placed a largely well known discussion of property rights, legal reform and state intervention into an anti-poverty discourse. The central message in de Soto's *Mystery of Capital* is that the poor in developing countries possess immense resources, but they hold these resources in defective forms. As de Soto puts it (de Soto, 2000:6) " because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow circles where people know and trust each other, cannot be used as collateral for a loan and cannot be used as a share against an investment".

De Soto describes these resources as 'dead capital' to emphasise the point that they cannot be deployed to create wealth. In describing the 'undercapitalised' informal sector that is the abode of this dead capital de Soto (2000: 29-30) says: "It is a world where ownership of assets is difficult to trace and validate and is governed by no legally recognised set of rules; where the assets' potentially useful economic attributes have not been described or organised; where they cannot be used to obtain surplus value through multiple transactions because their unfixed nature and uncertainty leave too much room for misunderstanding, faulty recollection and reversal of agreements. Where most assets in short are dead capital".

In more formal terms de Soto is arguing that ill-defined and enforced property rights result in high transaction costs, thereby impeding the development of impersonal exchange systems he argues as being necessary for the creation of surplus value. In practical terms de Soto is advocating the formalisation of property ownership in the 'extra-legal' sector, and the simplification of procedures for granting formal property.

Perhaps not unexpectedly, considering the polemical nature of his discourse, de Soto's arguments have elicited some fairly robust criticism. Payne (2002:11) argues that that de Soto fails to provide any empirical evidence to support the posited causal relationship between the development of property rights and increasing prosperity of the West. It is indeed unlikely that a complex outcome such as the development of the advanced industrial nations can be reduced to the one institution of property rights, however significant its role might have been. On the flip side de Soto appears too hasty in dismissing other potential causes of poverty in Third World Countries, such as culture. It is unlikely that the complex problem of under development can be attributed to a single factor, that of a lack of titles and deeds, however compelling the argument (Sachs, 2005). Sachs (*ibid*.: 56ff) identifies poverty itself, adverse physical geography, insufficient fiscal resources, governance failures, cultural barriers, geopolitics, lack of innovation and high fertility rates as more complete explanatory variables.

Not surprisingly, there have been calls for empirical validity of de Soto's arguments. Critics have for instance noted that interest among the poor in possessing property title have been found to be quite low, the security of such title overrated and the necessity of title to extend a finance market for reasons other than consumption largely unproven (Jones, 2003; Smith 2003). Ward (2003) observes that it is not only legality and secure property titles that prime the market. Indeed evidence exists of active informal real estate markets in many countries, where property is exchanged without official approval or legal documents (Gough & Yankson 2000; Peyroux 1995).

A major research project commissioned by the UK government's Department for International Development (DfID), and recently completed, had as its main aim to test de Soto's thesis of a linkage between property rights and poverty (Home & Lim, 2004). Teams of researchers undertook empirical work in peri-urban areas in Botswana, Trinidad and Zambia. The overall results with regard to the main aim of the research project can be fairly described as ambiguous.

This project directly engages with the main aim of this research and therefore deserves a detailed review. The study found little evidence of market activity in peri-urban plots "with plot-holders more likely to pass their land to relatives…than sell" (Home & Lim 2004). This finding is consistent with the observation by Doebele (1994) that anecdotal evidence suggests that real estate markets in informal settlements are not well developed despite considerable *de facto* security of tenure. Home and Lim attribute this to 'resistance to market pressures', resulting from the conception of land as a security and welfare support rather than as a tradable asset. The conclusion here appears to be that de Soto's ideas cannot work because, for social reasons, people will not participate in the market even if they are granted formal property rights. An equally plausible explanation for little market activity on the other hand, which the authors do not address either theoretically or empirically, is the possibility of high transaction costs in these markets.

Another major finding of the research was that there was widespread aversion to the use of land as collateral. According to Home & Lim (2004) land tenure regularisation is supposed to facilitate access to finance but the plot holders in all the three countries were reluctant to pledge title deeds in case they lost their land. This finding is also consistent with results elsewhere. In our view the emphasis in the literature, including by de Soto, on the value of real estate as collateral for accessing formal credit is misplaced and premature in many cases. It must be noted however that a finding of risk aversion to mortgages is not the same as finding that formal credit is not beneficial to poverty alleviation efforts.

The study could be criticised on methodological grounds. The research adopts an essentially anthropological approach to address a question whose theoretical substrate is in economics. Because de Soto writes in a 'popular' style, the fact that his ideas are grounded in a strong theoretical framework remains obscure. De Soto's work is an example of the application of property rights theory, which as we have seen together with transaction cost theory, is a key part of the New Institutional Economics (NIE).

Those not fully conversant with this theoretical framework are therefore likely to deal with de Soto's ideas rather superficially. The research team of land surveyors, planners, a lawyer and a social anthropologist would have benefited from the added perspective of a land economist. The research thus missed a valuable opportunity to examine the land market process in these peri-urban areas, and thereby help to illuminate an area that has not been well studied (Antwi & Adams, 2003; Gough & Yankson, 2000; Kironde, 2000; Payne, 1997).

2.6 Real Estate and Poverty Alleviation: Theory and Evidence

Conventional economic theory holds that secure property rights to real estate, especially individual rights, are a prerequisite for land development and economic growth (Miceli *et al*, 2001). The gains from secure property rights in the literature are seen as arising from three things. Firstly, secure property rights creates conditions that encourage investment, by making long term planning possible as well ensuring that rewards from the investment will be appropriated by the investor. Secondly, property rights make possible the functioning of credit markets and the use of real estate as collateral. Credit does not only leverage the use of real estate as an asset but provides resources for increased investment as well. Finally secure proper rights makes commerce between strangers easier, expanding opportunities and thereby increasing gains from trade.

The conventional practice to the provision of secure property rights in urban areas has been the promotion of individual property titling. Literature on the effects of property titles has largely focussed on the three outcomes alluded to above, and established in a paper by Besley (1995): gains from trade in land, greater investment incentives, and improved credit access (Field, 2003; also Smith, 2003). Alston *et al* (1999) see the promotion of market formation as one of the primary outcomes of a property rights regime. According to the authors, clear and recognised property rights have three salutary effects. Firstly, they assist in attracting buyers, thus supporting wider markets. Secondly, they allow owners to focus scarce resources on productive rather than defensive activities. Thirdly, they promote investment by creating incentives for longer term planning horizons on one hand and making mortgage finance feasible. The World Bank (2003) argue that the existence of clear and well defined property rights prevent the dissipation of valuable resources in attempts to secure and define such rights by individuals. Similarly, Deininger & Binswanger (1999) and Deininger & Chamorro (2004) for their part list reduction of private enforcement activities, greater incentives for investment, access to credit and increased transferability of land as the key benefits of secure property rights. Formal property titles reduce information asymmetry about land ownership and quality or transaction costs generally, thus encouraging the development of wider markets.

For the above reasons, property titling has increasingly been considered as an effective form of government intervention for targeting the poor and encouraging economic growth in urban areas (Field, 2003). It is seen as the main instrument for increasing land tenure security, stimulating land markets and facilitating the use of land as collateral in credit markets (Lanjouw & Levy, 2002; Deininger & Binswanger, 1999; Deininger & Chamorro, 2004). Ward (2003) list the positive outcomes associated with full property title regularisation, reflecting conventional wisdom in this area, as follows:

- Provides security against eviction.
- Brings people into the market from which they can benefit by free sale at full market price.
- Raises land values.
- Provides incentives that stimulate investments in home improvements and consolidation.

- Makes possible the introduction of basic services such as electricity and water.
- Generates greater access to credit by using the home as collateral on loans.
- Incorporates residents into the property-owning democracy and citizenry.
- Integrates settlements and property into the tax and regulatory base of the city.

It will be apparent that many of these outcomes would potentially have the effect of reducing poverty. However, as shall be argued presently, a number of problems appear to stand in the way of achieving the claimed benefits of land titling (as an aspect of property rights) in poverty alleviation. Two problems are apparent in this regard. Firstly, the lack of clarity, in theoretical terms, of the link between land titling and the dominant conceptualisations of poverty and policies and strategies for its alleviation, as seen in the wider development literature. Simply put, the relationship between secure property rights and poverty alleviation, while frequently asserted to exist, is not sufficiently articulated in terms of current orthodoxies. The second problem arises from the lack of unequivocal empirical evidence to support the claimed benefits of property titling. Results of empirical research addressing the effects of formal property rights have not produced unequivocal results one way or the other. Doebele (1994:52) summarises the state of affairs succinctly thus:

> The assumption that markets that are 'formal' or 'regularised' are more efficient and productive is not yet proven. On the other hand, some of the literature argues that 'informality' and illegality reduce the costs of land and housing for the urban poor. Others argue that as long as the poor are insecure as to the legal status of their homes, their major assets in life, they will never enjoy full access to the economic and political system. One of the most interesting reviews of this issue ... concludes that the current state of research does not permit prediction of whether a more formalised land market is likely to benefit or harm the poor.

As alluded to above, the empirical literature addressing the effects of property rights has tended to focus on influence of property titles on three outcomes, namely land investment, access to credit and real estate market development. Within that troika most studies have tended to emphasise one aspect, the notable exception being the study by Besley (1995). Besley (*ibid.*) reports on his investigation of the relationship between investment and land rights in Ghana. He tests the hypotheses that (i) security of tenure encourages investment, that (ii) security of tenure makes access to formal credit easier (encouraging investment as a result of increased demand as well as lower interest rates), and that (iii) security of tenure lowers the cost of exchange. Besley finds that the data are supportive of his models (*ibid.*:910). Besley concludes that there are gains from trade arising from easier transfer of rights in the capital and rental markets and that better rights to land encourage or facilitate investment, but that these need not to be formal transfer rights (Rakodi, 1999).

Property rights theory predicts that stronger property institutions, such as formal titling, will shift the burden of property protection and enforcement away from the individual to the state. Thus households are expected to increase employment and other activities outside the home (Field, 2003). According to Field, (*ibid.*) the rationale for the prediction is that in the absence of formal legal property protection, households and informal communities have an incentive to provide their own human resources for residential security. These resources do have an opportunity costs. In addition households may be tied down to their homes, constraining their ability to pursue opportunities further afield.

With this in mind Field (2003) in Peru explored the question of whether receiving a legal property title reduces the likelihood that households keep individuals at home and inside the community to protect property and leads them to increase employment and leisure hours outside the home. His findings suggest that households in titled communities devote fewer human resources to informal property protection, both at the household and the community levels, and more resources on productive activities outside the home. Field summarises the research thus:

> In particular, formal property ownership is associated with a significant reduction in the amount of time household members spend inside the home, including a 48% decrease in the fraction of households that locate entrepreneurial activities inside the home and a 36% reduction in the fraction of households that report keeping individuals at home to protect property. In a parallel fashion, urban land titling is also associated with a

> greater number of both labour and leisure hours spent outside the home: newly titled households work an average of 17% more hours than do squatter households awaiting a title, and are also 38% more likely to participate in organized activities outside the home. Finally, although household members in titled communities spend a greater number of total leisure hours in activities outside the home, they are significantly less likely to participate in neighbourhood groups responsible for public goods provision, including property allocation and protection, in informal communities. Meanwhile, the number of households that have used the formal judicial system is significantly higher in titled communities. All of these results suggest that households in titled communities indeed devote fewer human resources to informal property protection, both at the household and the community level (Field, 2003:4).

Oft cited research on small scale farmers in Thailand by Feder and Onchan (1987) and Feder and Feeny (1991) found that formal titles and collateral play an important role in economic development (Alston et al, 1999). Research by Alston and others in the Brazilian Amazon frontier mentioned earlier show that title is "a vital institution in promoting investments and in expanding markets" (1999:8). More recently, Durand-Lasserve and Selod (2007) cite evidence from India, Peru and Argentina which show significant effects of titling on housing improvements, in cases amounting up to two-thirds of the baseline level. Citing research by Cantuarias and Delgado (2004:9) in Peru, Payne et al (2007) report that (i) 75% of the population with property titles has invested to improve their homes versus a 39% of persons without property titles; (ii) between 1994 and 1999, the number of rooms per house increased in approximately 20% within the target sector; (iii) families with property titles have more rooms in their homes; and (iv) the families with property titles have better quality homes.

With regard to their impact on land values, the literature broadly supports the claim that title increases land values. With respect to Brazil title was seen to significantly increase land values and wealth, and to create incentives for long-term planning (Alston et al, 1999). Lanjouw & Levy (2002) find that in urban Ecuador the effect of title was to raise values by almost 24 per cent. These results have been corroborated by Kim (2004) who found out that in Vietnam properties with legal title transferred on average between 3–10% cent higher than those with incomplete rights. Deininger & Chamoro (2004) report on results from Nicaragua which show that registered title was found to increase land values by 30% and at the same time greatly increase the propensity to invest. Similar results have been reported for Indonesia, the Philippines, Cambodia and Brazil with value premiums of titled over untitled ranging between 25 to 73% (Payne *et al*, 2007).

A smaller body of literature has on the on the other hand come to the conclusion that the claimed investment benefits of land titles are without empirical foundation. For instance Razzaz (1993) presents results from Jordan which cast doubt on the assumed causal relationship between formal property rights, security of tenure and land investment. Kironde (2000) finds that titles in settlements around Dar es salaam, Tanzania, do not result in significantly higher land values. Durand-Lasserve (2003) point to research in (rural) South Africa which seem to suggest that individualisation of tenure have been found to increase inequality and landlessness, to have little or no impact on the mortgageability or productive use of land, to fall into disrepair after the first set of transfers, and to lead to ever increasing fragmentation of land parcels. A most interesting study, in that it deals with a developed country, explores the impact of title on the performance of land markets in irregular settlements in Texas (Ward *et al*, 2004). The study finds little positive direct relationship between title regularisation and rising property values. These dissenting findings, while non-trivial, are a minority. On balance therefore the literature supports the claim that titles do encourage land investment and enhance land values.

The evidence regarding the effect of land title on access to credit markets is a lot clearer and generally not positive. In the major research project in the peri-urban areas of Botswana, Trinidad and Zambia introduced above, Home & Lim (2004) report that there is widespread aversion to the use of land as collateral in all the three countries. This finding is also consistent with results elsewhere. Ward *et al* (2004) for instance, in the context of *colonia*s in Texas, find that receiving full title made little difference to the residents' propensity to use their homes as collateral. Gilbert (2002) reports similar findings for Bogota, concluding that property titles made little or no difference to the availability of formal finance. Research in Mexico by Varley (2002) comes to broadly the same conclusion, that poor people eschew formal credit as it entailed, in part, a loss of flexibility. Evidence from the nation-wide titling programme in Peru, widely promoted as the world's most large scale and successful example of land titling programmes in reducing urban poverty (Payne *et al*, 2007), show that obtaining a property title has had no effect on the approval rates of private banks and only a limited effect on the approval rates of public institutions (Durand-Lasserve & Selod, 2007, citing Field & Torero, 2006; also Payne *et al*, 2007)). Further studies cited by Durand-Lasserve & Selod *(ibid.*) include Galiani & Schargrodsky (2006) who find that, in Buenos Aires, titling only has a minor effect on access to mortgaged credit and Byabato (2005) who observes that residents in a planned settlement in Dar es Salam would not jeopardize their prime asset by mortgaging it.

The evidence therefore appears pretty strong that titling does not foster credit markets. This is a big blow to proponents of de Soto's ideas which hinge heavily on the ability of poor households to leverage the collateral value of their land. It is not hard to see why the granting of formal titles to the urban poor has not had the desired or expected effects on credit markets. For this to happen three implicit assumptions need to be met simultaneously (Durand-Lasserve & Selod, 2007); first that the investment capacity of these households are hindered by credit-constraints, second, that these households agree to pledge their land and houses as collateral in order to finance business activities, and third, that financial institutions that agree to provide mortgage credit to households in low-income settlements exist and accept the properties as collateral. These assumptions are unlikely to hold simultaneously for many informal settlements. As Durand-Lasserve & Selod (*ibid.*) note households in informal settlements might be reluctant to pledge their only asset as collateral in order to invest in risky businesses while lending institutions may just not operate in informal settlements or may refuse to lend to households in low-income areas. This may be on account of the low market value of mortgaged land and/or the high management costs of small credits which do not provide a sufficiently high return. Finally, residents in informal settlements might have access to other, less formal, types of credit that do not require them to pledge their houses, such as micro-credits. The authors thus conclude that there should be little effect, if any, of formalisation programmes that operate through an alleviation of credit constraints

We can now turn to the last of the three expected outcomes of titling, that of the effect of property title on real estate market activity. Advocates of active real estate markets see them as a means through which households can 'trade-up', thereby improving their economic and social status (Payne *et al*, 2007). The evidence regarding the effect of property title on land market activity is mixed. Some studies have concluded that property title result in an increase in transactions and prices (Durand-Lasserve & Selod, 2007). Research in Ecuador, the Dominican Republic and Cambodia found that formal title had a positive effect on the numbers of transactions in sale and rental markets (Durand-Lasserve & Selod, *ibid*., citing Lanjouw & Levy, (2002), Macours, de Janvry & Sadoulet (2005) and Deutsch (2006)).

Other research have has however taken issue with the often *a priori* assumption that lack of formal title has a negative impact on land markets (Antwi & Adams, 2003; Ward, 2003). Evidence from a study of informal transactions in Ghana for example found out that most of them were the optimal solution in an environment where the formal system is riddled with excessive bureaucracy and cost, and the resulting formal property rights of limited value (Antwi & Adams, 2003). Ward (2003) argues that informal land markets are far from sluggish but rather dynamic with free exchange. It is precisely the informality and poor serviced status that makes housing in informal settlements affordable in the first place (Doebele, 1994; Ward, 2003). Ward argues that housing is firmly entrenched as a commodity within the marketplace in informal settlements, albeit a less regulated one. Kim (2004) presents evidence from Vietnam of property markets functioning very well even with incomplete legal property rights. Similarly in Bogota an active market for plots was found to exist despite the lack of legal titles (Gilbert, 2002). In fact the evidence suggested that, by increasing cost, formalisation of titles in Bogota's informal settlements had the effect of reducing market activity. Thus and as Ward (2003) argues, it is not only de Sotoesque legality and secure property titles that prime the marketplace. In both formal and informal property markets, regulation and restrictions sometimes can, and do, severely inhibit market activity. With regard to the former, the policy ambiguity, procedural complexity and prohibitive cost involved in obtaining titles which legalize ownership of urban land has forced the urban land market to further proceed in the informal or illegal way (Fekade, 2000, citing McAuslan, 1985).

The point to underline here is that one must not make a priori assumptions based on notions of formality or informality. According to Lanjouw & Levy (2002) the key distinction is not whether property rights are formal or informal but rather whether they are transferable or not. Thus stronger rights to the extent that they are not transferable may make it difficult to engage in transactions. On the other hand and as seen with evidence from Vietnam (Kim, 2004, above), real estate markets can function very well even with incomplete legal property rights. This underscores the importance of empirical research to try and provide answers

An additional factor explaining the effect of title on market activity is that it may be the case that the poor are not prepared to view real estate as a marketable commodity like any other (Home & Lim, 2004). Payne *et al* (2007) argue that the newly titled in the main continue to regard their properties primarily as homes, the basis for family and community life, and an asset to bequeath to their children.

It is clear from the foregoing review of the empirical literature that we are still unable to establish unequivocally whether property titles increase market activity. What is clear is that in some *contexts*, title has had positive effects on market activity. Yet in many other cases the anticipated benefits have not materialised. The differential effects of title on market activity could most likely be explained by differences in institutional environments and arrangements.

Before proceeding to examine the gaps in the literature, it is appropriate at this stage to summarise the empirical evidence in terms of the three effects of property title. It is fair to say that available evidence permits the making of definite conclusions in a number of respects. Firstly, with regard to the effect of title on land investment, there is some consensus that there is a positive relationship. Thus it is generally agreed that title promotes land investment and increases land values. Less clear is whether having title increases perceptions of tenure security. It would seem that it indeed does, especially in cases where de facto rights are perceived to be weak. Secondly, the evidence shows that having title largely has no effect on credit markets. Finally, with regard to the effect of title on real estate market activity, the evidence shows that in certain contexts, property titles have had a positive effect on the volume of transactions while in others this result has not been observed. This is clearly an important area for empirical research, one with the aim of clarifying underlying socio-economic conditions under which having property title may lead to increased market activity.

In concluding this section, it is important to note that while there is been much attention placed on property rights, literature that has as a central focus the study of transaction costs in informal real estate markets is rather thin. This could be explained by the well-known problem that transaction costs are notoriously difficult to observe, let alone measure. Gough & Yankson (2000) show evidence from Ghana of markets bedevilled by high transaction costs, with numerous disputes arising due to lack of documentation and poor boundary definition and ill defined property rights, though this is tempered by the high cost of formalisation. Results from Tanzania also make allusion to informal markets hamstrung by lack of information, considerable possibility of fraud, and lengthy negotiations (Fekade, 2000; Kironde, 2000).

2.7 Knowledge Gaps

Overall, a survey of the literature reveals a number of gaps in both theory and empirical evidence. At a theoretical level, the specific linkages between property rights and poverty alleviation have not been satisfactorily made. Thus while property titling programmes, for instance, are frequently presented as an integral part of poverty alleviation programmes in developing countries, the links between the effects of these programmes and the dominant conceptualisation of poverty as seen in the broader development agenda have not been clearly enunciated. The following chapter attempts to bridge this gap. On the empirical front, the major problem identified is lack of basic information regarding the functioning of urban land markets in Africa and other developing countries (Antwi & Adams, 2003; Gough & Yankson, 2000; Payne 1997). This is particularly the case for informal settlements.

Basic questions, for instance, about the numerical size of the informal sector, the volumes of transactions, sums of money involved, the amount of land changing hands, the general pattern of the distribution of land transactions, land prices, or land values have not been satisfactorily answered (Doebele, 1994; Kironde, 2000). We remain relatively ignorant about the behaviour of the actors, the incentives and constraints they face, the cost of exchange that they incur and the mechanisms by which exchange is facilitated.

In particular little systematic attention has been placed on the role of informal institutions that allow markets to function regardless of government regulations (Pamuk, 2000; Rakodi & Leduka, 2003). Formal real estate markets rely on a host of institutional arrangements, organisations and actors to structure and facilitate exchange (see Keogh & D'Arcy, 1999, Jaffe, 1996). These include statutes, land registries, listing agreements, contracts, estate agents, conveyancers, lawyers and so on. These work to reduce transaction costs in these markets.

It is quite clear that informal real estate markets are not served by the same range of institutions as the formal ones and that their nature and consequences not well known. For example empirical evidence on the effects of unclear property rights on transaction costs is limited (Deininger & Binswanger, 1999). It is therefore of interest to find out how the problem of exchange is resolved in institutional terms and the resulting incentives and constraints. Without this knowledge it becomes difficult to see how these markets may aid poverty alleviation and to make prescriptions for improvement.

Another problem identified is that many of the studies are not informed by rigorous theoretical frameworks. This of course reduces their applicability to different contexts.

2.8 Research Agenda

Jones (2003) calls for research, based on robust theoretical and empirical platforms, to demonstrate clearer the links between land markets and poverty alleviation. According to Doebele (1994:44) research must meet four requirements if it has to have impact on policy makers. First it must resonate with issues that have priority in the mental agenda of policy makers concerned. Secondly, it must be done within an established intellectual framework that makes it comparable with other work on the same subject. Thirdly it must have the ability to be predictive. Finally, it should be in a form that suggests prescriptions for policy.

This research aims to meet these challenges. Firstly, the incidence and visibility of urban poverty in Namibia, as in many other developing countries, is such that it cannot be ignored. Secondly, conceptual tools of the New Institutional Economics (NIE), principally theories of property rights and transaction costs, provide an appropriate theoretical framework for such research. These bring strong predictive and prescriptive capabilities to the analysis of real estate markets.

The gaps in the literature identified in the previous section provide clear entry points for a research agenda on the interface between real estate markets and poverty alleviation. At a theoretical/conceptual level the linkages between real estate markets and poverty alleviation or capital accumulation need to be clarified. At the empirical level there is much that we do not know about how these markets function, let alone how they affect household welfare. There are a number of research questions that need addressing, first asked over 10 years ago by Doebele with respect to what he termed the second hand housing market (Doebele 1994:50). They are worth repeating here verbatim both because of their currency and the fact that they have hardly been addressed.

> Why do so few re-sales appear to be taking place in informal settlements (if indeed such is the case)? When do they occur, to whom are the plots or properties sold and how is the price fixed? How do sellers use the proceeds of their capital accumulation, and what economic consequences result? For example are the proceeds from such sales generally used to purchase better housing, to capitalise micro-enterprises, or to fulfil one-time social obligations such as weddings or funerals? Does the exclusion of land and housing from formal markets actually cause them to appreciate in value more rapidly than they would be if they were formally marketed? Is the absence of a second hand market constraining an efficient urban property in general? How does sluggishness in such a market affect the succession or (filtering) phenomenon in which marginal housing stocks receive and pass up successive categories of urban migrants?

Jones (2003) urges a more systematic audit of policies such as squatter upgrading and tenure regularisation in order for them to be associated with poverty alleviation. He argues that research needs to determine the impact of reform on the poor and the consequences on land markets, specifically on land prices within and without regularised settlements, and the perception of various agents.

Jones (2003) goes on to ask pertinent questions: "As the poor already invest in their homes, is access to finance the only or principal mechanism by which regularisation addresses generation-to-generation poverty established by the denial of property rights? Are reforms creating new forms of illegality that might be more complex to resolve and which might lock the poor into more exclusionary social or spatial patterns?"

Additionally, the following questions need answers: What institutional arrangements facilitate or constrain the function of informal property markets? What incentives or constraints do actors face? What is the case for reform? What is the (potential) contribution of real estate to poverty alleviation?

This research aim to provide answers to some of these questions in the context of Namibia's informal settlements. A better understanding of these markets is necessarily if they are to be marshalled in the fight against poverty. As Jones (2003) puts it, we need to know more about how governments can intervene to reduce land transaction costs without setting unrealistic regulations that raise land prices to the poor (Jones, 2003).

Informal real estate markets are increasingly going to be very important. The poor in developing country towns and cities are hugely dependent on informal commercial markets to have access to land, housing and infrastructure (Mitlin, 2003). As vacant land becomes scarce due to rising population, the market will increasingly become the only mechanism by which urban residents will be able to acquire this commodity. Recent research, for example, confirms that the market is a significant source of land in two of six African cities studied (Rakodi, 2005).

This research therefore aims to "demonstrate clearer the links between land markets and poverty alleviation" (Jones, 2003) and in a manner that "takes into account the complex relations and processes engaged in residential land production and distribution" (Jones & Ward, 1994b:13).

The research complements and extends recent studies examining informal land delivery systems in six other African countries (Rakodi, 2005; Rakodi & Leduka, 2003). The latter focussed on informal mechanisms for delivering vacant plots for residential development while this study is interested in the broader real estate market to include sales, rental and development of completed structures.

2.9 Concluding Summary

The purpose of this chapter has been to provide the conceptual framework for the research problem identified in chapter one, as well as to review the theoretical and empirical literature relevant to the problem. Early sections of this chapter introduced the basic tenets of the NIE, namely institutions, transaction costs and property rights. The way in which the NIE could contribute to the analysis of real estate markets has been illustrated. Finally the theoretical predictions provided by transaction cost theory and property rights theory have been used to develop a conceptual framework linking real estate markets and poverty alleviation. Later sections reviewed the theoretical and empirical literature on real estate and poverty and demonstrated that there are significant gaps in our knowledge of the subject matter. The chapter ends with an articulation of the research agenda to which this study contributes.

CHAPTER 3: URBANISATION, INFORMAL SETTLEMENTS AND POVERTY ALLEVIATION - CONCEPTS AND POLICIES

3.1 Introduction

This chapter reviews the broad context within which urban informal settlements exist and are conceived. The chapter critically examines the policy framework underpinning conventional thinking about problems of urbanisation, informal settlements, poverty and real estate. The focus is on the policy prescriptions of international agencies, particularly those of the World Bank, UN-Habitat and the UNDP. As Zanetta (2001) puts it, the policies of these agencies constitute the single most important determinant of urban policies worldwide. The thinking and programmes of these institutions have had a profound effect on the urban landscape of many developing countries.

The chapter is organised into six sections. The next section provides a broad overview of urbanisation and the growth of informal settlements. Section 3.3 traces the evolution of urban policy in response to the problem of informal settlements. This is followed in section 3.4 by a discussion of concepts and policies relating to (urban) poverty. Drawing on the previous sections, section 3.5 attempts to link the broad urban policy framework to informal real estate markets and poverty alleviation. Conclusions follow thereafter in section 3.6.

3.2 Urbanisation and Growth of Informal Settlements

2007 saw an important milestone in human history, with the majority of world's population living in urban areas for the first time. The world's urban population is projected to grow by more than 2 billion by 2030, while the rural population will stabilise and then decline by an estimated 20 million (UNDP, 2005, UN-Habitat, 2003). By that time, three out of every five people in the world will be living in cities (Beal, 2000). According to the UNDP (*ibid*.) 94% of this urban population growth will be in the less developed regions, principally Africa, Asia and Latin America. It is estimated that by 2030 50% of the population in developing countries will be concentrated in urban areas (Zanetta, 2001) Thus virtually all the additional needs of the world's future population will have to be addressed in the urban areas of low and middle income countries (UNDP, 2005; Rakodi, 1997).

Africa has traditionally been one of the least urbanised regions of the world, with less than a fifth of the population on the continent classified as urban at the beginning of the 1960s (Rakodi, 1997). Current rates of urbanisation are estimated at between 30 and 40% (Jones & Nelson, 1999:1). However, as the authors point out, growth of urban populations have been very rapid. Between 1960 and 1990, the large capital cities have grown at an average of 7 to 8% per annum. Citing United Nations forecasts Jones and Nelson (*ibid.*) point out that between 1980 and 2010 about 422 million people will be added to Africa's urban population. The growth in the first ten years of the 21st century alone is estimated to add 162 million people (Tipple, 1999:71). By 2020 over half of Africa's population will be urban (Rakodi, 1997).

Moving in parallel to the urbanisation process has been a proportionate increase in urban poverty. The high rates of urban growth pose enormous challenges for urban management, making it extremely difficult for urban authorities to provide low-income housing, urban services or sufficient employment (Jones & Nelson, 1999). The result has been a proliferation of generally unhygienic settlements variously called slums, squatter, illegal or informal settlements.

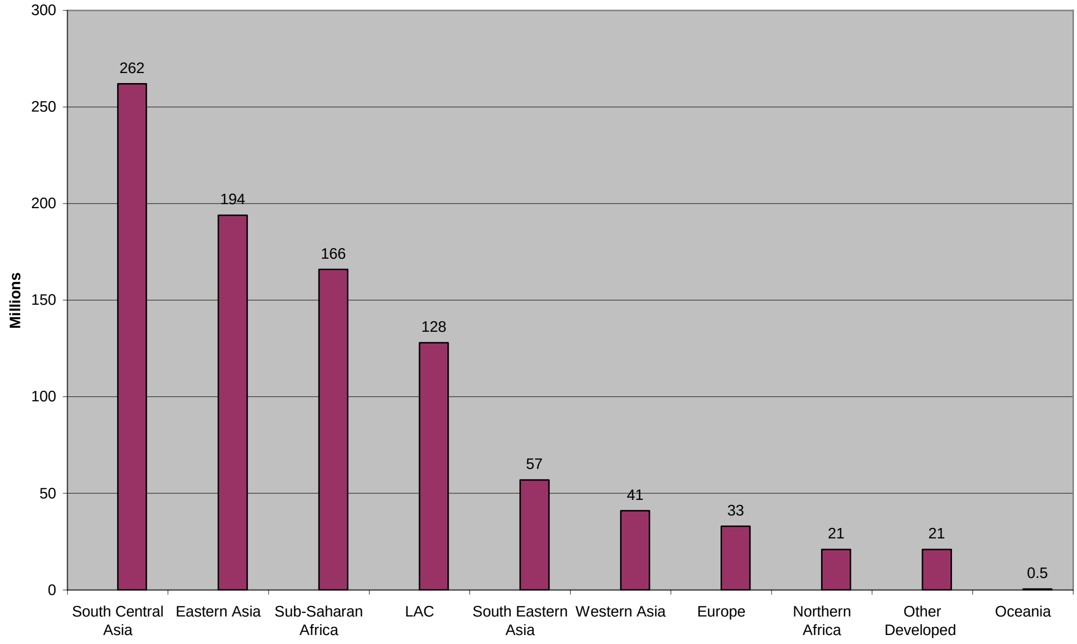
There are differences in the meaning of terms such as slum, shanty, squatter settlement, informal housing and low income settlement. Informal settlements are thus not synonymous with slums. The former tend to be defined in terms of the absence of formal property rights while the latter in terms of substandard physical conditions. The defining features of slums are high densities, low standards of housing and squalor (UN-Habitat, 2003). It is quite clear that some informal settlements are not slums and that some slums are not informal settlements. There is however a good deal of overlap between these various types of settlements and for most practical purposes can be seen as interchangeable. With regard to informal settlements and slums for example, a number of definitions consider lack of security of tenure (i.e. inadequate property rights) as a central characteristic of slums (UN-Habitat, 2003). By this definition, a lack of any formal documentation entitling the occupant to occupy the land or structure is taken as prima facie evidence of illegality and slum occupation.

Thus informal or unplanned settlements are often treated as synonymous with slums (UN-Habitat, *ibid*). This is the approach adopted in this study. It is however important to bear in mind that references to slums or informal settlements involve a wide variety of types, with the quality of dwellings in such settlements ranging from the simplest shack to substantial permanent structures, while access to water, electricity, sanitation and other basic services is usually limited (UN-Habitat, 2003).

Slums represent the most obvious indicator of urban poverty. As UN-Habitat puts it, they represent a physical and spatial manifestation of urban poverty and intra-city inequality (UN-Habitat, 2003). An enumeration based on an 'operational' definition of slums (UNDP, 2005:12) has generated a global figure of 924 million people currently living in slums. Thus about one of three urban dwellers- one of every six people worldwide- lives in a slum (*ibid.*).

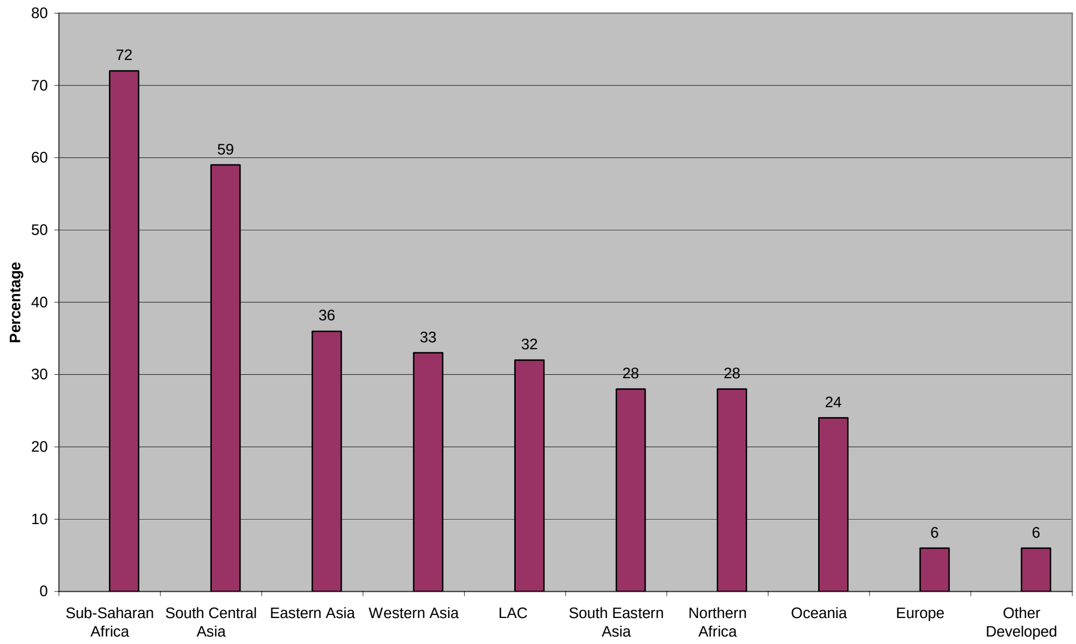
Overall, 43% of the urban population in the developing regions live in slums, with the figure rising as high as 78% in the case of urban residents of the poorest countries. The largest absolute numbers of slum dwellers are found in Asia with the largest cluster found in the two largest countries in the region, China and India (UNDP, 2005:12, citing UN-Habitat, 2003; see figure 3.1). Sub-Sahara Africa on the other hand has the highest proportion of slum dwellers at over 70% (figures 3.2 and 3.3), reflecting the region's status as the poorest in the world.

Figure 3.1 Slum populations by region



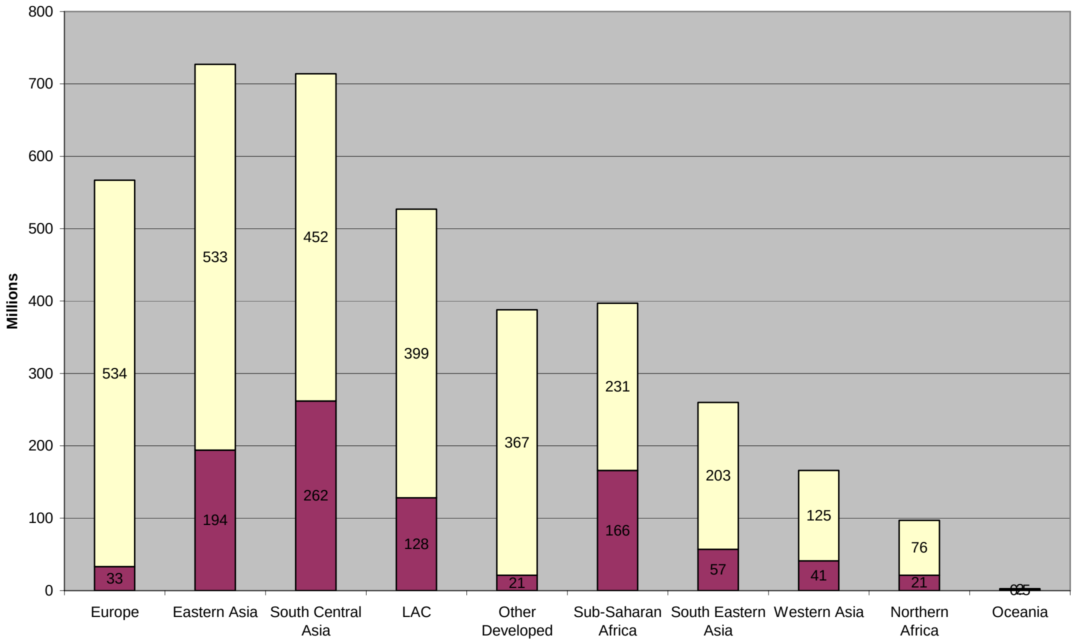
Source: UN-Habitat, 2003:14

Figure 3.2 Slum population as a percentage of urban population by region, 2001



Source: UN-Habitat, 2003:15

Figure 3.3 Proportion of slum dwellers in urban population by region, 2001

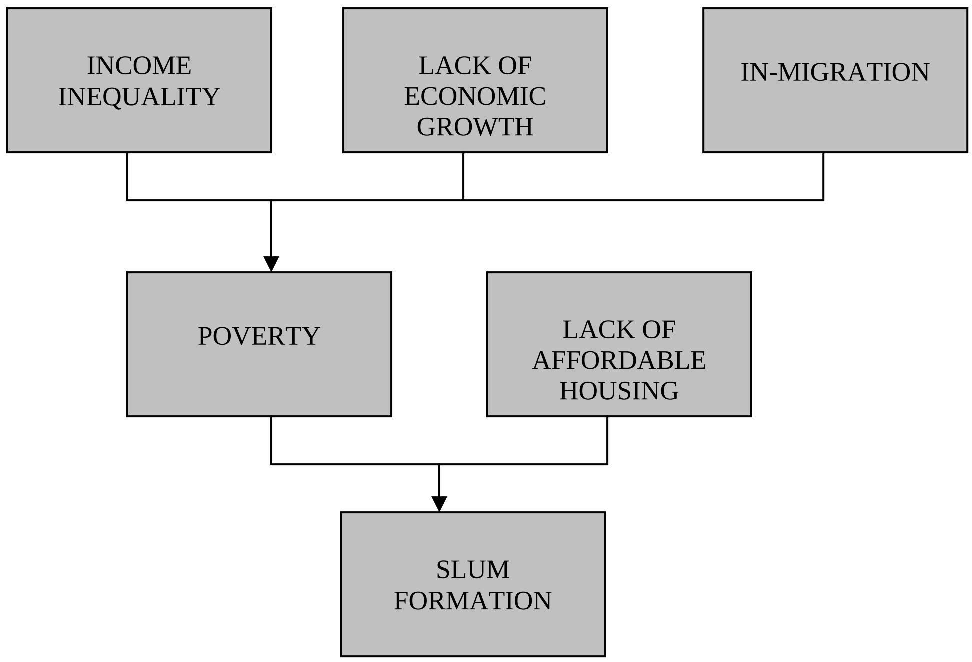


Source: UN-Habitat, 2003:15

Even with current efforts and numerous initiatives to try and deal with the problem, the prognosis is not good. For instance, the UNDP (2005) argues that even if the percentage of slum dwellers in urban areas remains the same, by 2030 almost 1.7 billion of the expected 3.9 billion urban dwellers in low and middle income countries will be living in slums.

As has been alluded to earlier, there is a wide variety of informal settlements types, reflecting differences in socio-political, economic and physical contexts. It is however recognised that the formation of these settlements responds to a similar logic - namely rapid urban and population growth, a context of little or no public housing supply and low state support for other low income housing opportunities (UN-Habitat, 2003). Although mostly illegal, they are effectively the only route that poor households have if they have to embark upon home ownership within a context of poverty and low wage economies, and without access to low interest formal lending institutions (*ibid*.). Figure 3.4 illustrates the factors which account for the growth of informal settlements. It is important to note the centrality of poverty in determining the growth of these settlements. As the UN-Habitat (2003) put it, poverty and slums are closely related and mutually reinforcing. Thus poverty is at once both a cause and a consequence of slum formation. This observation has important implications for the design of appropriate policy interventions. It places the alleviation of poverty at the centre of any attempts to solve the problem of informal settlements. Figure 3.4 suggests that robust economic growth and the reduction of income inequality are key to reducing poverty and, ultimately, the growth of informal settlements. It is instructive to note that those countries that have made the most progress in dealing with slums, mostly in East Asia, have enjoyed sustained high rates of economic growth.

Figure 3.4 Inequality, poverty and slum formation



Source: UN-Habitat, 2003:17

Overall attitudes towards informal settlements are mixed. The positive view sees them as playing an important role in the lives of cities of which they are integral parts. These include provision of inexpensive housing for low cost labour vital to the economic vitality of these cities. In addition, as points of entry for poor immigrants, they provide toe-holds that will enable them to save for their eventual absorption into society (UN-Habitat, 2003).

On the other hand however, informal settlements are conventionally seen as problematic. According to the UN-Habitat (2003) slums tend to be the recipients of the city’s externalities such as noxious industry, waste materials, polluted water etc. Most informal settlements are characterised by high levels of poverty, ill health, crime and social dysfunction. In this context, considerable effort has been expended since the 1950s in various attempts aimed at solving the problem of informal settlements. The following section traces the evolution of thinking and practice in this regard.

3.3 Dealing with Urban Informal Settlements: Evolution of Policy

There has been a significant change in the way urban informal settlements are perceived in the last 50 years. National approaches have generally shifted from negative policies such as forced evictions, benign neglect and involuntary resettlement, to more positive policies such as self-help and *in situ* upgrading, ‘enabling’ and ‘rights’ based approaches. Informal settlements are therefore increasingly being seen by policy makers as part of the solution to the problem of urban poverty (UN-Habitat, 2003).

It is possible to identify a number of phases in the evolution of policy and practice towards informal settlements. The ‘Public Housing’ era of the 1950s and 1960s, gave way to the “Sites and Services” approach in the 1970s, which in turn was succeeded by the “Upgrading’ ethos in the 1980s. The emergent ‘best practice’ emphasises “participatory’ approaches towards slum improvement (UN-Habitat, 2003). All of these approaches however have had limited impact on the growth of informal settlements.

3.3.1 Public Housing – 1950s and 1960s

Many governments responded to the housing crisis arising from rapid urbanisation by large scale public housing programmes. The solution to the problem of informal settlements was seen to lie in Western planning principles and techniques (UN-Habitat, 2003; Ward, 1982). As Ward (*ibid.*) puts it, housing deficits were assessed in terms of the number of housing units required to meet future demand as well as the existing backlog of families living in substandard accommodation. Governments then set about the task of closing these deficits by means of conventional 'low cost' housing development. The underlying belief was that the state should take responsibility for housing its citizens (Beal, 2000). Parallel to this view was a perception that informal settlements were a scar on the urban landscape. Demolitions of informal housing and evictions of its residents were therefore widespread.

Public housing programmes failed to make a significant dent on the problem of informal settlements, largely on account of the twin problems of limited supplies and wrong targeting. By the 1970s it was becoming clear that many Governments did not have the financial resources to develop housing at a large enough scale to make more than token inroads into the housing problems of the urban poor (UN-Habitat, 2003; Beal, 2000). As Ward (1982) notes, with the notable exception of a few countries such as Hong Kong and Singapore, production of housing units by the public sector has been hopelessly inadequate to meet the ever-increasing demand.

In addition to financial limitations, there was the added problem that the housing developed by the public sector was in most cases unaffordable to the urban poor. The majority of the poor simply could not afford the repayments or rent, in part because of the relatively high building standards prescribed (Ward, 1982). Thus it was common to find that units in housing projects, ostensibly constructed for the poor, had been bought up middle income families, a phenomenon called 'downward raiding'.

In addition to failure for financial reasons it is argued that housing projects have not recognised the needs of the urban poor (Ward, 1982) Ward (*ibid.*) cites the concentration upon issues of sound building design and adequate sanitation at the expense of sound location, especially proximity to workplaces, as examples. Other problems occasioned to the poor by these public housing schemes included prohibition upon hawking, petty retailing and manufacturing in housing projects; limited space available in the homes and the 'breakdown of social networks'.

3.3.2 Sites and Services – 1970s

The failure of public housing programmes resulted in an ever-expanding proportion of the urban population being thrown back upon its own resources as regards housing provision (Ward, 1982). Inspired particularly by the writings of John F. Turner (Werlin, 1999), it was increasingly becoming apparent to policy makers that the solution to housing problems in urban areas lay with the people themselves. It was argued that funds should be directed away from expensive 'package' housing arrangements, such as fully-serviced housing projects with very high per capita production costs, towards 'elements' such as infrastructure, the provision of construction materials and technical advice (Ward, *ibid.*). Thus was born the concept of aided self-help, a concept that has been the dominant paradigm towards informal settlements up to the present.

In relation to settlement improvement, aided self-help has a number of variants, the main ones being 'sites and services' and 'upgrading'. Sites and services holds that if governments can provide building sites, improve basic infrastructure and the environmental conditions of slums, they need not worry about shanty dwellings (UN-Habitat, 2003; Werlin, 1999). It was argued that squatters had already shown great organisational skill in managing to erect houses under difficult conditions, and could maintain the facilities once provided, while gradually bettering their homes (UN-Habitat, 2003; Werlin, 1999).

Despite much initial optimism, sites and services programmes have been met with widespread failure. Main reasons cited include problems with land acquisition, insufficient resources committed and poor cost recovery for the infrastructure and services provided, rendering replication and scaling-up difficult (UN-Habitat, 2003; Werlin, 1999)

3.3.3 Upgrading – 1980s

Sites and services programmes gave way to the concept of upgrading in the 1980s. Upgrading programmes consists of the *in situ* regularisation of the rights to land and housing and the improvement of existing infrastructure. According to UN-Habitat (2003) upgrading policies tend to focus on three main areas of concern;

i. Provision of basic urban services (e.g. water, sewerage etc).
ii. Provision of secure tenure for slum dwellers and the implementation of innovative practices regarding access to land.
iii. Innovative access to credit, adapted to the economic profile, needs and requirements of slum dwellers and communities.

In situ upgrading has been touted as an affordable alternative to clearance and relocation which minimises disturbance to the social and economic life of informal settlements (UN-Habitat, 2003). Upgrading programmes have however faced the same sustainability problems as sites and services schemes. These include poor cost recovery, limited scope due to insufficient resources and lack of replicability (UNDP, 2005; UN-Habitat, 2003). UN-Habitat (*ibid*.) cites programme focus on physical construction, government failure to provide essential services, community failure to maintain facilities and problems with land acquisition as key problems. It is thus widely acknowledged that upgrading programmes have not made significant changes in real terms to the problems of informal settlements.

3.3.4 Emergent 'Paradigms' – 1990s to present

By the late 1980s and early 1990s it had become apparent that informal settlement upgrading programmes were not delivering sufficient and sustainable outcomes (UN-Habitat, 2003). Arising from the Habitat Agenda of 1996 the 'enabling approach' to informal settlement improvement was widely adopted as the best way forward. The enabling approach is based on 'neo-liberal' principles of the withdrawal of government to a broadly facilitative role and the fostering of efficient markets. The approach advocates for the involvement of slum dwellers not only in the construction process, but also in the decision-making and design process that establish priorities for action and support for implementation.

The enabling approach resulted from a reappraisal of the relative roles of government, the private sector and the residents of informal settlements, and their representative organisations. The central argument was that, faced with the realities of insufficient government funding and capacity, the resources of the private sector and the people themselves needed to be mobilised. The role of the government would then be to remove bureaucratic obstacles, provide plans and advice, and generally facilitate the process (UN-Habitat, 2003). As the UN-Habitat (*ibid.*) further points out, the enabling approach is still official policy for many agencies and countries.

A variant of the enabling approach involves governments providing subsidies to residents of informal settlements in order to enable them afford privately developed low in-come housing. Housing capital subsidies have been the preferred form of intervention in South Africa, for example, and are widely credited to have delivered large numbers of low in-come housing in a relatively short period of time. However and as the UN-Habitat (2003) observes, such demand-side interventions have been bedevilled by inadequate subsidy amounts, insufficient resources, and private sector disinterest due to low profit margins. Experience from South Africa indicates that the quality of housing has in many cases been unsatisfactory and that affordability for the poor not assured. Further, the potential for diverting funds to incompetent developers have been substantial (*ibid*.)

3.3.5 Recent Initiatives

Before we conclude our review of the evolution of policy towards informal settlements, it is appropriate to examine two recent initiatives that have a bearing on thinking in this area. These are the New Urban Management Programme (NUMP) and the Millennium Development Goals (MDGs).

New Urban Management Programme (NUMP)

The New Urban Management Project (NUMP) began in 1986 initially as a 10 year project to raise the professionalism and image of urban management in the developing world (Jones & Ward, 1994a; Jones & Ward, 1994b). Described as one of the largest global technical assistance endeavours in the urban sector (Mabogunje, 2005; Mehta, 2005), it heralded an ‘unprecedented’ partnership between three major international agencies. These are the World Bank, the United Nations Development Programme and the UN-Habitat. The partnership eventually collapsed due to inter-agency rivalry, with the Word Bank virtually pulling out (Cohen, 2005).

The NUMP was conceived as a long-term global technical co-operation programme designed to strengthen the contribution that towns and cities in developing countries make towards economic growth, social development, the reduction of poverty and the improvement of environmental quality (McAuslan, 1997). Jones & Ward (1994a) argues that NUMP signalled the end of project based lending, to focus on city-wide reform, institutional development and high priority investments, and to put the development assistance in the urban sector in the context of broader objectives of economic development and macroeconomic performance.

NUMP thus represents part of the broader shift towards seeing urban areas in a more positive light as engines of growth, a point discussed elsewhere. The focus on 'urban productivity' that this shift engendered suggested that there were constraints that militated against the contribution of urban areas to broad economic performance. These were identified as deficient infrastructure, inappropriate regulatory frameworks, financial incapacity of local authorities and weak financial systems (Jones & Ward, 1994a; 1994b). These constraints needed to be removed with the clear intention, as Jones and Ward (*ibid*.) put it, that enhanced urban productivity might go beyond the frontiers of improved urban markets and conditions and act as a motor for national economic development.

The NUMP was initially designed to run in two phases (Jones & Ward, 1994a), but eventually ended with four (Mabogunje, 2005). The first phase was meant to develop the thinking and techniques of land management, infrastructure management and municipal finance (Jones & Ward 1994a). It undertook research into five principal areas namely Urban Land, Urban Environment, Municipal Finance, Urban Infrastructure and Urban Poverty (Mabogunje, 2005; McAuslan, 1997). The major objective was to develop manuals and toolkits to help cities in these areas (Mabogunje, *ibid*.). The second phase, from 1991 onwards, was designed to promote awareness levels and to develop the quality of urban research and guides to more practical policy alternatives.

According to Mabogunje (2005) the next phase (1997-2001) saw the promotion of ‘participatory mechanisms’ as the major strategy for enhancing the quality of urban management. As part of 'City Consultations' these mechanisms were seen as critical for dealing with problems of urban poverty, urban environmental sustainability, and good urban governance. The third phase (2002-2006) whilst continuing all of these themes, emphasised knowledge management of the information gained, and added the control of the HIV/AIDS pandemic to its concerns.

Table 3.1 show the priority areas of NUMP at inception in the late 1980s. It will be apparent that many of the concerns of the project, especially subject area 3 'Urban Land Management' are highly relevant to this study.

Table 3.1 Priority issues in land management under the NUMP

NUMP Subject Area	Emerging Priority Issues
1. Municipal Finance	Central-local relationships (allocation and functions, financial flows, access to credit. Assignment and administration of revenue sources (including user charges) Municipal organisation and administration Community participation, the informal sector and responsive urban management
2. Infrastructure	The linkages between infrastructure and service performance and macro-economy Administrative, financial and technical means to improve infrastructure maintenance.
3. Urban Land Management	Urban land and related markets: identifying and rectifying constraints Institutions and instruments to support land markets: The role of land registration, information management, urban planning and informal land management and administrative practices. Urban land tenure and secure property rights.
4. The Urban Environment	Improving urban waste management capacity and operational efficiency. The legal and regulatory framework for environmental protection: Assignment of jurisdiction for legislation, monitoring and enforcement. Use of economic instruments as alternatives to command and control Environmental implications of land use control and property rights.

Source: Jones & Ward, 1994a:38

As the NUMP is being phased out, questions have inevitably been raised regarding the impact it has had on urban management in developing countries. While it is perhaps too early to give a definitive judgement, indications are that the results have been, at best, modest. The NUMP has been credited for creating capacity in urban management in developing countries, and for establishing a forum of donors and aid-related institutions to discuss urban issues (Cohen, 2005). This forum evolved into what is now known as the Cities Alliance, described as the new international effort at urban development (Mabogunje, 2005). Beyond these achievements however, the NUMP has little to show for itself. Thus Cohen (*ibid.*), one of the original architects of the NUMP, concludes that there is no evidence that the programme has had a major impact on the process of urbanisation in developing countries.

It is claimed that one important legacy of the NUMP is a vast repository of knowledge on urban management (Mehta, 2005). It is however not apparent what this knowledge is, and more importantly, its significance in urban management practice. With regard to our subject of interest, for example, the NUMP advocates the removal of constraints affecting land markets but it is not clear what new knowledge about these markets has been created and what novel policy prescriptions have followed. This leads Jones & Ward (1994a; 1994b) to observe that while the NUMP confirms the importance that have been hitherto attached to land markets, the policy outlines developed are essentially those mentioned in the early 1970s.

The NUMP was phased out during 2006, with many of its programmes coming under the ambit of the Millennium Development Goals.

The Millennium Development Goals (MDGs)

The Millennium Development Goals (MDGs) represent the latest focal point for global action to combat poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women (UN-Habitat 2003). The millennium development goals follow from the 'Millennium Declaration' of the United Nations General Assembly and consist of 8 specific goals and 18 targets.

Two of these goals are relevant to this study. Goal number one is perhaps the most important and has as its aim the eradication of extreme hunger and poverty. To this end, there is a commitment to "halve, between 1990 and 2015, the proportion of people whose income is less than U$ 1 a day" (UNDP, 2005:xx).

The other important commitment from the point of view of this thesis is Target 11 of Goal 7. The target aims to "have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers" (UNDP, 2005:xxi).

There have been criticisms of the MDGs. Some critics have argued that the targets are too modest and therefore unlikely to make any real difference. The 'slum target', for instance, deals with only about 10% of the *current* global slum population, a population which would have risen significantly by 2020. According to UN-Habitat estimates, without significant interventions, there will be about 1.5 billion slum dwellers by that date, an *increase* of almost 600 million.

Others have pointed out that the mechanism for how these targets were to be implemented was left unclear. Recent assessments of progress towards meeting the MDGs paint a gloomy picture (see the 2003 UNDP Human Development Report). With less than a decade before the target date of 2015, most countries, particularly in sub-Saharan Africa, are way off course on most targets. In fact in this region the proportion of people living on less than US$ 1 a day would in all probability have increased by 2015.

Despite these problems, the MDGs have provided a good opportunity to concentrate minds and global efforts around the problems of poverty. The MDGs have given fresh impetus to the search for innovative policy frameworks and interventions. Studies such as this one assume particular importance in this context.

3.3.6 Concluding Comments

This section aimed to review changes in policy responses to the problem of informal settlements. It is evident that there has been a major shift in official attitudes towards informal settlements in the last thirty or forty years, reflecting changes in both urban policy and conventional thinking about informal settlements. Increasingly, the role of urban areas as a locus for economic productivity and innovation is being highlighted. Within that context informal settlements are seen to be playing a vital role by providing, *inter alia*, the inexpensive accommodation and cheap labour necessary for the efficient operation of urban economies.

Official hostility towards informal settlements has gradually given way to tolerance, though this is by no means universal and consistent. On the other hand, there is understanding that the status quo, characterised in most cases by extreme poverty and squalor, is unacceptable. Efforts at tackling the problem have evolved from the sites and services programmes of the 1970s to the more sophisticated ‘enabling’ approaches of the 1990s and the present. Key issues in this evolution has been changing perceptions of the proper role of the state, markets and the residents in informal settlement improvement, in a context of limited public resources.

As Ward *et al* (2004) puts it, the prevailing orthodoxy is that, wherever possible, markets should provide, such that the primary task of policy makers is effectively to 'prime' the market, or at the very least to make it work more equitably, by generating jobs, cutting out red tape that frustrates entrepreneurial spirit, engaging the private sector in home building programmes for the lower end of market and providing serviced plots at affordable levels. Compared to the 1980s however there is a greater awareness of the limitations of markets and more willingness to countenance state intervention in certain cases. The state is seen to have particular responsibility for effective regulation and improved administration that would reduce waste, enhance cost recovery and provide greater incentives for the poor to become a part of the market place and be better placed to fend for themselves (Ward *ibid.*)

Despite shifting policy perspectives and numerous interventions, a review of the results of more than thirty years of global efforts to deal with informal settlements indicates that the problems are intractable. It is widely acknowledged that many countries have not only failed to contain the growth of informal settlements but that the problem is in fact getting worse. Efforts at settlement improvement have been beset by insufficient scale, and lack of replicability and sustainability. UN-Habitat (2003) attributes this failure to inadequate allocation of resources and ineffective cost recovery strategies. While these factors are clearly significant, the truth is probably much more complex.

UN-Habitat (2003) provides useful insights for the way forward. As has been pointed out before, informal settlements are to a large extent a physical and spatial manifestation of urban poverty. This fundamental fact should inform policy responses to the problem of informal settlements. Thus UN-Habitat (*ibid.*) argues that urban development policies should more vigorously deal with the issue of the livelihoods of slum dwellers and urban poverty in general, thus going beyond traditional approaches that have tended to concentrate either on the physical eradication or the upgrading of informal settlements. UN-Habitat is making the important point that future policies should go beyond the physical dimension of slums by addressing problems underlying urban poverty. This view clearly resonates with the aims and objectives of this study.

3.4 Dealing with Urban Poverty: Concepts and Policy

3.4.1 The Meaning of Poverty

The concept of poverty has attracted intellectual and political interest for several centuries (Townsend, 1993). During this period there has been much reconsideration of its definition and causes (Jones & Nelson, 1999). Thinking about poverty has come a long way, from early times when the poor were assumed to be victims of their own indolence to the more nuanced views of recent times.

An appropriate definition of poverty is important because it affects not only who is defined as poor but how their deprivation is understood, and thus the methodologies used to quantify and understand it and the nature of the interventions designed to alleviate it (Rakodi, 1999). Poverty is something that most people believe they can easily distinguish but the concept is in fact difficult to define. Urban poverty has been traditionally defined in terms of household income or expenditure (Rakodi, 1995). For example people who are earning less than what is needed to afford a basket of basic necessities, or living on less than US $ 1 or US$ 2 a day may be described as very poor or poor respectively (UN-Habitat, 2003). In fact the standard of US$ 1 a day has become the international norm for defining poverty (Mitlin & Satterthwaite, 2002).

These quantitative measures of poverty has been criticised on a number of grounds. Rakodi (1995) for instance point to numerous methodological problems arising from variations in the size and composition of households, the difficulty of estimating income levels in economies which are only partly monetised and in which households consume their own production and the difficulty of dealing with the fact that consumption generally exceeded income. Further, the choice of deflators to make poverty comparable across different contexts is problematic. Rakodi (*ibid*.) concludes that there exists an unavoidable and inherent element of arbitrariness in the specification of the poverty norm.

Other critics have argued that quantitative measures of poverty fail to fully capture the multidimensional and dynamic nature of the phenomenon. Defining poverty in quantitative terms provides a static view, and does not shed light on how and why the poor are in their condition. More importantly it does not provide insights on the processes by which impoverishment or increased well being are brought about.

In its landmark *2001 World Development Report* the World Bank argues that people may be poor not just because of low incomes but their poverty may derive from an inadequate, unstable or risky asset base needed as a cushion to carry them through hard times (World Bank, 2001). These assets are conventionally described as household capital. Rakodi (1999) list six forms of capital available to households as natural, produced/physical, human, social, political and financial. This leads to “the Capital Assets Framework” for conceptualisation of poverty, and due to its relevance to this study, is discussed in greater detail in a subsequent section

The *2001 World Development Report* clearly sees poverty as more than inadequate income or human development but also as vulnerability and a lack of voice, power and representation (World Bank, 2001). This multidimensional view of poverty finds concrete expression in a number of ways in addition to low monetary incomes or consumption. Thus, and as UN-Habitat (2003:29) notes, people may be poor due to overcrowded, low quality and insecure homes. Other aspects of poverty include lack of access to safe water, adequate sanitation, health care or schools. Further, people may be poor because they are lacking a supportive safety net or because they are not protected by laws and regulations concerning civil and political, as well as economic, social; and cultural rights, discrimination and environmental health or because they are denied a voice within political systems.

Contemporary definitions of poverty therefore stress the dynamic concept of *vulnerability* of households arising from an inadequate command of assets or capital. Vulnerability is therefore closely linked to asset ownership (Moser, 1998). The more assets people have, the less vulnerable they are and vice versa. It is thus suggested that the reverse of poverty is not wealth but *security* arising from command over adequate assets to be a guard against contingencies and *freedom* from debt, both of which are linked to independence and self respect (Rakodi, 1995). The idea of development (i.e. reduced impoverishment) as synonymous with increasing the freedoms of the poor can of course be traced to the seminal work of the Nobel laureate Amartya Sen.

3.4.2 The Incidence of Urban Poverty

Defining poverty as multidimensional raises the question of how to measure overall poverty and how to compare achievements in the different dimensions (World Bank, 2001). As Rakodi (1995) observes the conceptualisation of poverty as a set of relationships and processes, rather than a ‘state’ has raised methodological problems. Rakodi (*ibid.*) notes that not all aspects of these relationships and processes are quantifiable; people poor by one set of indicators (e.g. income) are not necessarily poor by another (e.g. welfare indicators such as mortality), while vulnerability and lack of power and autonomy are hard to measure.

These problems means that in practice income/expenditure based definitions of poverty, particularly the US$ 1 a day norm, will continue to be popular. The incidence of global poverty yielded by such measures is huge. According to the World Bank (2001:3) of the world’s 6 billion people, 2.8 billion – almost half- live on less than US$2 a day and 1.2 billion-a fifth-live on less than US$1 a day. Tables 3.2 and 3.2 shows the incidence of income poverty in the world.

Table 3.2 Income poverty by region (absolute figures), selected years 1987-98

	People living on less than US$ 1 a day				
Region	**1987**	**1990**	**1993**	**1996**	**1998**
East Asia and Pacific	417.5	452.4	431.9	265.1	278.3
Excluding China	114.1	92.0	83.5	55.1	65.1
Europe and Central Asia	1.1	7.1	18.3	23.8	24.0
Latin America & the Caribbean	63.7	73.8	70.8	76.0	78.2
Middle East and North Africa	9.3	5.7	5.0	5.0	5.5
South Asia	474.4	495.1	505.1	531.7	522.0
Sub-Saharan Africa	217.2	242.3	273.3	289.0	290.9
Total	1,183.2	1,276.4	1,304.3	1,190.6	1,198.9
Excluding China	879.8	915.9	955.9	980.5	985.7

Source: World Bank, 2001:23.

Table 3.3 Income poverty by region (proportional figures), selected years 1987-98

	Share of population living on less than US$ 1 a day				
Region	**1987**	**1990**	**1993**	**1996**	**1998**
East Asia and Pacific	26.6	27.6	25.2	14.9	15.3
Excluding China	23.9	18.5	15.9	10.0	11.3
Europe and Central Asia	0.2	1.6	4.0	5.1	5.1
Latin America & the Caribbean	15.3	16.8	15.3	15.6	15.6
Middle East and North Africa	4.3	2.4	1.9	1.8	1.9
South Asia	44.9	44.0	42.4	42.3	40.0
Sub-Saharan Africa	46.6	47.7	49.7	48.5	46.3
Total	28.3	29.0	28.1	24.5	24.0
Excluding China	28.5	28.1	27.7	27.0	26.2

Source: World Bank, 2001:23. Poverty estimates are based on income or consumption data.

The statistics indicate that while the South Asia region has the highest absolute numbers of poor people at 522 million, Sub-Saharan Africa has the highest proportion of poor people with almost 50% living on less than US1 a day. The data also reveal large regional variations in progress towards poverty eradication. The East Asia and Pacific region has experienced a significant reduction in poverty during the period under review, no doubt as a result of high rates of economic growth. Poverty levels in Sub- Saharan Africa have on the other hand remained high.

3.4.3 Causes of Urban Poverty

This study does not aim to be a detailed investigation of the causes of urban poverty. It is however necessary to give a broad-brush view. It is understood that poverty is the result of economic, political and social processes that interact with and reinforce each other in ways that promote impoverishment. The World Bank (2001) point to meagre assets, inaccessible markets, and scarce job opportunities as key explanatory variables. In this context the *2001 World Development Report* identifies three causes of poverty (World Bank, 2001:34):

- Lack of income and *assets* to attain basic necessities - food, health, shelter, clothing and acceptable levels of health and education.
- Sense of voicelessness and powerlessness in the institutions of state and society
- Vulnerability to adverse shocks, linked to an inability to cope with them.

It is quite clear from our discussion of both the definition and causes of poverty that assets play a central role in the contemporary discourse on poverty. Of the three causes listed above, inadequate assets lie at the heart of two. Lack of assets is both a cause and an outcome of poverty. And more importantly these assets - human, social, physical and natural - also lie at the core of whether an individual, households or groups lives in poverty or escapes it (World, Bank, 2001). As the World Bank (*ibid.*) puts it, these assets interact with market and social opportunities to generate income, a better quality of life, and a sense of psychological well being. In addition assets are also central to coping with shocks and reducing the vulnerability that is a constant feature of poverty.

Given the centrality of assets in both the definition and causes of poverty, it follows that efforts at poverty alleviation should direct attention at enhancing the productivity of assets of the poor. The World Bank (2001) calls for systematic attention to the types of assets poor people have, the returns to these assets and the volatility of these returns. According to the World Bank:

> The returns to these assets depend on *access to markets* and all the global, national and local influences on returns in these markets. But returns depend not just on the behaviour of markets, but also on the *performance of institutions* of state and society. Underlying asset ownership and returns to assets are not only economic but also fundamental political and social forces. Access to assets depends on the legal structure that defines and

> enforces private property rights or customary norms that define common property resources. Access may also be affected by implicit or explicit discrimination on the basis of gender, ethnicity, race or social status. And both access to assets and returns to assets are affected by public policy and state interventions, which are shaped by the political influence of different groups. (World Bank 2001:34).

The above argument lies at the centre of this study's thesis in relation to one asset, real estate. The World Bank sees the promotion of opportunity – "by stimulating economic growth, making *markets* work better for poor people, and building up their *assets*"- as key to reducing poverty (World Bank, 2001:1). This approach leads to conceptual tools like the Capital Assets Framework for understanding and attempting to deal with poverty.

3.4.4 The Capital Asset Framework

The Capital Asset Framework represents current best practice in the conceptualisation of both the causes of poverty and how it may be alleviated. Before we examine the framework in detail, however, it is appropriate to make a brief detour to review the evolution of policies and strategies for urban poverty reduction.

Evolution of Policies and Strategies for Urban Poverty Reduction

The approach to reducing poverty has evolved over the past 50 years in response to deepening understanding of the complexity of development (World Bank, 2001). According to the World Bank (*ibid.*), in the 1950s and 1960s many viewed large investments in physical capital and infrastructure as the primary means of development and therefore poverty alleviation. This was the era of direct state intervention and public housing programmes as discussed above.

It soon become clear to policy makers and development practitioners that physical capital was not enough to ensure development and poverty reduction. Thus in the 1970s attention began to be placed on matters of health and education for the poor

(World Bank, 2001). It will be apparent that this period coincided with the advent of 'sites and services' programmes in urban informal settlements.

The 1980s was a decade in which the idea that markets were the primary mechanism for effecting economic development reached its zenith. This ascendancy of markets in development thinking has waxed and waned, in the light of experience. It however still remains the dominant paradigm up to the present, albeit in a more nuanced fashion. In the 1980s emphasis began to be placed on improving economic management and allowing greater play for market forces (World Bank, 2001).

The 1980s was a period of 'Structural Adjustment Programmes' and 'policy based lending' by which the World Bank and the IMF encouraged free market reforms in crisis ridden developing economies. The policy prescriptions ('the Washington Consensus') encouraged economic deregulation and liberalisation, widespread privatisation and fiscal austerity. There are many who hold the view that these programmes did more harm than good and that they exacerbated poverty in developing countries (for critical reviews see Sachs, 2005; Stiglitz, 2002). Thus by the 1990s a reappraisal, based on lessons of experience resulted, into a shift. Issues of governance and institutions moved towards centre stage - as did issues of vulnerability at the local and national levels (World Bank, 2001).

The 2000/2001 World Development report is the latest major World Bank publication devoted to poverty. The report proposes a three pronged strategy for attacking poverty, namely promoting opportunity, facilitating empowerment, and enhancing security (World Bank, 2001). *Promoting opportunity* is described as expanding economic opportunities for poor people, by stimulating overall economic growth and by building up their assets and increasing the returns on those assets, through a combination of market and non market action. *Facilitating empowerment* refers to making state institutions more accountable and responsive to poor people, strengthening the participation of poor people in political processes and local decision making, and removing discrimination. Finally e*nhancing security* involves reducing poor people's vulnerability to ill health, economic shocks, policy induced dislocations, natural disasters and violence as well as helping them to deal with adverse shocks when they occur. (World Bank, 2001)

Markets clearly play a prominent role in the World Bank's current thinking about fighting poverty. Thus "making markets work for poor people and building their assets" is a cornerstone of the new anti-poverty strategy. According to the World Bank (2001), markets matter for the poor because poor people rely on formal and informal markets to sell their labour and products, to finance investment and to insure against risks. Well-functioning markets are there seen to be important in generating growth and expanding opportunities for poor people (*ibid*.). In this context the World Bank argues that investments in infrastructure, lighter regulatory burdens and innovative approaches to improving access to financial markets can do much to ensure that the benefits of markets are shared by poor people.

The Capital Asset Framework

The Capital Asset Framework is an attempt to overcome the limitations of income/consumption based conceptualisation of poverty. The framework takes a dynamic view of poverty, drawing attention to how households respond to the condition of poverty and the processes and mechanisms by which improved well being is effected. As Rakodi (1995) notes, while the poor are often deprived in many respects, they are not merely passive victims of impoverishment. Attempts to understand the response of poor people to their deprivation have been conceptualised in terms of household strategies (*ibid.*). The Capital Asset Framework is a conceptual framework that seeks to explain both the condition of poverty and the strategies that poor households employ in response.

As seem in the previous chapter, poverty under the capital asset framework poverty is defined as vulnerability to insecurity, impoverishment and reduced self-respect of households which lack assets that they can mobilise and manage in the face of hardship (Rakodi, 1999; Moser, 1998). In this context poor households are seen to be managers of portfolios of assets which can be stored, accumulated, exchanged or depleted and put to work to generate a flow of income or other benefits (Rakodi, 1999).

The capital assets available to the poor are both tangible and intangible. While there are differences in taxonomy and emphasis between different authors it is possible to identify a core set of assets available to the urban poor. Rakodi (1999: 316) for example identifies the following types:

- *Natural capital* - made up of the natural resource stocks from which resource flows useful to livelihoods are derived, including land, water and other environmental resources
- *Physical or produced capital* - basic infrastructure and the production equipment and means (including housing) which enable people to pursue their livelihoods
- *Financial Capital* - financial resources including savings, credit, remittances and pensions
- *Human Capital* - Both the quantity and quality of labour resources available to households. This is related to the education and health of households.
- *Social capital* - comprising social relations at household, community and societal levels.
- Political capital - based on access to decision-making. Best seen as a 'gatekeeper' asset permitting or preventing the accumulation of other assets.

(Moser, 1998:4) has a slightly different list and discusses household assets in the following terms:

- *Labour* - Identified as the most important asset of poor people.
- *Human capital* - health status, which determines people's capacity to work, and skills and education, which determine the return to their labour.
- *Productive assets* - for poor urban households the most important is often housing.
- *Household relations* - a mechanism for pooling income and sharing consumption.
- *Social capital*-reciprocity within communities and between households based on trust deriving from social ties.

The capital asset framework focuses attention on what assets poor household have and sees the returns to those assets as key in explaining their poverty. To reiterate the point made in the previous chapter, the crucial determinants of households' ability to achieve increased well-being are their access to these capital assets and the effects of external conditioning variables which constrain or encourage the productive use and accumulation of such assets (Rakodi, 1999). These variables include institutional arrangements and transaction costs in various markets.

The policy implications of the capital asset framework are that poverty alleviation efforts must seek to enhance the assets of the poor as well as increasing the returns to these assets, something that ties in with the conceptual framework developed in the previous chapter. Operationally this means interventions to promote opportunities, as well as removing obstacles, to ensure the urban poor use their assets productively (Moser, 1998). Interventions may focus on enabling households to take advantage of opportunities by increasing their capabilities, removing constraints and assisting them to accumulate assets (Rakodi, 1999). This is the context in which the World Bank (2001) sees the building of assets and increasing returns to those assets as key to fighting poverty.

3.4.5 Dealing with Urban Poverty: Concluding Summary

Poverty is an intractable problem. Over the centuries considerable effort has gone into various efforts aimed at understanding the causes of poverty and in attempts at improving the livelihoods of the poor. The fact that the incidence of poverty remains high, and may in fact be increasing, is eloquent testimony indicating that there are no easy solutions.

The discussion in this section has shown that poverty is a complex, multidimensional phenomenon. Poverty is nowadays associated with vulnerability and powerlessness arising principally from inadequate command, by the poor, of assets necessary for their material well-being. While poverty alleviation is a difficult challenge as has been indicated, a number of factors are recognised as key in determining whether households will prosper or suffer deprivation. The most important of these is perhaps economic growth. Lessons of experience, particularly from East Asia, suggest that high sustained levels of economic growth are associated with significant declines in overall poverty levels.

Economic growth provides the fundamental basis for sustained poverty alleviation. Economic growth itself results from a complex interaction of a range of policies, activities and circumstances at international, national and local levels. Within the overall context set by national economic growth, however, there is scope for 'micro-level' strategies that could improve the livelihoods of the poor. The Capital Assets Framework suggests that strategies aimed at building the assets of the poor and increasing returns to those assets should have a salutary effect on poverty. This in turn is contingent on well functioning market and non-markets institutions which creates the necessary opportunities, incentives and regulation.

3.5 Informal Real Estate Markets and Poverty Alleviation: Review of Policy Framework

This section attempts to draw together the discussions on urban policy, informal settlements, urban poverty and informal real estate markets. The section engages with the question; what does 'making markets work for poor people and building their assets' mean for real estate? The interest is in the policy implications of the answer to that question. An attempt is made to review extant policy as espoused by the leading development agencies and how this relates to this question.

The previous discussion has examined the evolution of attitudes and thinking towards urban areas, informal settlements and poverty. We have seen how urban areas are nowadays seen to be engines of innovation and economic growth. Informal settlements for their part represent a physical manifestation of urban poverty. Almost fifty years of largely ineffectual policies and programmes have resulted into an emerging view that future policies on informal settlements should be focussing on tackling the underlying poverty rather than its symptoms. We have also seen how the conceptualisation of poverty as inadequate command of assets by the poor has resulted into the contemporary policy orientation towards poverty alleviation, which seeks to build these assets and increase their productivity.

There is clearly a broad convergence in the thinking and policy prescriptions in the areas of urban governance, informal settlements and poverty alleviation. This convergence of ideas reflects changing perceptions of the relative roles of the state and markets. As has been pointed out, the prevailing orthodoxy is that markets should be the primary vehicle for effecting a wide variety of socio-economic outcomes. The state's responsibility is seen to lie in the creation of 'enabling environments' for markets to function efficiently, and to intervene in cases of market failure and in the interest of equity. The new locally based strategies for poverty alleviation and urban improvement therefore combine aspects of market-based enabling processes with 'new holistic anti-poverty and partnerships approaches' (UN-Habitat, 2003)

This is the broad context in which urban real asset markets and poverty alleviation must be seen. As has been pointed out before, real estate is often the major asset held by the poor (Alston *et al* 1999). References in the literature to real estate as an asset are usually in the context of housing. The value of housing to the poor is commonly expressed in terms of its potential to generate rental income and as a location for home-based enterprises. In the urban context, housing is clearly an important asset that generates income through renting rooms and the use of space for a wide variety of business activities (Rakodi, 1999; Tipple, 1999). Traditionally the focus for policy intervention in this area has been on trying to provide 'security of tenure' usually through 'titling' programmes.

The conventional argument is that lack of security of tenure creates 'an extreme sense of vulnerability' for poor households. Poverty alleviation strategies centred on housing have therefore tended to emphasise tenure security. As Rakodi (1999) puts it, tenure security and legal title give households the incentive to invest in upgrading their homes and the security to use this asset productively. Thus Rakodi (*ibid*) argues that a strategy centred on housing as an asset helps some move out of poverty and prevents others from slipping deeper into poverty. Moser (1998) sums up the argument succinctly thus:

> Recognition of housing as an asset provides important evidence not available in income-poverty studies that can fundamentally assist poverty reduction strategies. In those urban contexts where the poor are systematically excluded from formal sector jobs, and the capacity of macroeconomic growth strategies to generate additional jobs is limited, the removal *of tenure-insecurity* related obstacles that prevent or constrain

> households from using their housing effectively as a productive asset is possibly the single most critical poverty reduction intervention (Moser, 1998:11).

There is no doubt that security of tenure in important for the material well being of many households who constantly face the threat of eviction. However the efficacy of secure tenure per se in poverty alleviation can be over emphasised. The conventional view, as seen in the literature in chapter 2, is that secure tenure works to reduce poverty by increasing the security of households against eviction and increasing their access to credit markets using their property as collateral. Numerous studies have however shown that the poor in most cases already have secure *de facto* tenure and that security of tenure is frequently not their main priority. Thus there is potential only for modest, if any, improvements in perceptions of security in many cases.

In similar fashion and as has been highlighted previously, many studies have shown that the demand for formal credit by the poor for purposes other than consumption is low (Ward *et al*, 2004; Smith, 2003; Ward, 2003; Gilbert, 2002; Varley, 2002). Access to credit by itself is therefore unlikely to be a catalyst for capital accumulation in contexts characterised by lack of investment opportunities, widespread risk aversion and high interest rates.

What then does it mean to 'make real estate markets work for the poor'? As a starting point it is perhaps important to reiterate that markets are mechanisms of *exchange*. In the context of real estate, markets represent aggregations of *transactions* in the sales (capital) rental and development sectors. The potential value of real estate markets to poverty alleviation must clearly lie in the exchange process. Making real estate markets work for the poor means leveraging the exchange process so that it can become a tool for capital accumulation. This in turn requires that informal real estate markets work better (i.e. more efficiently). The role of institutions, by their effects on transaction costs and economic outcomes, is clearly important.

In terms of the conceptual framework developed in chapter 2, market liquidity was argued as being important in the realisation of the latent value of property, which in turn helps in the accumulation of capital for the poor. The policy implication of this argument is that exchange in informal real estate markets must be facilitated. Policy interventions must seek to increase the *volume* of transactions in these markets. It is only under these circumstances that one can conceive of markets being a tool for poverty alleviation. If the contrary were true real estate markets could not possibly work for the poor. This is counter intuitive, as these markets are pervasive and real estate is a significant asset for the urban poor.

The logical application of the capital assets framework to real estate therefore suggests that focus should be placed on increasing turnover in informal real estate markets. Curiously however there appears to be general unwillingness or inability to follow through with appropriate policy interventions. There is a great deal of ambivalence, even downright hostility, to the idea that more efficient real estate markets are efficacious and should therefore be encouraged for the urban poor. Official attitudes to real estate markets usually find expression in warnings about the dangers of 'commodification' (UN-Habitat, 2003) and 'gentrification' (World Bank, 2001). The former word, which in essence refers to increased commercialisation of real estate, has in fact become a pejorative word.

The policy framework for leveraging real estate markets in aid of poverty alleviation exhibits a number of weaknesses. Firstly, while markets are frequently mentioned in official documents, the concept appears not to be sufficiently crystallised from a methodological point of view. Often markets are discussed in the rather simplistic terms of prices, supply and demand. Just what is meant by markets in a fundamental sense, and in particular how they make themselves manifest in empirical terms, is hardly ever mentioned (see following chapter on methodology). Further, there is a lack of explicit mention or recognition of markets as mechanisms of exchange, with the *transaction* as the central analytical unit.

As the leading international development agency in this area, it is instructive to review World Bank policy towards urban real estate markets. The Bank's traditional perception of the 'problem' with urban land markets can perhaps be usefully summarised by the phrase "not enough land in the right location at the right price" (Dowall, 1995:2). Thus urban land markets have been seen mostly as a supply problem. The conventional argument has been that prices are high because there are supply bottlenecks in land delivery systems. These constraints are argued to be the result of restrictive land use regulations, inadequate network infrastructure to support urban land development, unclear property ownership and titling records, and speculative behaviour by landowners (Serra *et al* 2005). Policy interventions have therefore focussed on attempts to improve land supply, particularly for the urban poor.

There is no doubt that the supply of land to the urban poor merits attention but questions have to asked about the extent to which this should be a priority. The reality in many cases is that the poor already have inexpensive land at the right place, at least from their point of view. As Jones & Ward (1994b) observe, urban land is quiet freely available, albeit illegally acquired, and at affordable prices. The key policy question therefore appears to be how to leverage that which the poor already have.

The Bank's preoccupation with 'prices' and 'quantities' in real estate markets represents a particular conceptual view of markets, a view rooted in neoclassical economic theory. The neoclassical approach certainly appears to have been the dominant paradigm in World Bank thinking about urban land markets. Evidence of this can be clearly seen in the prominence given to and sponsorship of the 'Land Market Assessment' (LMA) (Dowall, 1995). Touted as a new tool for urban land management and apparently created for the New Urban Management Programme (see above), it is firmly rooted in the neoclassical tradition.

Neoclassical tools like the LMA have been criticised as largely inappropriate to deal with the sort of questions arising from an 'actor centred' view of the operations of real estate markets. In the words of Jones & Ward (1994b) it is unhelpful to diagnose the land problem in the rather simplistic terms of supply and demand or to formulate policy interventions that do not begin to address the underlying causes but which only touch the effects. Criticisms of neoclassical economic theory has of course been around for a while but appears not to have filtered through to influence Bank thinking and policy in urban land markets in any significant manner. It is telling that the 'Urban Poverty' chapter in the World Bank *Poverty Reduction Strategies Sourcebook* (Baharoglu & Kessides, n.d.) makes no reference to transaction costs in urban land markets

Key questions about real estate markets from a poverty alleviation perspective are not about prices and quantities as in neoclassical analysis. Evidence clearly shows that providing land in any quantity to the urban poor will not solve the underlying cause of informal settlements, which is poverty. Rather focus should be on processes and mechanisms by which poor people acquire and exchange real estate, and the resultant socio-economic effects. The fundamental policy question remains whether more formal real estate markets are beneficial or harmful to the urban poor. The fact that it remains unanswered is partly on account of the past approaches to the study of these markets. The World Bank has in effect been asking the wrong questions with respect to urban land markets, resulting in inappropriate or inadequate policy response.

The conceptual and methodological problems arising from the neo-classical approach to the analysis of urban real estate markets can therefore be argued to have stood in the way of optimising the contribution of these markets to poverty alleviation. The second problem flows from this, and relates to the ambivalence with which real estate markets are held. For example security of tenure is encouraged and is seen to be important for enhancing the collateral value of real estate, thus making credit markets possible. In the same breath however policy makers worry about freer markets, seemingly oblivious to the fact that real estate cannot have collateral value if it cannot be freely traded.

Thus one frequently encounters hostility towards ‘commodification’ of land markets among many policy makers and researchers. This in turn may or may not be related to a fundamental ideological hostility to capitalism. Thus some have taken issue with the ‘Judeo-Christian’ view of property as secular and marketable, arguing that in certain cultural contexts the introduction of capitalistic attitudes to land and housing is likely to destroy vital social safety nets. Fear is often expressed that more efficient markets will entice the poor to sell their property, thereby increasing their deprivation. Some have argued that freer markets in land would result in higher land values and gentrification, again with negative consequences for the poor.

It is thus common to find official restrictions on the operations of real estate markets, particularly for beneficiaries of land reform programmes in informal settlements. These restrictions will take one of three forms; restrictions on land ownership or use (ownership ceilings), restrictions on land sales and rentals and intervention aimed at improving the functioning of markets (Deininger & Binswanger, 1999). As the authors point out, these restrictions are quite common in urban informal settlements and may be motivated in part by equity considerations. Thus Governments may be seeking to prevent rapid accumulation of land by a small elite or speculative behaviour or distress sales. Both these could result in landlessness (*ibid*.).

These fears are of course valid. They do however lack unequivocal empirical support. There are no reasons *a priori* why commodification of land, higher land values and gentrification should be detrimental to all the poor. In a context where a significant proportion, in some cases up to 80%, of urban land is held by poor people, it is inconceivable that a small elite would appropriate all these benefits at the expense of the indigent. On the contrary, higher land values represent increased wealth which could be tapped to fight poverty. Further, the fear that the poor will sell out and *become worse off* once their properties have become more marketable is paternalistic and in fact not borne out by empirical evidence. In fact and according to Deininger & Binswanger (1999) the available evidence suggests that many of the restrictions on real estate markets have not achieved their intended objectives. On the contrary, they argue, restrictions on property rights have been found to be costly to enforce and have tended to spawn corruption and other 'rent seeking' behaviour in addition to damaging economic incentives.

The above discussion is indicative of the third problem in policy making with respect to informal real estate markets and poverty alleviation, that of insufficient research. There are so many questions that need to be settled empirically before it can be established whether these markets can be a tool for poverty alleviation and, if so, under what conditions.

3.6 Conclusions

The aim of this chapter has been to review the broad context within which urban informal settlements, real estate markets and poverty alleviation are cast. The chapter has reviewed the evolution of urban policy in general, as well as policy towards informal settlements and poverty. The overall conclusion is that while there has been a great deal of convergence in policy prescriptions in these areas, there has been inadequate follow through in real estate markets. Thus the potential contribution of real estate markets to poverty alleviation has not been sufficiently articulated in policy and practice.

The chapter argues there are three main reasons the contribution of real estate markets to poverty alleviation has not been optimised. Firstly there are conceptual and methodological problems arising from the traditional neoclassical analysis of real estate markets. This approach to the study of real estate markets has meant that many of the questions relevant to the leveraging of markets for poverty alleviation have remained unasked. Policy has therefore been largely based on inappropriate premises. Secondly there is widespread ambivalence, if not outright hostility, to the idea that freer markets in real estate are a good thing for the urban poor. A number of policy makers and researchers hold the view that freer markets would exacerbate poverty. It has been argued that many of these views lack unequivocal empirical support. Many are motivated by antipathy towards capitalism or paternalistic views of the poor. Lastly the state of knowledge about how informal markets actually operate is insufficient. Thus we cannot say with confidence whether or not informal real estate markets can be an efficacious tool for poverty alleviation, and if so, under what conditions.

CHAPTER 4: METHODOLOGY

4.1 Introduction

This chapter presents the methodological approach to the study. The chapter does not aim to discuss the characteristics or merits of various research methods, such as experiments, surveys or case studies. There is a voluminous literature on the subject and no purpose will be served by repeating it. Rather, the chapter emphasises the methodological difficulties of analysing informal real estate markets, assesses how they have been or might be dealt with and applies the lessons to the specific problems presented by this study.

The chapter comprises eight sections. Section 4.2 introduces the conceptual and practical difficulties bedevilling the analysis of informal real estate markets, and ends with a brief comment about methodological approaches found in the empirical literature. The main aim in this section is to highlight key challenges and potential gaps in our standing of how these markets might be analysed. Section 4.3 contrasts the methodological approaches of orthodox and heterodox economics. The aim here is draw lessons which can be usefully employed to deal with the challenges and gaps identified in section 4.2. Section 4.4 discusses methodological issues in NIE research. This section introduces the Institutional Analysis and Development (IAD) framework, a recent addition to the repertoire of tools for institutional analysis. Drawing on the previous sections, Section 4.5 discusses the methodological approach adopted for this study. Section 4.6 presents the detailed research design. This is followed in section 4.7 by a discussion of the practical implementation of the research design. The last section summarises the discussion in the chapter.

4.2 Methodological Challenges in Informal Real Estate Market Research

There is an enormous literature on various aspects of informal settlements. There is however a paucity of literature focussing on methodological aspects. This is especially the case with the analysis of informal real estate markets. Thus it is not easy to build a picture of the state of the art, in methodological terms, in this area. It is of course true that the picture is not much better for broader real estate market research (see Jones & Ward, 1994c). There is no evidence that significant progress has been made in the thirteen years since these authors lamented the poor state of methodological inquiry in land market research. Many of the studies in the literature, while not ignoring methodological discussion, often do not critically engage with this question.

It is generally acknowledged that there are considerable conceptual and practical difficulties that stand in the way of effective research in informal real estate markets. At a conceptual level, a number of challenges can be identified. Firstly there is the ontological question of the fundamental nature or reality of these markets. Simply put, what do mean when we speak of informal real estate markets? How do these markets manifest themselves? Following on from that are questions of epistemology and methodology. These relate to the processes and mechanisms by which we can legitimately claim that we know the reality of these markets. In this regard, what perspectives or tools should we employ to discover the reality of these markets? What are we really looking at when we look at such informal markets?

Questions of ontology, epistemology and methodology are not given much, if any, prominence in the informal real estate market literature. It is however fair to say that the implicit assumptions underpinning much research in this area are based on the philosophical premises of orthodox or neoclassical economic theory. We shall contrast these assumptions with those of 'heterodox' approaches in the following section. Suffice at this point to state that this is a problematic area and not well addressed in the extant literature.

The second level of difficulty regarding informal real estate market analysis arises from the practical challenges or operationalisation of the research. All research poses difficulties, but informal real estate markets pose sets of specific challenges. The first set arises from definitional problems. Firstly, the suggestion of a dichotomy between informal and formal often fails to stand to the reality of a wide variety of actual situations found on the ground, all with varying degrees of legality. It is often difficult to articulate a viable operational distinction between the two. Secondly, the household as the standard smallest unit of analysis is not easy to pin down in operational terms (Varley, 1994). The problem in informal settlements is the frequent lack of correspondence between the physical dwelling and the family as a decision making unit. Thus members of one family may inhabit several distinct dwellings. Conversely, more than one family may be cohabiting under one roof.

The second and perhaps most significant set of challenges of doing informal real estate analysis is a consequence of the fact that informal activities are often, but not always, illegal in terms of the formal law. This creates a particular environment for research. Thus respondents may be highly suspicious of the researcher's motives or credentials. It is often the case that the researcher is suspected to be an agent of a state organ, such as the municipality, and that they are out to detect breaches of, and/or enforce, official regulations. Undesirable responses stemming from this may range from out-right refusal and hostility to the giving of 'strategic' but not necessarily truthful answers. The latter may be motivated by the desire to minimise perceived risks or to influence the outcome of the investigation in desired directions.

The third and final set of challenges is more context specific and will therefore differ from settlement to settlement. For example it is often the case that specific informal settlements are turfs for political contests between various groups. These contests may be between residents and local authorities, typically over matters of 'service delivery' or regulation, or between political parties over voter mobilisation. In these circumstances, the atmosphere may be too poisoned for worthwhile research. The problem could become acute, even threatening, if the researcher is perceived to belong to one or the other of the protagonists. Another context-specific problem relates to the incidence of crime and the threat this poses to the physical security of the researcher. In some settlements, the potential threat is such that it is impossible to undertake research. Finally, the organic and disorderly lay out of dwellings in most settlements makes the use of standard random sampling methods, which rely on some repetitive or orderly arrangement of dwellings, difficult.

As stated above, the question of methodology is peripheral in the real estate market literature. A review of the empirical literature reveals that there is a virtual absence of discussion of issues relating to ontology and epistemology. Such methodological discussions as may appear largely relate to questions of research design in specific empirical contexts. In this regard, the well known research strategies, i.e. surveys, cases studies and, recently, life-histories are very much in evidence. The prospects, therefore, of obtaining fresh methodological insights for this study from the literature appear to be limited.

4.3 Methodology in Economics: Contrasting Orthodox and Heterodox Approaches

'Western' thought have traditionally perceived the nature of 'reality' in terms of two contrasting ontological traditions (Gray, 2004). A 'Heraclitean' ontology of *becoming* (after Heraclitus, c.535-c.475 BC) places emphasis on a changing and emergent reality whereas a 'Parmenidean' ontology of *being* (credited to Parmenides (c.515-c.445 BC) places a different emphasis, on a permanent and unchanging reality (*ibid*.). But, and as Gray (*ibid*.) further observes, it is the latter that has held sway in Western philosophy.

The *being* ontology sees reality as being composed of clearly formed entities with identifiable properties, in contrast to a Heraclitean emphasis on formlessness and chaos (Gray, 2004). And, significantly, once entities are held to be stable they can be represented by symbols, formulae and models. Thus a representationalist epistemology results in which signs and language are taken to be accurate representations of the external world (*ibid*.). Gray argues that this representationalist epistemology orientates thinking towards outcomes and end-states rather than processes of change as is the case with the *becoming* ontology.

Being ontology results in particular epistemological positions. The dominant one is an objectivist epistemology which holds that reality exists independently of consciousness. A theoretical perspective closely linked to objectivism is logical positivism. Logical positivism has of course been the dominant paradigm of orthodox or neoclassical economics, its core argument being that economic reality exists externally to the researcher, and that its properties can be measured directly through dispassionate observation (Gray, 2004). In essence positivism argues that (*ibid.*, p. 18)

- Reality consists of what is available to the senses.

- Inquiry should be based upon scientific observation (as opposed to philosophical speculation) and therefore on empirical inquiry.
- The natural and human sciences share common logical and methodological principles, dealing with facts and not values.

Positivists view both the natural and social worlds as exhibiting empirical regularities. This is because both these worlds are argued to be subject to a strict set of laws, which science had to discover through empirical inquiry, using the ‘scientific method’. Because of this view, economics as the ‘queen of the social sciences’ came to earn the appellation of ‘physics of society’. Gillies (2004) for instance observe that as early as the 1870s, attempts began to develop economics into a mathematical science modelled on physics.

The consequence of this is apparent in the methodological orientation of orthodox or neoclassical economics. Firstly is an insistence on methods of mathematical-deductivist modelling (Lawson, 2003). Thus economic phenomena are reduced to (abstract) mathematical or econometric models, which are then assumed to correspond to reality. Secondly, and perhaps as a direct consequence of this, is the traditional focus on quantitative aspects of social phenomena. In the analysis of markets for instance, it is prices and quantities rather than actors and processes which take centre stage. Thirdly, and also related to the first two points, is that, to a significant degree, neoclassical economics is associated with a predictive rather than causal methodology. Mathematical tools, such as regression analysis and other statistical correlations, encourage this orientation.

There has been a growing body of critical scholarship being brought to bear on, among other things, the methodological assumptions of neoclassical economics (see for instance Fullbrook, 2004; Lawson, 2003). Going under the broad umbrella of heterodox approaches, a number of distinct theoretical perspectives have placed the spotlight on the failings and inadequacies of mainstream methodology. The New Institutional Economics is a key part of this loose coalition of the disenchanted.

The point of departure for most criticism of the methodological orientation of orthodox economics is its perceived lack of success as a scientific project, especially when compared to physics on which it is modelled. The success of the mathematical-deductivist approaches in physics, and broadly in the natural sciences, has simply not been replicated in economics (Gillies, 2004). As Lawson (2004) argues, attempts to find 'non-trivial', stable correlations between economic variables have mostly failed. Thus predictions from economic theory are not nearly as accurate as those offered by the natural sciences, and the link between economic theory and practical problems tenuous (Lawson, 2003). Lawson (2003) starkly concludes that orthodox economics largely fails as a predictive and explanatory endeavour. It is in this context that economics has earned the tag of 'the dismal science'.

It is increasingly being asserted that the failings of orthodox economics are attributable to ontological differences between the physical and economic worlds. Gillies (2004) for instance argues that the application of mathematics to economics has proved largely unsuccessful because it is based on a misleading analogy between economics and physics. Central to this is the question of the nature of social reality and the extent to which this reality exhibits empirical regularities of the sort found in nature. The existence of empirical regularities or stable relationships between phenomena is of course a necessary condition for prediction and explanation.

Lawson (2003) attempts to build a picture of the nature of social reality as a first step towards outlining an appropriate methodological approach. The starting point is the observation that though strict empirical regularities do not seem to occur in the social realm, 'rough and ready patterns' requiring explanation are occasionally seen. The fact that human behaviour is not entirely capricious or random is indicative of a social world explicable in terms of social rules or codes which structure the practices people follow. Based on that Lawson (*ibid*.) sees social reality as composed of three key elements. Firstly are social *rules*, described as directives, codes, conventions or understanding of how specific acts could or should be performed. This is the basis upon which the predictability of human action rests. Secondly are social positions alternatively occupied by different individuals, which positions have rules associated with them. Finally are social networks which link groups or individuals in society to other groups or individuals.

Lawson (2003: 44) sums up the nature of social reality as follows:

> … social reality is structured vertically (it includes underlying powers and tendencies, as well as actualities such as social practices and other events), and horizontally (practices are differentiated), and consists in social rules, relations, positions and institutions among other things. Social reality is an emergent realm, dependent upon…transformative human agency, and consisting of stuff that is intrinsically dynamic…

Social reality differs from the natural world in a number of respects. Lawson (2003) gives a cogent description of these differences. Firstly, rather than having an independent existence ‘out there’ its existence largely depends on human agency i.e. social reality is created by humans. Secondly, on account of its dependency on transformative human agency, its state of being must be intrinsically dynamic or processual. These two points suggest that social reality, contrary to orthodox positions, is properly conceived in terms of a *becoming* ontology (see previous discussion). Thirdly, the social world is highly internally related i.e. constituted of individuals occupying different positions, rather than homogenous atomistic individuals. Finally and significantly for our study, the social realm is highly structured. This means that it is not simply a series of human practices but includes underlying structures. Thus actual observable human behaviour is conditioned or explicable by what Lawson (*ibid.*) refers to as powers, mechanisms, tendencies and structures operating at a higher level.

These underlying structures provide the basis for the alternative methodological approach of the heterodox tradition. This approach emphasises a causal rather than mathematical methodology, and tries to explain economic phenomena by looking for their causes rather than constructing mathematical models (Gillies, 2004). This raises the possibility of engaging in a science which is more explanatorily robust and grounded in real world conditions.

A causal methodology is of course difficult to operationalise in the social domain where specific phenomena tend to be governed by many causal factors, none of whose effects can easily be isolated. Lawson (2004) however argues that the effects of specific causal mechanisms can be identified using what he calls the method of contrast explanation. Lawson explains this as follows:

> All we need for this method to work is a situation in which i) two outcomes are different ii) in conditions where it was expected that they would have been the same, resting on an assessment that they shared the same, or sufficiently similar, causal history. Alternatively put, in contrast explanation we seek *not* to explain some X, but to explain why some 'X rather than Y' occurred in a situation where Y was expected (given our understanding of the causal history of the relevant phenomena). In such a situation we do not seek all the causes of X but the one that made it different from the Y that was anticipated (Lawson, 2004:27, emphasis in original).

Lawson (*ibid.*) describes the two necessary conditions for the success of contrast explanation. First is the delineation of what he calls a contrast space or domain over which comparisons can be drawn. This is the relevant unit of analysis for comparative analysis and may correspond to a geographic region, a specific time period or other relevant unit. The second condition is that all relevant aspects of the contrast space must be subject to the same set of causal influences, except for the one that is of interest.

4.4 Methodology in NIE Research

As indicated above, the New Institutional Economics lies in the heterodox camp. As we have seen in chapter 2 institutions are a key part of the structural make up of societies. Thus actual human behaviour is explicable in terms of, or conditioned by, the institutional environment. Like other heterodox approaches, the NIE is associated with the particular methodological approaches discussed above. More specifically, it is associated with a strong empirical epistemology and inductive methodology (Hall & Elliott, 1999). At the core of the NIE is a common methodological concern with comparative analysis of institutions at all levels (Menard & Shirley, 2005)

4.4.1 Challenges of Doing Institutional Analysis

There are a number of methodological challenges standing in the way of NIE research (Ostrom, 2005). This is mainly because institutions are complex multi-dimensional, multi-level objects (Alston *et al*,1996). According to Ostrom (2005: 822) some of the key difficulties in studying institutions include:

- While the buildings in which organised entities are located are visible, institutions themselves are invisible, making identification and measurement difficult.
- The term 'institution' is used to refer to many different types of entities including organisations, as well as the rules and norms and strategies used to structure patterns of interaction within and across organisations. Multiple definitions of institutions make it hard for researchers to make progress.
- Decisions made about rules at any one level are usually made within a structure of rules existing at a different level. Thus institutional studies need to encompass multiple levels of analysis.
- At any one level of analysis, the relevant variables work together in a configural rather than an additive manner. Thus, the impact of one type of institution is not independent of the configuration of other institutions. The effect of changing property rights, for example, will vary from society to society due to differences in their institutional structure. While *ceteris paribas* conditions are essential for doing any theoretical work involving institutions, the researcher needs to know the values of other variables rather than asserting that they are held constant.

Hall and Elliott (1991: 1278, citing Nugent, 1997) enumerate a list of methodological challenges confronting institutional economists. The key ones include:

- defining and operationalising the term 'institution'.
- identifying how institutions are determined.
- the effects of institutions given their often invariant nature.

- simultaneity problems derived from the interdependencies between different institutions.
- the dynamics of institutional change.

4.4.2 The Institutional Analysis and Development (IAD) Framework

Perhaps the most significant recent advance in the development of tools for doing institutional analysis is Elinor Ostrom's Institutional Analysis and Development (IAD) Framework (Ostrom, 2005). Drawing on the foundations of many disciplines, the IAD framework provides a tool that, it is argued, can be used to analyse any type of institutional arrangement (Ostrom *ibid*.). The IAD framework brings conceptual clarity to the analysis of real estate markets, as well as highlighting areas where policy levers could usefully be deployed

Ostrom (2005) begins her exposition of the IAD framework by asserting that there are universal components, or structural variables, present in all markets and hierarchies. She argues that a framework for analysis should identify the major types of structural variables present to some extent in *all* institutional arrangements, but whose *values* differ from one type of institutional arrangement to another.

At the heart of the IAD framework is a conceptual unit called the action arena that can be utilised to analyse, predict and explain behaviour within institutional arrangements (*ibid*.). Ostrom defines the action arena as the *social space* where individuals interact, exchange goods and services, solve problems (*ibid*., p. 829). By this definition, real estate markets can easily be conceived as action arenas.

Ostrom presents action arenas as an amalgamation of *action situations* and *actors* in that situation. Action situations can be characterised by seven clusters of variables (Ostrom 2005:828): (1) participants (2) positions (3) outcomes (4) action-outcome linkages (5) the control that participants exercise (6) information and (7) the costs and benefits assigned to outcomes. These clusters of variables provide a good framework for a descriptive analysis of real estate markets in specific locations.

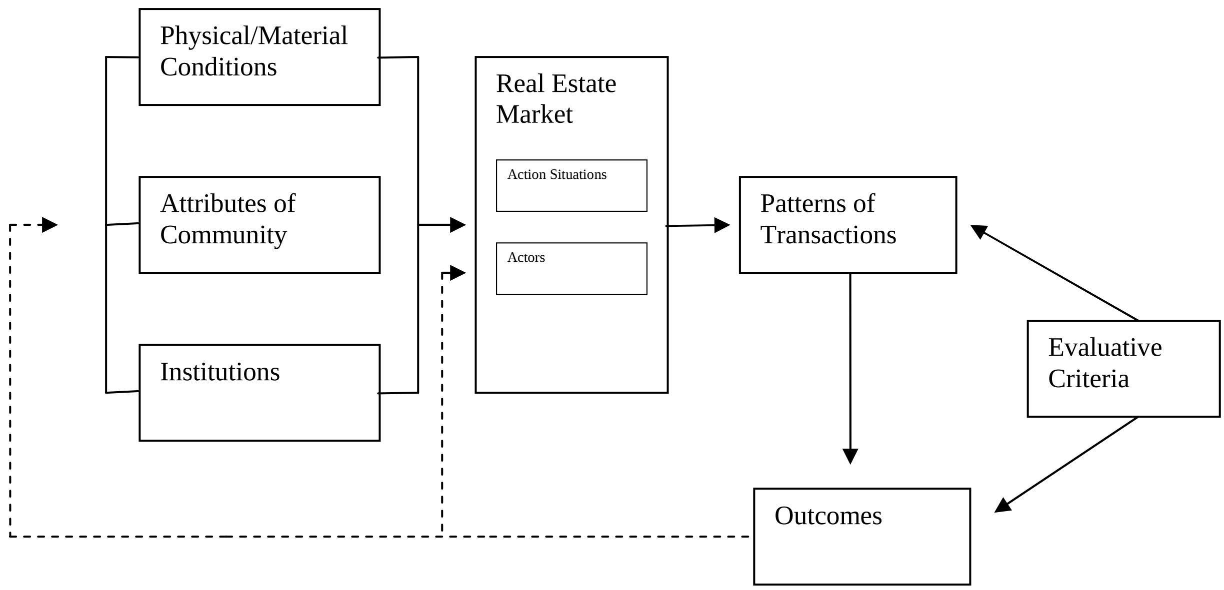
Real estate markets are of course characterised by numerous participants, occupying various positions such as buyer, seller, broker, regulator etc. These markets produce a range of outcomes related to specific actions undertaken by participants. The ability of participants to achieve certain outcomes in turn depends on their agency i.e. the extent to which they as individuals are free to determine courses of action in the face of structural constraints. The information set available in the market determines the choices that participants must make. Finally the costs and benefits assigned to specific outcomes sets the incentive structure of the market, influencing what actions will or will not be undertaken.

Perhaps of more significance from a methodological view-point is that action arenas, such as real estate markets, are viewed as a set of dependent variables (see figure 4.1). Three clusters of independent variables are seen as jointly affecting the structure of action arenas- by affecting the types of actions that individuals can take, the benefits and costs they attribute to these actions and the likely outcomes achieved. These clusters of variables, which provide a good entry point for policy analysis and intervention, are (Ostrom, 2005):

- The rules and norms used by participants to order their relationship.
- Physical and material conditions obtaining in the relevant community.
- The attributes of the community within which any particular arena is placed.

Rules and norms refer to formal and informal institutions. The former include systems of property rights while the latter refer to conventions, moral rules and social norms (Mantzavinos, 2001). These institutions are devised to structure interaction between actors along predictable paths. *Physical and material conditions* affect what actions are physically possible, what outcomes can be produced, how actions are linked to outcomes and what is contained in the actor’s information set. Physical and material conditions also imply recognition of the specific attributes of the goods being exchanged i.e. whether they are excludable, easily divisible and transferable, and internalised by those who participate in the exchange (Ostrom, 2005). Real estate of course has certain well known unique attributes which define how it may be traded.

Figure 4.1 A framework for real estate market analysis



Source: adapted from Ostrom, 2005:829

Finally, *attributes of community* includes the norms of behaviour generally accepted in the community, the level of common understanding potential participants share about the structure of particular types of action arenas, the extent of homogeneity in the preferences of those living in a community and the distribution of resources among those affected (Ostrom, 2005). As Ostrom goes on to add, the term *culture* is frequently applied to this bundle of variables.

Conceiving real estate markets as action arenas within the IAD framework represents a methodological quantum leap. The concept of action arena captures the dynamic, transactional nature of these markets. It draws attention to the fact that real estate markets are dependent on, among others, institutional arrangements for their structure and functioning. By making provision for the explicit recognition of the specific attributes of real estate as a tradable good, the concept introduces more realism to the analysis of real estate markets. Finally, the concept elevates the profile of market participants, making them a focal point of analysis. All in all, the concept of real estate markets as action arenas is a significant improvement in perspective over the traditional neoclassical approach. As we have seen in earlier chapters, the latter tend to focus on prices and quantities, and ignores or assumes away both institutional strictures and the defining characteristics of real estate.

One of the most difficult problems to overcome in the study of institutions is how to identify and measure them (Hall & Elliott, 1999; Ostrom, 2005). The difficulty arises because in many cases institutions are shared in the minds of participants as implicit knowledge rather than in explicit and written forms. Ostrom attempts to tackle this difficulty and to make the concept of institutions more operational. She argues that in trying to identify and measure institutions, researchers must stress the concept of *rules-in-use* rather than focussing on *rules-in-form*. The former represents *de facto* constraints while the latter are the *de jure* rules.

Ostrom (*ibid.*) describes rules-in-use as the set of rules to which participants make reference if asked to explain or justify their action to fellow participants. They are the dos and don’ts that one learns on the ground that may not exist in any written document. According to her, being armed with a set of questions concerning how X is done here and why Y is not done here is a useful way of identifying rules-in-use, shared norms and operational strategies.

Ostrom (*ibid.*) proposes seven groups of working rules which, she argues, affect the structure of any repetitive action situation, such as real estate markets. These are: *boundary rules*, *position rules*, *scope rules*, *authority rules*, *aggregation rules, information rules and payoff rules.* These seven groups of rules directly affect the seven components of an action situation as discussed above. Ostrom (ibid., p.834 describes these rules as follows (italics in original):

> Boundary rules directly affect the number of *participants,* their attributes and resources, whether they can enter freely and the conditions that they face for leaving. Position rules establish *positions* in the situation. Authority rules assigns sets of *actions* that participants in positions at particular nodes must, may or may not take. Scope rules delimit the *potential outcomes* that can be affected and working backwards, the

> actions linked to specific outcomes. Authority rules, combined with the scientific laws about the relevant states of the world being acted upon, determine the shape of the decision tree- the *action-outcome linkages*. Aggregation rules affect the level of *control* that a participant in a position exercises in the selection of an action at a node. Information rules affect the *knowledge-contingent information sets* of participants. Payoff rules affect *the benefits and costs* that will be assigned to particular combinations of actions and outcomes and establish incentives and deterrents for action. The set of working rules is a configuration in the sense that the impact on actions chosen and outcomes of a change in one rule may depend upon the specific content of other rules in use.

These rules make the concept of institutions tractable by providing a basis for its 'operationalisation' thus facilitating attempts aimed at analysing their effects. However, and as Ostrom (*ibid*.) notes, because physical and material conditions and attributes of the community also affect the structure of the action situation, working rules alone never provide both a necessary and sufficient explanation of the structure of an action situation. Researchers would need to control for these clusters of variables in order to draw appropriate inferences.

4.4.3 Empirical Work in NIE Research

We now briefly discuss some basic approaches to empirical work in the NIE. As has been pointed out, institutions are complex multi-dimensional, multi-level objects. Empirical work will be hard pressed to deal with this complexity. As a matter of necessity therefore empirical studies tend to simplify in various ways First the *scope* of the analysis is selective. Second empirical studies are usually framed in terms of one or a few *central theoretical concepts*, such as transaction costs, property rights or collective action. Third, the *treatment of time* varies (cross section or longitudinal). Fourth the character of empirical studies varies with the *nature of the political and social systems* being investigated, which can range from simple agricultural communities to complex industrial democracies (Alston *et al*, 1996, emphasis in original).

The analysis can take place at different levels, thus requiring that scholars be explicit about the analytical plane on which they are operating (Alston *et al*, 1996). One can for instance distinguish between causes and effects of various institutional arrangements. Thus one could concentrate on either what causes particular property rights arrangements, or on the effects of those arrangements. Alternatively the distinction could be contingent on which variables are treated as 'exogenous' or independent.

With regard to the latter Eggertsson (1996) posit three levels of analysis. According to Eggertsson, the first level attempts to explain how variations in institutional arrangements affect economic out comes or wealth, and for this purpose institutions, organisations and contractual arrangements are treated as exogenous variables. The second analytical level attempts to explain how the institutional framework affects the structure of organisations and contractual arrangements. The basic notion here is that in each case the institutional framework (the exogenous variable in this case) defines and limits the set of practicable forms of organisations available to actors. The third level of analysis attempts to explain various elements of the institutional framework and the structure of property rights.

According to Ensminger (1996) most research in the NIE proceeds at the first and second levels. She however feels that the third level where attention is given to the effect of different institutional arrangements on transaction costs, which could be critical for economic development, is more relevant to the needs of developing countries. In practice however the matter under investigation may call for occasional switching between analytical planes as the need arises (Alston, 1996), and the use of a variety of methods. A certain degree of methodological eclecticism in institutional research is therefore to be expected.

As noted elsewhere, the comparative institutional approach is the dominant methodological stance of the NIE (Menard & Shirley, 2005). Within that, a variety of approaches have been employed to test empirical data. These include the standard procedures developed in economics, namely statistical evidence or econometric tests (Menard, 2001). Comparative case studies have been widely used and, more recently, experimentation has been explored (*ibid*.). The former in particular are increasing in importance. According to Menard a growing set of studies in NIE proceed in a comparative way, either in analysing the trade-off among different governance structures or in examining and explaining the impact of different institutional environments.

4.5 Study Research Methodology

Drawing on previous sections, this section discusses the methodological approach adopted for the study. There are three parts to this discussion. The first part briefly considers how the conceptual and practical challenges to studying informal real estate markets identified earlier might be dealt with. The second part outlines the broad methodological approach employed for this study. The final section briefly introduces the case study as a research method.

4.5.1 Dealing with conceptual and practical challenges

A number of conceptual and practical challenges to the analysis of informal real estate markets were outlined in section 4.2. In terms of the conceptual problems, lessons from the previous discussion can usefully be applied in three areas, namely, the definition of informal real estate markets, the fundamental nature of these markets and methodological approaches to elucidating causal mechanisms at work in these markets. Informal real estate markets could be defined as social spaces where individuals interact to exchange or acquire *de facto* rights to real property, in circumstances where the exchange or acquisition is outside established institutional rules and where the acquired rights do not have the protection or sanction of the state. These markets can be delineated in spatio-temporal terms and described in terms of a number of variables including numbers of participants, their positions, outcomes and how these link to actions, information availability and costs and benefits arising from market activity.

The fundamental nature or ontology of these markets is discoverable in terms of three things. Firstly are the de facto *rules or norms* which facilitate or condition the behaviour of market participants. Secondly are the different *positions* occupied by these participants, with attendant rules, such as buyer, seller, municipal official etc. Finally are the *networks* which link individuals and groups in these markets.

The behaviour of participants in these markets is *intelligible* (after Lawson, 2003) in terms of underlying causal influences. It is difficult to isolate specific causal influences because of the nature of social reality and the ubiquity of multiple causes for any given event. This notwithstanding, a causal methodology, named the method of *contrast explanation* (Lawson, *ibid*.) can be employed to attempt and find factors causing or influencing certain outcomes.

The strategies for dealing with practical problems in informal real estate market research will obviously depend on specific circumstances and will require ingenuity and innovation. Some of the challenges identified in section 4.2 were encountered in this study. The manner in which these were dealt with is outlined in the last section of this chapter.

4.5.2 Methodological Approach

The study employs a comparative institutional methodological approach in a case study framework. Ostrom's (2005) Institutional Analysis and Development (IAD) framework is used as basis for the comparative analysis of three broad real estate market types in settlements located on Windhoek's periphery. These markets are the low income formal or 'township' (freehold) market, the 'group' market and the 'informal' market.

Low income formal markets refers to real estate markets in low-income areas characterised by formalised housing, access to basic social services and a system of freehold tenure (Tvedten & Mupotola, 1995). Informal markets on the other hand subsist in settlements which lack all these attributes and are generally (but not necessarily) poorer and more deprived (*ibid*.). For the purposes of this studyinformal real estate markets have been divided into two, namely 'group' and 'informal'.

As seen previously, the IAD framework would attempt to identify structural variables present in all three markets but whose values differ from one market to another. The method of contrast explanation for its part requires that the contrast space be subject to the same set of causal influences, except for the one that is of interest. The contrast space was defined geographically and corresponds to two settlements in Windhoek (see discussion in section 4.6 below). These case study areas are selected on the basis that they hold within them in close physical proximity the three market types. It is expected therefore that physical and material conditions and the cultural attributes of these markets are largely homogenous.

This leaves the institution of property rights as the source of potentially the greatest difference between these markets. In fact the key difference between the freehold market, the group market and the informal market is the degree to which the *property rights* of the participants can be considered formal and therefore backed by the enforcement capability of the state.

Property rights then are our independent or causal variable. The three types of markets identified above are structured by three distinct property rights regimes. Freehold property rights are clearly defined, both in terms of content and spatial extent. These rights are held with regard to specific demarcated plots. Further, holders of these rights can sell, lease bequeath and exercise all the normal rights of property ownership. And very significantly, these rights are enforceable by the state. They are therefore very secure. From a policy point of view, this system of property rights is conventionally held as ideal and is seen to be the one most facilitative of market efficiency.

The informal market on the other hand is, as the name implies, structured by informal, often illegal property rights. By informal rights we mean those rights held by economic agents that fail to adhere to the established institutional rules or are denied their protection (Portes & Haller, 2005). Like in the formal market, property is acquired, sold, leased, given out and so on, but in an atmosphere of state disapproval. Lacking state sanction, the property rights in these markets may be weak. Indeed, residents of informal settlements may incur dispossession of property rights by way of forced evictions and relocation by the state. On the other hand, the tenuous nature of these rights may mean holders are susceptible to predatory activities of others. Hence the conventional view that informal property rights are insecure and that they inhibit investment and market activity. From a policy point of view this has underpinned efforts aimed at providing formal freehold rights to residents of informal settlements. This is seen as crucial to the leveraging of, among other things, real estate markets for poverty alleviation.

Finally, the group market in the context of this study refers to those markets structured by a system of group property rights. These group rights arise from the activities of savings associations, who pool savings to purchase land from the municipality. This land is surveyed in the conventional manner, subdivided from the surrounding informal settlements and registered in freehold title in the name of a trust or other corporate body. The key difference from conventional freehold rights is that the land is occupied under a system of group tenure. Thus anything up a 100 individuals may occupy the block of land, on specific plots surveyed to a lower standard. And significantly, holders of group rights have more restricted powers to deal with their property than holders of freehold rights. Thus sales to outsiders may not be allowed without the specific approval of group members.

The external boundaries and rights of group property enjoy the full protection of the state in terms of the formal law. In this sense, group rights are very secure. The internal boundaries and rights on the other hand are subject to whatever arrangements may have been agreed by members of respective groups. In most cases these would be set out in their respective constitutions. Members do not own real rights over their property i.e. they cannot for instance mortgage their land. Proposed legislation to give effect to this is not yet in place. Crucially, local groups, rather than the state, are the primary enforcement mechanism for these rights.

Group rights merit special attention. They represent a half-way house between the illegal rights of informal settlements and the individual freehold rights found in the formal settlements. In policy terms, they are increasingly seen as an attractive proposition for the urban poor, offering the best of both systems i.e. the benefits of secure individual tenure without the complications and costs that come with it.

The comparative institutional approach adopted in this study therefore attempts to evaluate the effects of the three property rights categories on real estate market activity and how this in turn affects various outcomes. These rights systems can be conceived as occupying specific positions on a continuum, moving from completely illegal to fully formalised. A comparative assessment is clearly the best way of dealing with the vexed question of whether more formal property rights are efficacious for poverty alleviation. As Ostrom (2005) argues, without such systematic, comparative institutional assessment, recommendations on reform may be based on naïve ideas about which kinds of institutions are 'good' or 'bad' and not on the analysis of performance. This is particularly important in this case where policy interventions have in the main sought to transform informal property rights into individual freehold rights.

4.5.3 Case Study Research

The study employs the case study of two low-income settlements in Windhoek as the main method for collecting empirical data. There is a lot of literature on the case study as a methodological tool. Its strengths and weaknesses are well known and need not to be elaborated upon. Suffice to say that it is the most appropriate tool for the task at hand, given the subject matter, time and resource available compared to, say, full scale surveys or experiments. As Yin (2003a) notes, the distinctive need of a case study arises from the need to understand complex social phenomena where context is important. A full scale survey would have need to cover at least all of Windhoek's low income and informal settlements. This is neither necessary nor was it feasible with the time and financial resources available. Experimental approaches, requiring some manipulation of aspects of social structures, while not unknown in the literature, were not regarded as a serious proposition in this context.

There is however one aspect about case study research which need particular mention. As Yin (2003a) observes, a common concern about case studies is that they provide little basis for scientific generalisation. However, and as Yin (*ibid.*) argues, case studies are generalisable, but not to populations, but rather to theoretical propositions. In this case the conceptual framework developed for this study and fully discussed in chapter two provides the theoretical tool for the analysis of the case study results.

4.6 Research Design

A research design must deal with at least for problems, namely what questions to study, what data are relevant , what data to collect and how to analyse the results (Yin, 2003a, citing Philliber, Schwab & Samsloss, 1980). Yin (*ibid.:*20).goes on to list five components especially important for the design of case study research, namely (1) a study's questions (2) its propositions (3) its unit(s) of analysis (4) the logic linking the data to the propositions and (5) the criteria for interpreting the findings.

This study's research questions and propositions (i.e. the two working hypotheses and the central thesis) have been laid out in the first chapter. The unit of analysis (i.e. case study) are geographically or spatially defined areas in the city of Windhoek, selected in accordance with a three-point criteria as discussed below. The logical framework linking the empirical data to the propositions is provided by the conceptual framework developed in chapter two. The findings are interpreted qualitatively in terms of the conceptual framework, and extant theoretical and empirical literature.

The choice of cases to be studied is, as Yin (2003b) puts it, one of the most difficult steps in case study research. The procedure for selecting the case study areas was informed by three criteria that needed to be met. Firstly, the settlements had to be *typical* of low income settlements in Windhoek (and by extension Namibia). This requirement is of course necessary if the findings would have at least the possibility of being generalisable to the rest of the city and country. Typicality was to be established by a visual scoping of potential areas, focussing on physical and material conditions, and aided by prior experience. This in practice was not difficult because the low-income settlements in Windhoek, particularly informal areas, are very homogenous. The second requirement was that in each case study area the *three rights categories* of interest would be operational. As mentioned previously, the intention was to try and control for the effects of the other variables influencing property market activity. The final requirement was that the case study areas be in the *periphery* of the city. The choice of settlements on the periphery of the city was thought to be appropriate as it was hypothesised that these areas offered the best chance to observe elevated levels of market activity. Areas on the edge of cities tend to be more dynamic, being literally at the leading edge centre of city expansion. Further, land here is more readily available for informal settlement, thus providing attractive opportunities for new migrants.

On the basis of these criteria a number of potential settlements were identified. Out of these two broadly similar settlements in the north-western and northern fringes of Windhoek, called Goreangab and Okahandja Park, respectively were selected. The final selection of these settlements was on the basis of convenience and access as the Namibian Housing Action Group (NHAG) was active in these settlements, recommended their study and introduced the research team to community structures (see description of the role of NHAG below).

In terms of sampling, the lack of an appropriate sampling frame presented a challenge from a design point of view. The problem was the absence of suitably disaggregated household data (i.e. at the level of the case study settlement) from which to draw representative samples. Specifically, there was no way of knowing in advance the exact number of households in the case study areas even though the spatial extent could more or less be established. In these circumstances, it was decided that the sample had to meet two criteria; firstly, households interviewed had to cover, in spatial terms, the entire study areas and, secondly, at least 100 respondents were to be interviewed per property rights category per settlement. The second criterion was meant to be a safe guard to ensure adequate sample sizes for statistical analysis in case the first criteria did not generate sufficient numbers or, conversely, to restrict the sample size if the opposite result occurred.

Thus the design was for about 600 households (i.e. 300 from each settlement) from all the three categories of property rights to be randomly selected and interviewed by means of a detailed questionnaire. Randomness was to be achieved by selecting every third house for interview. The data was subsequently to be aggregated and reported on the basis of the system of property rights, and not on the basis of settlement name.

To supplement the household interviews, it was planned to do detailed, unstructured, case studies of up to 30 households (5 per settlement for each system of property). The intention here was to follow for each case the entire transaction process, from initial search to final occupation. The objective was to gain a deeper understanding of respective market processes and transaction costs.

The detailed questionnaires (see appendix A and B) and the individual case studies aimed to collect data on a range of variables with which to meet the study objectives as discussed earlier. The two settlements were conflated into a single unit of analysis, with results argued to be potentially generalisable to the rest of low income settlements in Windhoek and Namibia.

In addition household interviews and case studies, it was planned to hold detailed unstructured interviews with a number of key players in the Windhoek low income housing arena to obtain contextual information, clarify official positions and collect statistical data. Senior officials from Windhoek City Council (WCC), NHAG, the Namibian Housing Enterprises (NHE), the National Planning Commission (NPC) and the Ministry of Lands and Resettlement (MLR) were targeted.

The Windhoek City Council is responsible for the control and regulation of informal settlements. Further, most of these settlements are on land that legally belongs to the municipality. Residents of informal settlements on municipal, land are required to enter into lease agreements with the WCC and to conform to municipal regulations regarding land use and land development. Interviews with the WCC's Department of Sustainable Development aimed to obtain information about the property rights of residents under the three types of rights configurations, the extent to which these residents conformed to relevant property regulations and the strength of municipal enforcement of these regulations. In addition, the interviews sought to clarify the status and roles of settlement committees, and that of various savings groups operating in these settlements.

The NHAG is the service NGO to the Shack Dwellers Federation of Namibia (SDFN), an alliance of savings groups operating in many informal settlements in Namibia, whose principal aim is to mobilize collective savings for the purchase and group settlement of land for their members. Interviews with the head of the NHAG were meant to meet a number of objectives. Firstly, to obtain background information about the NHAG and the SDFN, particular the rationale for their existence and the scope of their activities. Secondly, to obtain insights into the characteristics of group property rights and the mechanisms for monitoring and enforcing these rights. Thirdly, to obtain an appreciation of the problems and challenges arising from the system of group property rights. Finally, to obtain an understanding of the official attitudes of the NHAG and the SDFN towards the operation of free property markets in these settlements. This final objective is particularly significant because the NHAG and SDFN are in theory the enforcement 'institutions' for group property rights. Their attitudes are therefore expected to have an influence on market outcomes.

The Namibian Housing Enterprises (NHE) is a state entity with a virtual monopoly in the provision of very low income formal housing in Namibia. The NHE has a wide mandate and is therefore a significant player in this area. It acts as developer, provides loans for the purchase of its own developments and lets out units that have not been sold. Its pre-eminence in this market segment is such that all the formal housing in the Goreangab area has ultimately been developed by the NHE. In this context, the interview with senior management was meant to obtain information on the operations of the low income formal market, and of the role of the NHE in that market. The interest was in clarifying eligibility criteria for NHE financing, the property rights of beneficiaries of NHE funded housing, and the attitude of the organisation towards free trade in these properties. There is a subsidy element in the cost of these houses, creating a rationale for the NHE to try and intervene in the market so as to protect targeted groups and to ensure that the more affluent do not 'down-raid'. In addition the interview sought to obtain an understating of the demand and supply situation of low income housing in Windhoek, as well as of the key problems constraining the provision of adequate units.

Respondents from the NPC's Statistics and GIS sections were meant to provide maps and other data from the 2003 national census while background data on the status of the Flexible Land Tenure Project would be provided by the MLRR.

4.7 Research Execution

A total of 440 households were successfully interviewed. Table 4.1 shows the numbers of households interviewed categorised by settlement and property type. Even though the design was for data to be obtained in each settlement for each of the three property rights regimes, it turned out that there were no households in the freehold category in the Okahandja Park settlement.

Table 4.1 Numbers of households interviewed, by property rights type and settlement.

		Name of settlement		
Type of property rights		**Goreangab**	**Okahandja Park**	**Total**
Informal	Count	64	104	168
	% within type	38.1	61.9	100
Group	Count	96	68	164
	% within type	58.5	41.5	100
Freehold	Count	108	0	108
	% within type	100	0.0	100
Total	Count	268	172	440
	%	60.9	39.1	100

The interview questionnaires came in two slightly different versions, one type for a respondent categorised as ‘owner occupier’ and the other for ‘renter’. This categorisation was not dependent on the *de jure* tenure status of respondents. Rather it was based on *de facto* conditions where test of ownership was the ability to practice most of the rights of ownership recognised under the common law. The main test in this regard was that occupancy of the property was not contingent or subject to the sanction of another individual private person. Thus respondents were categorised as ‘owner’ even though strictly in terms of the formal law they may have been illegal squatters. Renters for their part were those occupying properties subject to the payment of rent or other forms of consideration to other private individuals. Again there was no intention to interrogate the legality, in terms of the formal law, of these relationships.

The questionnaires sought to obtain data on a number of variables regarding market activity, institutional arrangements and effects of property rights. The respondents in all cases were heads of households. The oral interview was followed by the taking of measurements for the size of the property. On average the entire process took about 25 minutes per house, with an average of 6 interviews per day.

As expected it was difficult to achieve random sampling by the device of selecting every third household for the interview. This was due to, firstly difficulties in finding heads of households at home and secondly the irregular lay out of the households in many places. In practice the next available respondent was interviewed on condition that they were not immediate neighbours. By this device it was possible to obtain, *ex post facto*, random samples for both settlements and for each of the three configurations of property rights. And, significantly, the study was able to achieve spatial coverage of all areas of interest.

Another problem encountered related to the size and characteristics of the sample in relation to the relevant population. Firstly, it was impossible to determine the actual physical boundaries of the two settlements on the ground. Municipal maps were not disaggregated to the required level to make this possible. Secondly, there was lack of suitable data on the demographic profile of the relevant population. The natural source for this data is the 2001 National Population and Housing Census held by the Central Bureau of Statistics of the National Planning Commission (NPC). Unfortunately there was a lack of fit between the areas of research interest, municipal administrative units in which these areas are located and the census enumeration areas by which demographic data is organised. Enumeration areas and municipal administrative boundaries in particular do not coincide, making it difficult to obtain accurate information on the characteristics of the population from which the samples were drawn.

It was however possible to obtain a reasonable approximation of the population characteristics using digital maps and corresponding databases held by the NPC. The approach adopted involved identifying the approximate centre of the area of interest and from it drawing a circle with a radius such that the circle covered the outer boundaries of the survey area. The system then extracted specified census data for this area from the census database. According to this method, there were in 2001 a total population of 19, 131 in the Goreangab area, living in 4,582 households (see Table 4.2). The 268 households interviewed represent 5.8% of this population. In the

Okahandja Park area the corresponding figures are 10,744 people living in 2,777 households. The sample of 172 households thus represents about 6.2% of the relevant population.

These figures are almost certainly to be on the low side. The method of generating the demographic profile of the population meant that adjacent areas, which lay outside the areas of interest, contributed to the total figures. If these are taken out, it is estimated that the proportion of households interviewed would be in the region of 10%. This estimate is based on direct observation of the ratio of households interviewed to the estimated total households in the area of interest.

In order to provide appropriate context to the case studies, tables 4.2, 4.3 and 4.4 show some key characteristics of the population in these settlements. Table 4.2 shows that for both settlements most of the heads of households fall in the age group 30-39, with the 40-49 range coming in at second. Table 4.3 breaks down the households and population by main source of income. Wages and salaries are by far biggest single source of income, at 73.8% and 70.6% of households in Goreangab and Okahandja Park respectively. ‘Wages and salaries’ capture a wide variety of income sources, including from all manner of informal activities. These figures therefore do not necessarily mean that close to 73% of the population in these settlements are in formal employment.

Table 4.2 Households and population by age group

Age Group of Head	**Goreangab**		**Okahandja Park**		**Total**	
	Households	**Population**	**Households**	**Population**	**Households**	**Population**
Under 30	1,068	3,466	889	2,933	1,957	6,399
30 – 39	1,962	8,427	1,160	4,718	3,122	13,145
40 – 49	1,027	4, 884	451	1,932	1,478	6,816
50 – 59	343	1,545	160	648	503	2,193
60 – 69	76	323	56	243	132	566
Over 70	21	97	19	90	40	187
Not stated	85	389	42	180	127	569
Total	**4, 582**	**19, 131**	**2,777**	**10, 744**	**7,359**	**29,875**

Source: National Planning Commission, based on 2001 census data

Table 4.3 Households and population by main source of income

Main Source of Income	Goreangab		Okahandja Park		Total	
	Households	Population	Households	Population	Households	Population
Farming	12	62	17	59	29	121
Business, non-farming	607	2,365	392	1,383	999	3,748
Wages and	3,383	14,719	1,960	7,893	5,343	22,612
salaries	34	103	24	97	58	200
Pension	434	1,569	211	713	645	2,282
Cash	47	124	132	447	179	571
remittance	65	189	41	152	106	341
Other						
Not stated						
Total	**4, 582**	**19, 131**	**2,777**	**10, 744**	**7,359**	**29,875**

Source: National Planning Commission, based on 2001 census data

Table 4.4 provides information on types of housing units by household and population. Of particular interest is the proportion of households occupying detached (permanent brick) houses and 'improvised housing units' (i.e. official euphemism for 'shacks'). Overall, just over 23% of households occupy detached dwellings, compared to just over 68% occupying shacks. There are notable differences between the two settlements. Thus Goreangab has a higher proportion of permanent detached housing, almost 36% to Okahandja's Park's 2.5%. Almost 90% of the housing in the latter settlement are shacks.

The information in these tables is from the 2001 National Census and therefore somewhat dated. Its real value is to show the relative, rather than the absolute, magnitudes of some key characteristics of the population. These are unlikely to have changed significantly in the five years since the census.

Table 4.4 Households and population by type of housing unit.

Type of Housing Unit	Goreangab		Okahandja Park		Total	
	Households	Population	Households	Population	Households	Population
Detached House	1,637	7,571	70	311	1,707	7,882
Semi-detached House	88	351	44	191	132	542
Apartment/Flat	18	67	2	5	20	72
Guest flat	13	48	15	54	28	102
Part comm./industrial	128	631	10	38	138	669
Mobile Home/caravan	11	38	9	37	20	75
Single quarters	117	372	127	485	244	857
Traditional Dwelling	1	10	2	7	3	17
Shack	2,523	9,920	2,486	9,576	5,009	19,496
Other	12	32	0	0	12	32
Not stated	34	91	12	40	46	131
Total	**4, 582**	**19, 131**	**2,777**	**10, 744**	**7,359**	**29,875**

Source: National Planning Commission, based on 2001 census data

A number of practical problems arose during the course of the survey. Firstly, as pointed out before, it quickly became apparent that the vast majority of household heads could not be found at home during the day time. This obviously had to do with the imperatives of having to make a living in an environment characterised by extreme poverty. Thus it became necessary to start the interviews late in the afternoon and continue into the early evening, when failing light and security considerations made it impossible to continue. This narrow window meant that progress was slower than expected. Thus only 440 out of the planned 600 odd interviews could be carried out with the time and resources available.

The second practical problem had to do with a proper delineation of the household as a unit of analysis, a problem noted in earlier discussion. The methodology chosen required that data be collected at this level. While the idea of a household appears to be straightforward in theory, identifying it in practice proved problematic in a number of cases. The study adopted the common practice which defines a household primarily in terms of the physical dwelling. The situation on the ground however proved much more complex. Trying to recognize different households by their occupation of physically distinct dwellings in the context of irregular and organic structures typical of informal settlements is problematic (Varley, 1994). Thus and as Varley (*ibid.*) notes, the concept of a household as a group of people living under the same roof is inadequate. In many informal settlements a group of people may form one household but occupy more than one building. Conversely, several interrelated but separate households may occupy a single structure (*ibid.*).

The methodological problem arose due to a lack of one-to-one correspondence between the functional household and the physical dwelling. While the former is of more relevance to the analysis of household decision making, the latter is more easily identifiable for sampling purposes. We came across a number of situations where this problem manifest itself. For example, backyard structures are widely prevalent in both settlements and across the three property rights configurations. These may be add-ons to the main house or stand-alone dwellings. Similarly they may vary in size, from a few square meters to more substantial offerings. Occupants of these ranges from children unable to fit in the main house, to relatives staying for free to tenants paying rent. More often than not, the respondents reported that these were family members staying for free. In many cases, however, anecdotal evidence suggested otherwise. In these circumstances, we had to proceed in a pragmatic fashion, by using a combination of probing questions, observation and intuition.

There were other practical problems, most of them typical in the study of informal settlements and illegal activities. These include suspicion of the real motive for the study, the giving of ‘strategic’ answers and in some cases downright refusal to cooperate. A number of respondents, especially in the initial stages of the survey, suspected the research team of being municipal officials out to detect illegal activities. In another case, the team was suspected to be agents of the main opposition party, on a mission to collect information with which to discredit the ruling party.

The problem of doing research in ‘sensitive’ environments is one that has no easy solutions. The main problem here relates to how to obtain the trust of your respondents such that they feel comfortable enough to provide objective information. In this study we found it useful to enlist the assistance of well known individuals in the community. In the case of ‘group’ property rights these individuals would be in leadership positions of the local savings group. It helped greatly that, at the beginning of the study, we attended a meeting of the federation of savings association where we were introduced and given an opportunity to explain the objectives of the study. Thus the communities had some advance notice of our activities. As for the ‘informal’ settlement, introductions by members of the ubiquitous residents’ committees proved efficacious.

The research thus essentially involved ‘snowballing’ from the household of a cooperative and influential member of the local community. By this device were able to rapidly gain a good level of trust and acceptance. The downside was that occasionally these individuals would wish to accompany us and listen-in to the interview. This created dynamic interactions with the respondents, with the potential to influence results. Skilful and sensitive management of the process was called for in these circumstances.

The final problem was the lack of case studies on which to conduct a comparative measurement of transaction costs. One of the study objectives required that the cost of exchange under different property rights arrangements be determined. To meet this objective would have required a detailed study of specific transactions in ‘real time’, entailing the recording of all the costs in time and resources spent in the process of exchange. Unfortunately we could not find cases upon which such an investigation could be done. This is on account of limited secondary market activity across the three market segments, a point which is one of the main findings of the study.

The practical problems highlighted, while not trivial, were not of such a magnitude as to compromise the research. In the final analysis, the study did obtain adequate information from parts of what are clearly typical urban settlements in Windhoek. Within the limits of the inductive approach inherent in case study research, the study was thus able to form valid conclusions about property markets in informal settlements in Namibia.

In addition to the standard interviews as described above, a total of 14 respondents were selected for detailed unstructured interviews with a view of getting deeper insights into aspects of the market process. Six of these were from the informal category, with four from each of the group and freehold categories.

4.8 Concluding summary

The aim of this chapter has been to discuss the methodological approach adopted for this study. In pursuit of this objective, the chapter started off with a discussion about the conceptual and practical challenges of analysing informal real estate markets. Orthodox and heterodox methodological approaches in economics were then contrasted. This provided a backdrop against which various methodological issues in NIE research were examined. Drawing on previous sections, the chapter discusses the broad methodological approach employed for the study, the specific research design and how it was implemented in practice.

CHAPTER 5: NAMIBIA, WINDHOEK AND KATUTURA: A SOCIO-ECONOMIC PROFILE

5.1 Introduction

This chapter is a descriptive account of the empirical context in Namibia in which this study is located. It is arranged in seven sections. Section 5.2 briefly reviews the geography, political history and economic profile of the country. This is followed in Section 5.3 by an overview of urbanisation trends and issues. Section 5.4 takes a look at the scale and causes of poverty in Namibia. Section 5.5 thereafter describes the history, settlement profile, urbanisation and socio-economic characteristics of the city of Windhoek, Namibia's capital. Section 5.6 gives an overview of Katutura, the sprawling formerly black 'township' north of the city within which the two study areas are located. Salient features of Goreangab and Okahandja Park, the two settlements from which the sample for the study was drawn, are discussed in this section. Concluding comments follow thereafter in the last section.

5.2 Namibia: Geographical, Historical and Economic Context

Namibia is located in south western Africa, bounded by the Atlantic Ocean to the West, South Africa to the south and Botswana to the east. It has a border with Angola in the North, with Zambia in the north-east and a point of contact with Zimbabwe in the northeast (GRN, 2004a). Namibia is a vast country with a total surface area of 824,269 square kilometres (Amutenya *et al*, 1993:1). Its population is however relatively low. The 2001 census estimated the population size to be 1.8 million, making Namibia one of the most sparsely populated countries in the world. This is largely due to the fact that large parts of the country are too dry for human settlement. Most of Namibia is classified as desert. While the average population density is about 2 people per km^2, there are significant regional variations. Most of the rural people live in the north and north east of the country and about 40% of the people live in urban areas (GRN, *ibid.*).

Namibia has had a turbulent political history, involving three colonial powers. In 1878 the United Kingdom annexed the harbour of Walvis Bay. In 1883 a German trader, Adolf Luderitz, claimed the rest of the coastal region for Germany, and in 1884 the whole of the country was declared a German protectorate (GRN, 2004a). German rule came to an end with the outbreak of World War I and the allied occupation of Namibia (GRN, 2004a). In 1920 the League of Nations (forerunner to the United Nations) granted South Africa a mandate which gave it full power of administration and legislation over the territory (GRN, *ibid.*; Seckelman, 2001). In keeping with its policy of apartheid, South Africa used this mandate to promote the interests of Afrikaner settlers, who took over farmland previously owned by the Germans (GRN, 2004a). A combination of armed struggle (which began in 1966) and international diplomatic pressure resulted in independence for Namibia on the 21st of March 1990. On March 1 1994 the coastal enclave of Walvis Bay and 12 offshore islands were also transferred by South Africa, effectively ending the colonial era (GRN, 2004a).

Over a century of colonial rule may have come to an end but the country has been left with a daunting socio-economic legacy. The most significant of these is a highly skewed ownership of land and income inequality that is one of the highest in the world. With an estimated 2003 Gross National Income of US$ 3.9 billion and a per capita income of US$ 1,930 (World Bank, 2005), Namibia is classified as a lower-middle income country (Hansohm, 2000). Namibia's income per capita is almost four times higher than the average for Sub-Saharan Africa but due to high levels of income inequality, poverty is widespread.

5.3 Urbanisation in Namibia

The development of urban areas in Namibia reflects to a large extent the results of German and South African colonial rule. In broad terms, urban areas have evolved on the basis of two distinct trajectories. The central and southern parts of the country bore the brunt of settler colonialism, and therefore developed as administration and commercial centres to service the white population. Right from the beginning, the policy was to create urban centres as 'white areas'. Throughout the colonial era, both private and public investments were heavily concentrated in these towns. Permanent African urbanisation was discouraged, while a web of laws (including pass laws and prohibition of property ownership) controlled most aspects of the African resident's lives. The African population was allowed to move in mainly as labourers, and lived in separate areas ('locations') with housing and other social services being inferior to those of white areas The system of urbanisation through separate development was progressively tightened until 1977 when influx control measures were abolished (Tvedten & Mupotola, 1995).

The urban areas in the northern parts of the country on the other hand underwent a different growth path. The majority of the indigenous African population were to be found here. Neither the Germans nor the South Africans had much enthusiasm for settling the area. As a consequence there was a lack of both private and public investment, resulting in as slow process of urbanisation. The colonial powers' primary economic interest in the region was to maintain the area as a labour pool for industries in the south and central parts of the country (Tvedten & Mupotola, 1995).

Urban areas in Namibia did (and still do) exhibit the spatial structure of the 'apartheid city'. Seckelman describes it thus:

> While the major part of the urban area could be used by the white population, the residential areas of the non-white population were crowded, at the periphery of the city and separated from the white quarters and the city centre by a wide strip of undeveloped land, the buffer zone. Additionally the Asian and Coloured residents were settled between Blacks and Whites, thus serving as another buffer. The black population was regarded as the labour reservoir of the urban areas and therefore settled next to the industrial zones. Infrastructure was insufficient in the black townships and private property of real estate was not allowed (the houses belonged to the local authority). Moreover, the economic activities were restricted e.g. trade was strictly controlled. Supermarkets and departmental stores were not allowed and floor spaces of stores in general restricted to protect business in the CBD (Seckelman, 2001:18)

At the time of independence in 1991, the major part of the urban population still lived in the central and southern parts of the country. This means in effect that the regions with the highest population density coincided with the regions with the lowest rate of urbanisation. This state of affairs has more or less persisted to the present.

The most recent census figures indicate that out of a 2001 population of 1 830 330 people, 603 612 Namibians lived in urban areas (NPC, 2003:19; see table 5.1). The country has experienced a relatively high rate of urban growth. While the overall national population increased at 3.1% per annum from 1981 to 1991, the urban population registered a growth rate of 5.6% compared to the rural population which grew at 1.97% (GRN, 2004a: 48). Only 27% of Namibia’s population was urbanised at independence in 1991; by 2001 the proportion of people living in urban areas had increased to 33%. The urban population almost doubled in the ten years after independence, from the 382 680 recorded in 1991 (Tvedten & Mupotola, 1995:8). At the last census 40% of urban residents indicated that they were not born in urban areas (NPC, 2003: 77 see table 5.2), providing further evidence of the magnitude of the phenomenon. As the table shows, in the Erongo and Khomas regions, which contain the major urban areas of Windhoek and Walvis Bay, well over half of the population are immigrants. According to Government projections the population would be 50% urbanised by 2010; 60% by 2020 and 75% urbanised by 2030 (GRNa, 2004: 48).

Table 5.1 Population distribution by area

Area	Total Pop.	Urban %	Rural %
Namibia	1 830 330	33.0	67.0
Caprivi	79 826	28.0	72.0
Erongo	107 663	80.0	20.0
Hardap	68 249	28.0	72.0
Karas	69 329	54.0	46.0
Kavango	202 694	28.0	72.0
Khomas	250 262	93.0	7.0
Kunene	68 735	25.0	75.0
Ohangwena	228 384	1.0	99.0
Omaheke	68 039	28.0	72.0
Omusati	228 842	1.0	99.0
Oshana	161 916	31.0	69.0
Oshikoto	161 007	9.0	91.0
Otjozondjupa	135 384	41.0	59.0

Source: National Planning Commission, 2003:19

Table 5.2 Life-time migration

Area	Place of Usual Residence	Place of Birth	Percent Born in Area
Namibia	1 805 117	1 736 839	96.2
Urban	522 777	312 158	59.7
Rural	1 282 340	1 166 938	91.0
Caprivi	80 584	73 841	91.6
Erongo	99 169	44 171	44.5
Hardap	69 007	53 082	76.9
Karas	64 792	41 918	64.7
Kavango	203 409	193 395	95.1
Khomas	230 791	99 946	43.3
Kunene	66 290	53 894	81.3
Ohangwena	240 112	221 347	92.2
Omaheke	68 766	52 519	76.4
Omusati	239 870	223 065	93.0
Oshana	155 874	119 438	76.6
Oshikoto	158 329	121 059	76.5
Otjozondjupa	128 124	74 442	58.1

Source: National Planning Commission, 2003:77

Broadly speaking, two categories of causal factors to the urbanisation process in Namibia can be identified. The first category relates to universal causes of urbanisation and can be found at work in most developing countries that have undergone urbanisation. These causes are the subject of a voluminous literature and therefore need not detain us unduly. In general, urbanisation is considered to be the result of a mixture between 'rural push factors' (such as rural poverty, lack of employment, lack of social services and social constraints experienced particularly by the younger generation) and 'urban pull factors' (superior employment opportunities, superior access to health and educational facilities etc) (Seckelman, 2001; Tvedten & Mupotola, 1995).

The second category of factors is to a large extent uniquely Namibian and stems from the political history of the country. Tight influx controls under apartheid, where the indigenous people were not allowed to come to or remain in urban areas without permission, had the effect of severely inhibiting the movement of people to urban areas. Thus significant rural-urban migration could only get under way from 1977 when influx control measures were abolished. People could then move freely to towns and in principle settle where they wanted, but the employment situation and the economic conditions in general inhibited larger scale urbanisation before independence in 1991 (Tvedten & Mupotola, 1995). The dawn of independence ushered in a new democratic dispensation, enshrined in a constitution that guarantees equality and freedom of movement to all Namibians (Seckelman, 2001. This has spurred increased movement of people from the rural areas to the urban, particularly to the capital Windhoek.

Table 5.3 lists the main urban centres in Namibia, showing their respective populations in absolute terms, as well as a proportion of the national urban population. As seen from the table, there is a considerable difference in size amongst the municipalities and towns in the country. Windhoek is by far the most dominant urban centre in the country, with a staggering 38.7% of Namibia's total urban population. Its nearest rival, Walvis Bay, accounts for only 7.2% of the total urban population. As Tvedten & Mupotola (1995) observes, Windhoek functions as a primate city culturally, economically, politically as well as in terms of population. No other country in Southern Africa has such a large proportion of its urban population living in the capital.

There were 136 909 urban *households* in Namibia in 2001 (NPC, 2003:45). In general, the average urban household in Namibia is made up of 4.2 members. The national and rural figures are 5.1 and 5.7 respectively (*ibid*., 44). Average figures do of course hide the considerable variation that exists between regions and even within towns.

Table 5.3 Urban population by urban centre

Locality	Population	% of Urban Population
Namibia	603 612	100.0
Windhoek	233 529	38.7
Gobabis	13 856	2.3
Grootfontein	14 249	2.4
Karasburg	4 075	0.7
Karibib	3 726	0.6
Keetmanshoop	15 778	2.6
Mariental	9 836	1.6
Omaruru	4 761	0.8
Otavi	3 813	0.6
Otjiwarongo	19 614	3.2
Outjo	6 013	1.0
Tsumeb	14 929	2.5
Henties Bay	3 285	0.5
Okahandja	14 039	2.3
Swakopmund	23 808	3.9
Usakos	2 926	0.5
Walvis Bay	43 611	7.2
Arandis	3 974	0.7
Eenhana	2 814	0.5
Katima Mulilo	22 134	3.7
Khorixas	5 890	1.0
Luderitz	13 295	2.2
Okakarara	3 296	0.5
Ondangwa	10 900	1.8
Ongwediva	10 742	1.8
Opuwo	5 101	0.8
Oshakati	28 255	4.7
Rehoboth	21 308	3.5
Rundu	36 964	6.1
Outapi	2 640	0.4
Oranjemund	4 451	0.7

Source: National Planning Commission, 2003:21

Table 5.4 shows the distribution of households by tenure type. The highest proportion of urban households (35.2%) are owner occupiers without mortgages. This is followed by owner occupiers with mortgages at 31.3% and renters at 19.1%.

Table 5.4 Distribution of households by tenure type

Area	Number of Households	Rented, not tied to employment	Owner Occupied, with mortgage	Owner Occupied, without mortgage	Rent free (not owner occupied)	Provided by employer
Namibia	346 455	8.6	16.0	60.2	4.1	9.8
Urban	136 909	19.1	31.3	35.2	4.7	8.5
Rural	209 546	1.7	6.0	76.6	3.8	10.7
Caprivi	16 839	3.9	10.8	77.6	3.6	3.7
Erongo	27 496	22.8	27.5	31.5	5.7	11.1
Hardap	15 039	8.5	15.4	44.3	6.8	24.2
Karas	15 481	13.1	15.9	41.6	4.2	23.8
Kavango	30 467	2.1	7.1	83.7	2.5	3.3
Khomas	58 580	17.1	36.4	33.2	3.9	8.3
Kunene	12 489	6.6	7.9	63.4	3.6	17.3
Ohangwena	35 958	1.4	6.0	86.8	2.0	2.8
Omaheke	12 590	3.5	10.6	51.8	6.6	26.1
Omusati	38 202	1.6	6.3	84.6	3.9	2.8
Oshana	29 557	5.5	11.5	71.9	4.5	5.4
Oshikoto	28 419	4.7	9.0	74.7	3.9	6.5
Otjozondjupa	25 338	13.8	20.1	33.2	6.2	24.7

Source: National Planning Commission 2003:51

Like in many other countries the rapid growth of urban populations in Namibia has resulted into a number of problems. The most obvious one has been the mushrooming of informal settlements, mostly on the outskirts of virtually all urban centres. These settlements are characterised by poor housing and inadequate physical infrastructure (Tvedten & Mupotola, 1995) and are generally associated with localised deforestation, increased waste management problems, increased crime, poverty, limited access to adequate sanitation and the spread of communicable waterborne diseases (GRN, 2004a; Seckelman, 2001).

Table 5.5 shows information on housing conditions in Namibia. 'Improvised housing units' or shacks are the second most common dwelling type in urban areas with almost 18% of urban households living in them. The figures for the mostly urban regions of Erongo and Khomas are as high as 21% and 24.3% respectively. These figures reflect the impact of informal settlements in the towns of Walvis Bay and Windhoek.

There is a set of urban problems in Namibia which reflect not so much the effects of rural-urban migration but rather the legacy of apartheid. The legacy of apartheid manifests itself in continuing differences between the former commercial and communal areas on one hand, and between the former 'white' areas and 'townships' on the other. Thus towns in the central and southern parts of the country still have a stronger economic base, with better formal employment opportunities and better conditions regarding housing and urban services. In addition there still significant differences between the former 'white' areas and the former 'townships' in these municipalities in respect f socio-economic conditions (Tvedten & Mupotola, 1995).

Table 5.5 Distribution of households by type of dwelling

Area	Number of Households	Detached, Semi-Detached House (%)	Flat (%)	Traditional Dwelling (%)	Improvised Housing Unit (Shack) (%)
Namibia	346 455	41.1	3.3	41.5	9.2
Urban	136 909	66.6	6.2	3.4	17.6
Rural	209 546	24.5	1.4	66.4	3.7
Caprivi	16 839	20.3	2.2	73.5	1.4
Erongo	27 496	62.6	6.1	4.3	21.0
Hardap	15 039	75.2	3.7	0.9	16.5
Karas	15 481	65.0	5.8	7.3	13.7
Kavango	30 467	30.4	0.9	64.1	1.9
Khomas	58 580	63.0	7.0	0.6	24.3
Kunene	12 489	54.2	1.6	34.4	3.2
Ohangwena	35 958	4.4	1.2	90.2	1.2
Omaheke	12 590	65.4	2.7	12.8	11.4
Omusati	38 202	13.9	1.1	81.6	0.6
Oshana	29 557	38.0	3.6	50.5	2.0
Oshikoto	28 419	16.8	1.5	75.0	2.2
Otjozondjupa	25 338	65.0	2.8	13.1	10.9

Source: National Planning Commission, 2003:50

5.4 Poverty in Namibia

5.4.1 Profile of Poverty

It has been noted in section 5.2. above that Namibia is relatively well off in economic terms. Its per capita income of US$ 1,930 (World Bank, 2005) places her in the category of middle income countries. This statistical average however hides high inequalities within the society. This inequality is graphically illustrated by figures from the most recent survey, the Namibia Household Income and Expenditure Survey (NHIES) 2003/2004. It has been estimated that the 10% of households with the highest income account for nearly half the total income in the country. The 2% of the households with the highest income account for 15% of the total income, while the 25% of the Namibian households with the lowest income account for only 6% of the income. Finally, the per capita income for the 25% of the households with the lowest income is abut N$ 1,600 compared to almost N$ 150,000 for the 2% with the highest income (NPC, 2006:40)

Using the food consumption ratio as an indicator of poverty, the picture is not much different. This ratio measures food consumption as a proportion of overall consumption and is considered to be more robust indicator of poverty. Results show that the 5% households with the lowest income have a food consumption ratio between 80 and 100%, whereas the 2% households with the highest income have a food consumption of less than 40% (*ibid*., 40).

National income inequalities are captured by a single statistic, the Gini Coefficient. The coefficient ranges from 0 to 1. An equal distribution of income gives a coefficient close to 0. The more unequal the distribution is the closer the coefficient is to 1. The 2003/2004 NHIES calculated the Gini coefficient for Namibia at 0.6 (*ibid*.). This is a significant improvement over the 0.7 calculated by the 1993/1994 NHIES, at the time the highest measured worldwide (Schade, 2000:111). A coefficient of 0.6 is still indicative of a highly skewed distribution of income.

Notwithstanding the relatively high national per capita income, the objective reality for most Namibians therefore is that of abject poverty. A number of studies have been conducted attempting to measure the incidence of poverty in Namibia. Based on the 1993/1994 NHIES a poverty line of N$500 was calculated and a line between ‘poor’ and ‘very poor’ was drawn at N$ 250 per month. Accordingly, 28 % of all Namibians were regarded as being poor and a further 22% as very poor (Schade, 2000:113). Using the food consumption ratio yields broadly similar results. About 47% of the households spent more than 60% of expenditures on food which according to international standards is an indicator of poverty. Households will be classified as severely poor if they spend more than 80% on food. This was the case for 13% of the households (*ibid*.:113).

In terms of international poverty indicators, latest World Bank statistics, likely based on the 1993/1994 NHIES, show that 55.8% of Namibians lived on less than US$2 per day (World Bank, 2005:65) and therefore classified as poor. The very poor, those subsisting on less than 1US$ per day amounted to 34.9% of the population (*ibid*.).

It is not at all clear whether the 2003/2004 NHIES shows significant changes in the poverty profile of the country. At the time of writing, the final report was still being awaited. Data in the preliminary report could not be disaggregated to draw the necessary conclusions. It is unlikely however that the broad picture painted above would have changed dramatically in the ten years between the respective surveys.

Table 5.6 shows annual household consumption and income by region and urban/rural areas. The table shows that there are high variations in both consumption and income per capita between regions, and between urban and rural areas. In regional terms, poverty is concentrated in the former communal areas in the northern part of the country. All the regions in this area have per capita consumption and incomes lower than the national average. In terms of the urban/rural divide, poverty is clearly concentrated in rural areas. However the highly unequal distribution of income, which is expected to be worse in urban areas, should be kept in mind when contemplating the fortunes of the large majority of urban residents.

Table 5.6 Annual household consumption and income

Region	Population %	Consumption %	Average Household Consumption N$	Per Capita Consumption NS	Income %	Average Household Income N$	Per capita Income N$
Namibia	100.0	100.0	42 129	8 556	100	43 520	8 839
Urban	34.7	62.4	64 941	15 411	62.0	66 625	15 811
Rural	65.3	37.6	26 600	4 919	38.0	27 792	5 140
Caprivi	4.7	2.9	24 330	5 237	2.9	25 347	5 456
Erongo	5.4	9.3	52 759	14 767	9.2	53 410	14 949
Hardap	3.7	4.4	41 793	10 029	4.4	43 445	10 426
Karas	3.4	4.3	43 311	10 796	4.3	44 626	11 123
Kavango	11.4	4.7	22 866	3 549	4.8	23 820	3 697
Khomas	14.1	37.0	89 166	22 392	36.5	91 030	22 860
Kunene	3.4	2.2	25 943	5 624	2.3	27 879	6 044
Ohangwena	12.9	5.2	21 650	3 460	5.2	22 166	3 543
Omaheke	3.1	3.3	39 220	9 342	3.6	43 820	10 437
Omusati	12.3	6.3	25 312	4 407	6.4	26 340	4 586
Oshana	9.3	8.9	44 035	8 217	9.0	45 708	8 530
Oshikoto	9.4	5.2	25 688	4 742	5.3	26 788	4 945
Otjozondjupa	6.8	6.1	33 317	7 696	6.2	34 897	8 060

Source: National Planning Commission, 2006:24, 35

The table highlights the economic primacy of the Khomas region which contains the capital. While containing only just over 14% of the national population, it accounts for 37% of both national consumption and income.

5.4.2 Causes of Poverty

The causes of poverty in any country are multifaceted and complex and Namibia is no exception. Schade (2000) however identifies two major causes of poverty in Namibia. The first is lack of employment caused by low potential for agricultural production, caused by poor soil and low and erratic rainfalls in most parts of the country. In addition the economy, which is largely based on the export of raw materials using capital intensive methods, has not been able to create sufficient jobs. Manufacturing has the potential to generate more jobs but its contribution to the Namibia economy has been relatively low (*ibid.).*

The failure of the economy to create jobs is a consequence of its lacklustre performance. GDP growth has not been sufficient to absorb the increasing numbers of people looking for work. Thus unemployment has been on the increase. As the Government admits, total employment fell over the period 1991-1997 by some 9.5% (GRN, 2004a:62). The declining levels of employment were particularly evident in the primary industries, notably agriculture and mining, where employment declined by about 29% between 1991 and 1997, or about 5.6% per annum per average (*ibid*.).

Overall, unemployment in the 'strict sense' rose from 19.4% measured during the 1993/1994 NHIES to 19.9% in 1997, while unemployment in the 'broad sense' rose from 32.9% to 34.8% respectively (Schade, 2000:119). While the 2001 census puts the rate of unemployment in Namibia at 31% (NPC, 2003:41) more recent government figures indicates it to be as high as 33.8% (GRN, 2004a: 62).

The high unemployment rate therefore is clearly one of the major causes of poverty in Namibia. The other one identified by Schade and which is directly relevant to this study is the unequal distribution of assets, particularly of real estate. The statistics regarding rural land are sobering. Despite the fact that such a large proportion of Namibians derive their livelihood from the land, access and ownership of land is highly unevenly distributed. For instance, approximately one hundred and fifty thousand communal tenure farmers and their families strive to survive from about 43% of agriculturally usable land compared to 4300 commercial farmers sharing the remaining 57% (Schade, 2000:120). The communal areas are overcrowded, and overstocked with livestock, and consequently suffer from severe environmental degradation. The land in these areas simply cannot offer adequate and sustainable livelihoods for the population who live there.

The picture in urban areas is less clear but even here anecdotal evidence suggests a highly skewed pattern of formal real estate ownership. It will be remembered that under apartheid the indigenous African majority were prohibited from formal property ownership. This of course is no longer the case in the post-independence era, but economic realities still preclude many Africans from participating in formal real estate markets. Rather, urban areas are characterised by significant amounts of illegal or informal property ownership. Thus for many urban residents real estate as a means of climbing the economic ladder is either unavailable or fraught with perceptions of insecurity.

5.5 The City of Windhoek

5.5.1 General History

Windhoek is the capital of independent Namibia, having previously served as the colonial capital of both the Germans and South Africans (Pendleton, n.d.). The first settler is reported to have been one Jan Jonker Afrikaaner at around 1840 (Frayne, 1992). The name Windhoek is said to be derived from 'Winterhoek' the mountain range in the Cape Province from which Jonker Afrikaaner had emigrated (Simon, 1995; Frayne, 1992). Present day Windhoek reflects the legacy of its complex history. As Pendleton (n.d.) puts, it the Germans, the South Africans and now the independent Government of Namibia have all ruled the country from Windhoek and the urban geography, population and migration dynamic of the city reflect this history. A key aspect of this is seen in the duality of its spatial structure. It has a modern 'First World' part dominated by a central business district (CBD) with light industrial areas north and south of the CBD. In the centre of the CBD are Government offices, courts, banks, the main post office, business centres, hotels, and new modern shopping malls; a blend of high and low-rise modern buildings. A few buildings still exist which exhibit German colonial architecture. To the east, south and west, various suburbs surround the CBD offering homes to people from primarily middle and upper socio-economic households. Klein Windhoek, the eastern part of the city, is separated from central Windhoek by a high hill. But the developing world or 'Third World' is not far away. In the Northern Areas (Katutura and Wanaheda) and North Western Areas (Goreangab, Okuryangava, Hakahana, and Havana) on about 25% of the urban land live over 60% of the urban area's population who are primarily poor, black and many are migrants (*ibid.*).

5.5.2 Settlement History

The physical development of Windhoek commenced in earnest after the arrival of the Germans in 1890. Even at this early stage, it was beginning to assume its dualistic character. There is evidence that the Germans practiced racial segregation (Frayne, 1992), with indigenous African populations confined to separate areas or 'locations'. In 1912, the Windhoek Town Council established the 'Main Location' west of town and a location in Klein Windhoek (Pendleton, n.d.). In 1913, Africans living in various parts of the Windhoek area were moved to these new locations (*ibid*.). This practice was continued by the South Africans once they took over. As Pendleton (n.d.) notes from the beginning of South Africa's occupation, African affairs were administered much as in South Africa, and the locations were placed under a municipal superintendent of locations. The South African Government had a strong incentive to maintain the practice of spatial racial segregation as this paralleled their own policies in South Africa.

It appears that the Main Location was only formally proclaimed in 1932. Straight streets were laid out, and ethnic group sections were formally established. All housing was self-built, though the plots were rented from the municipality (Pendleton, n.d.). According to Pendleton this housing consisted of square and rectangular houses made of wooden frames and walls and roofs of flattened metal (corrugated iron sheets) on the outside and sacking or clay on the inside. Even though it appears that the housing was of a relatively low standard, they were of great economic and personal importance to the people. They represented property, for many people their most valuable asset, which could be sold, rented and inherited. Extra rooms were often added and rented for additional monthly income (*ibid*.).

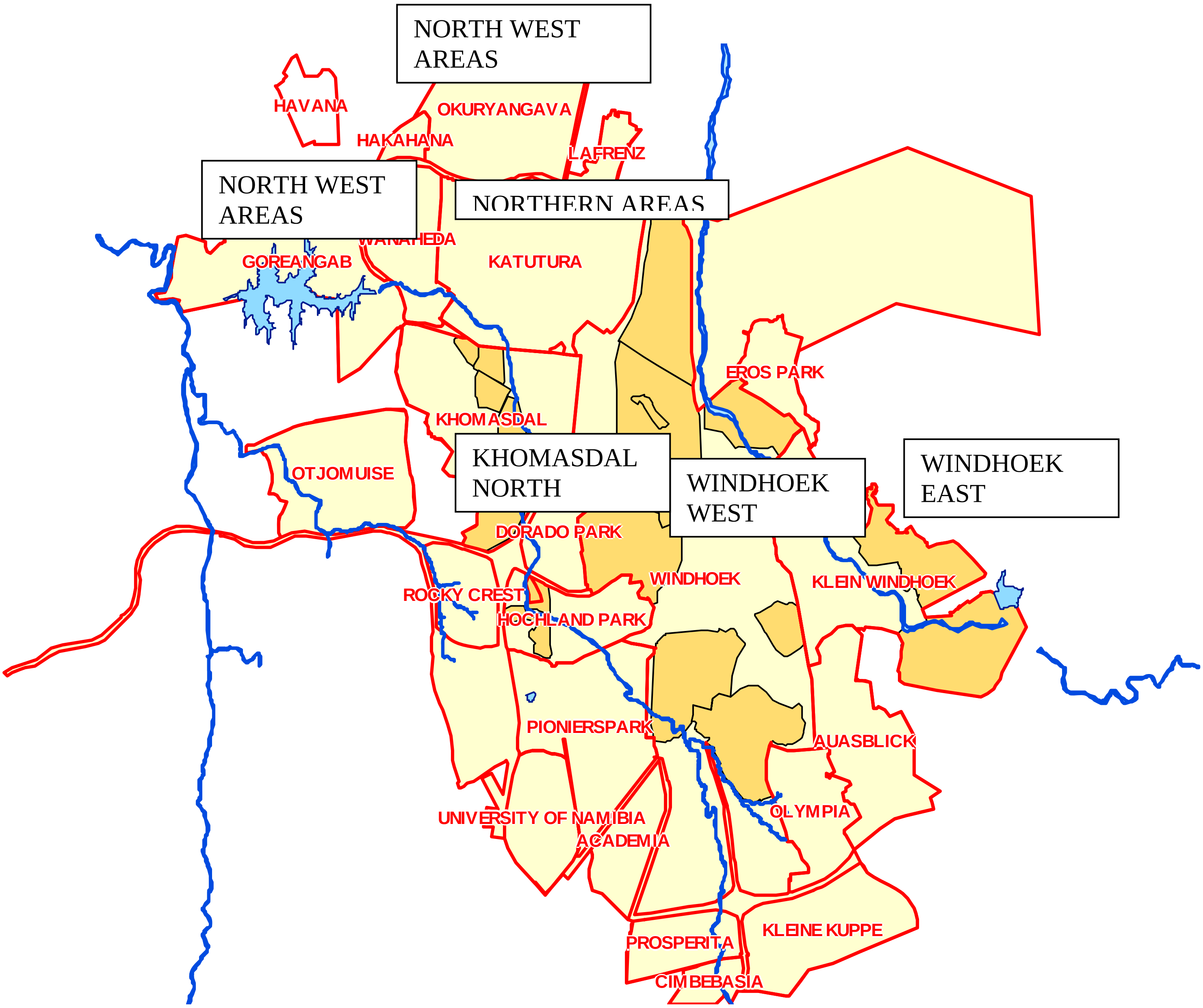
The most significant urban expansion which occurred after the 1930s was the development of the African settlement called Katutura and the 'coloured' area called Khomasdal (Frayne, 1992). According to Frayne these 'townships' were essentially built not only to expand and improve the housing stock of the main location but so as to allow further development of the city. The main location for example was constraining the westward expansion of the city. In addition pressures for expansion brought about by greater numbers of white settlers meant that White areas, such Pioneerspark (proclaimed in the mid 1960s), were getting too close to the main location. The municipality wanted to move the 'non-white' people farther out of town and to use the land for white residential property. They also considered the Main Location a shanty town and a breeding place of disease where people were living in substandard housing without adequate sanitation facilities (Pendleton, n.d.). Thus it was that Katutura and Khomasdal were established some 6 kilometres from the centre of town, separated by buffer strips from the remainder of what was then 'white Windhoek' (Frayne, 1992).

The establishment of Katutura was preceded by the forcible closure and destruction of the Main Location. The use of force had become necessary because most residents were opposed to the planned closure and refused to consider moving to Katutura (Pendleton, n.d.). Complaints centred on the increased cost of Katutura housing, the loss of houses which were their own property, and the greater distance between the location and town. In Katutura, all houses were concrete block construction, could only be rented and the land could not be purchased. Opposition to the move reached a climax on 10 December 1959 when the police shot and killed a number of protestors. Immediately after the confrontation the majority of the residents fled the location, with most of them subsequently taking up residence in Katutura (*ibid.*). .It is worth pointing out here that this confrontation marked the beginning of active opposition to South African rule in Namibia. The very name, Katutura ("Place Where We Do Not Stay" in the local Otjiherero language), became a symbol for opposition to the forced move and more generally to the enforcement of apartheid policies in South West Africa (Pendleton, n.d.). The Main location was finally destroyed in 1968.

'Coloured' people i.e. people of African and European descent, were required to move to Khomasdal, built west of Windhoek as an exclusive location for this racial group. The Coloured population was derived mainly from cross-border migrants from South Africa. Many of these are 'Rehoboth Basters' whose ancestors migrated from the northern Cape to the Rehoboth area south of Windhoek in the 19th century. Others are more recent arrivals from South Africa, having come in the 1980s to escape apartheid. The coloureds were the only people in pre-independent Namibia allowed to own land in free-hold title other than whites (Pendleton, n.d.).

'White Windhoek' continued to expand with increased growth of the white population. Due to apartheid 'influx' controls migration to Windhoek by Africans was limited and controlled. Thus between 1936 and 1970 the white population out-numbered the African population (Pendleton, n.d.). According to Pendleton (*ibid.*) various suburbs for whites only were developed, especially after World War II, including Luxury Hill and Suiderhof. These were followed, during the 1960's, 1970's and 1980's, by Academia (to the south), Eros Park (east) Olympia (south-east), Pionierspark (south-west) and Ludwigsdorf in Klein Windhoek. Light industrial areas were developed north and south of the CBD. More recent suburbs in the south and south-east include Auasblick (where Namibia's new State House is being built) and Kleine Kuppe. Khomasdal has grown to include 15 additional extensions. The newest suburbs have sprung up in recent times and are spreading rapidly to the west of the city. These include Hochland Park (at the site of the old Main Location), Dorado Park and Rocky Crest (Pendleton, n.d.; Frayne, 1992). Due to natural limitations caused by mountains on both the west and east, future expansion will be predominantly in a north–south axis (Frayne, 1992). Figure 5.1 shows the current settlement pattern of Windhoek

Figure 5.1 Windhoek: settlement pattern



Source: Pendleton, n.d.

5.5.3 Urbanisation and the Growth of Informal Settlements

Bearing in mind the general causes of rural-urban migration discussed previously, at least five key causes can be identified as being specifically responsible for the growth of Windhoek. First, the 1904 and 1906 wars between the indigenous populations and the Germans resulted in the dispossession of the former of their livestock and land, forcing many to move to Windhoek to work as labourers for the Germans. The second cause was the policy of active recruitment, first by the Germans and then the South Africans of indigenous people from their 'homelands' to come and work as migrant workers in Windhoek (Pendleton, n.d.). Thirdly, the abolition of pass laws in the 1980s had a catalytic effect on rural-urban migration. This enabled migrant workers to be joined their families, while at the same time making it possible for large numbers of people to move around the country more freely in search of seasonal or permanent employment (Simon, 1995). Fourthly, the attainment of independence in 1990 and the granting of equal rights to all race groups removed the last barriers to migration, virtually opening the floodgates of migration to the new capital. Finally, the economic, social and political primacy of Windhoek has made it an irresistible attraction for Namibians seeking employment and better social services. Table 5.7 shows the growth of the Windhoek population from 1893 to 2006. Note that census data did not refer to race groups after 1980.

Overall Windhoek's economy consists of a well developed formal sector which is paralleled by a rapidly developing informal sector (Frayne, 1992). Like the rest f the country, perhaps even more so, Windhoek is characterised by huge income inequalities. Thus the top 5% of the population account for approximately 71% of the GDP, while the poorest 55% account for only 3% (Frayne, *ibid*.). Levels of unemployment, especially in the Black population, are relatively high. Overall unemployment in the Khomas region, of which Windhoek is the main centre, was in 2001 estimated at 30%, up from 25% in 1991 (NPC, 2005). Unemployment rates in the predominantly Black areas are nearer 40% (*ibid*.). Poverty levels are therefore high.

Table 5.7 Population growth of Windhoek

Year	African	Coloured	White	Total
1893	300-600	-	160	c. 600
1903	1,935	119	610	2,664
1912	4,126	59	2,861	7,046
1936	4,385	1,454	4,812	10,651
1946	6,591	1,353	6,985	14,929
1951	9,043	1,167	10,253	20,463
1960	14,197	2,646	19,021	35,864
1968	19,369	5,925	25,417	50,711
1970	25,945	8,411	27,351	61,707
1975	33,180	9,057	32,112	74,349
	Katutura	**Khomasdal**	**Windhoek**	**Total**
1981	44,003	17,380	31,305	96,057
1985	50,000	13,915	34,845	98,760
1991	86,640	18,900	41,517	147,057
1995	108,795	20,710	52,191	181,696
2001	141,131	26,621	65,777	233,529
2006				282,072*

Source: Pendleton, n.d.

(* Estimate)

Tables 5.8 and 5.9 show the demographic and socio-economic profile of Windhoek. The socio-economic profile of the city broadly mirrors apartheid-era spatial and racial segregation. The North West Areas (see figure 5.1 and table 5.9) are the poorest areas in Windhoek, are exclusively black, with the lowest household incomes (median between N$401 and N$600), the lowest percentage of people completing high school/tertiary education (22%), the highest unemployment rate (38%), the largest number of households and the largest percentage of men (55%) and most of the housing is informal (Pendleton, n.d.). The empirical part of this study is based on two settlements located in this area.

The Northern Areas on the other hand are comprise mostly black and have households with slightly higher incomes than the North West Areas (median between N$800 and 1000), 32% of the population have completed high school/tertiary education, unemployment is 38%, households are the largest in Windhoek (5.4 people average), the largest percentage of female headed households (33%) and the highest percentage of females (54%), and most of the housing is formal (Pendleton, n.d.).

Most of the population of Khomasdal North are 'coloured people' with household incomes higher than in the Northern Areas (median between N$2501 and 3000), about half the population have completed high school/tertiary education, the unemployment rate is about 24%, about a third of households are female headed, and all the housing is formal (Pendleton, n.d.).

Table 5.8 Demography of Windhoek

Areas	Number of Households	Population					
		Total	Females	(%)	Males	(%)	
Northern	9,792	52,534	28,282	54	24,252	46
North Western	22,404	88,597	40,079	45	48,518	55
Khomasdal North	5,600	27,621	13,873	50	13,748	50
Windhoek West	10,005	38,969	20,435	52	18,534	48
Windhoek East	5,627	16,643	8,536	51	8,107	49
Total	54,428	223,364	111,205	50	112,159	50

Pendleton, n.d., citing Windhoek Urbanisation Report Update, 2002:2.

Table 5.9 Socio-economic profile of Windhoek

Areas	% Unemployment	Education % 15 + Completed School	% Migrant	% Female headed household	Household size	Median Household Income (N$)	Modal household Income (N$)
Northern	36	32	15	33	5.4	800-1000	401-600
North Western	38	22	44	19	4.1	401-600	4001-600
Khomasd North	24 %	51	10	27	4.8	2,501-3,000	1,501-2,000
Windhoek West	14	74	18	17	3.9	5,000-6, 000	10,000+
Windhoek East	9	85	6	23	3.0	6,001-7,000	10,000+
Total (Average)	24	53	19	24	4.2	-	-

Source: Pendleton, n.d., citing 2001 Census data and 1995 Windhoek Survey

Windhoek West and Windhoek East are the more affluent areas of the city. Windhoek West median household incomes are between N$5001-6000, about 74% have completed high school/tertiary education, the unemployment rate is 14%, and the area has a mixture of rental and privately owned housing including some blocks of apartments. Windhoek East is the most prosperous area in Windhoek with median household incomes between N$6001-7000, about 85% have completed high school/tertiary education, and the unemployment rate is the lowest in Windhoek at 9% (Pendleton, n.d.). Both areas still have a majority white population but both areas are racially and ethnically heterogeneous (*ibid.*)

As indicated above, our empirical data is from the North Western Areas. This is the area with the highest proportion of immigrants, at 44% (Pendleton, n.d.). It is also the area with the highest poverty levels in Windhoek. According to Pendleton (*ibid.)* this poverty is as a result of high unemployment, low literacy and education, large numbers of pre-school age children, and recent migration to the urban area. Pendleton further reports that many people in this area work in the informal economy hawking and trading. Those in formal employment are usually unskilled workers, with a sizable number working for the Government or parastatals.

Informal settlements in Windhoek are largely a post-independence phenomenon. As Pendleton (n.d.) observes prior to 1990, there were no informal housing areas. Before independence in 1991 the municipality, aided in part by the experience of influx control under apartheid, had strict building controls, making it difficult for the poor to invade land and erect the plastic and metal structures now so ubiquitous in informal settlements. The immediate trigger for the proliferation of these settlements was the relaxing of these controls in the immediate pre-and post-independence period. The growth of these settlements was the result of population movements, principally from two sources (Pendleton, n.d.). The first source was from within Windhoek, whereby people who had been renting rooms and backyard informal structures in the formal parts of Katutura moved out to escape high rents as well as get more privacy and space. The second source was new arrivals from outside of Windhoek, who had migrated mainly from the northern rural regions.

Informal settlements have since expanded considerably. Table 5.10 compares the growth of these settlements with that of Windhoek as a whole. The table below shows that during the period 1995 to 2001 Windhoek's informal settlement population has grown at an average of 9.46%, twice as much as the entire Windhoek. As a result of the high growth rate of the informal settlement population, the proportion of informal settlement structures has grown from 15% in 1995 to 25% in 2001 (City of Windhoek, 2005a, citing census data). The census data shows that in 2001 70% of the in Windhoek structures were regarded as formal, with the remaining 5% consisting of traditional and other dwellings not recognised as formal or informal (City of Windhoek, *ibid*.). The proportion of informal housing is estimated to rise to 32% by 2011 (Pendleton, n.d.). Most of the informal settlements are in the North-Western areas.

Table 5.10 Growth of population in informal settlements

Description	Windhoek total	Informal settlements
1995 population	181,696	28,000
2001 population	233,529	48,183
2001 number of households	54,707	13,541
Absolute growth over 6 years	51,833	20,183
Average growth per annum	8,638	3,363
Households per annum @ 4 p/h	2,160	841
Annual growth rate (%)	4.44	9.46

Pendleton, n.d. citing City of Windhoek report.

Though relatively small in absolute numbers, and when compared to say that of South Africa, the size of Namibia's informal population has posed enormous challenges to the authorities. The uncertainties leading up and immediately after independence have now subsided, creating an environment where the city of Windhoek can begin to reassert its control over human settlements once again. For instance, in response to the uncontrolled invasion of city owned land, the municipality in 2000 adopted a zero tolerance policy to land invasion. According to the City of Windhoek (2005a) this policy succeeded to prevent illegal invasions for three years, only to collapse in the period around the 2004 municipal elections. As is often the case, the exigencies of local politics precluded implementation of tough controls. Land invasions have escalated since and, in the municipality's view, virtually impossible to control.

The municipality's response to the problem of informal settlements is encapsulated in the Development and Upgrading Strategy (DUS) adopted in 1999. DUS has three objectives (City of Windhoek, 2005b). These are (1) providing lower income groups with a range of development options in accordance with their level of affordability, (2) to establish uniform service standards for each of the development options and (3) to set parameters for incremental upgrading. These objectives are underpinned by eight principles, including (1) the promotion of technically appropriate development levels, (2) the promotion of community initiatives for gradual improvement of own living conditions, (3) the promotion of permanent settlements and security of tenure and (4) the application of full cost recovery and user pays principle.

In terms of implementation the DUS has four strategic thrusts. These are, firstly the in-situ upgrading of informal settlements, secondly the development of areas for resettlement, thirdly 'greenfield' development and finally the promotion of self-help group development (City of Windhoek, 2005b). Of these, upgrading and self-help group development have been the preferred options.

Like in the rest of the developing world, upgrading programmes and other official interventions have had only a limited impact on Windhoek's informal settlements. The problems relate to insufficient resources (manpower and financial) on the one hand and the scale of the problem on the other. There is the added problem of the lengthy period required for land delivery. The entire process, from conception to completion, may take to up to 5 years to complete (City of Windhoek, personal communication). Matters are exacerbated by the fact that the municipality is required to provide all services on the basis of full cost recovery in circumstances where the majority cannot afford even the lowest cost options. As the City of Windhoek (2005a) notes, low repayments coupled with the high cost of accommodating households makes upgrading of informal settlements very challenging, thereby creating questions of long-term financial sustainability. It is not surprising therefore that the municipality have been encouraging the purchase of land in blocks organized through self-help groups, most of which are affiliated to the Shack Dwellers Federation of Namibia (SDFN) and the Namibian Housing Action Group (NHAG).

5.6 Katutura

The sprawling, iconic Katutura 'township' located about 6 kilometres to the north-west of the Windhoek CBD provides the immediate context to this study and therefore merits a brief description. As mentioned elsewhere in this chapter the township was developed in the late 1950s as part of the separate development policies of the South African government. It was an exclusive Black area under apartheid, and remains so in the post-apartheid era for socio-economic reasons.

Katutura has expanded considerably mainly as a result of immigration. In the past, the growth of the population was artificially controlled by regulations and the police. Restrictions on urban migration were abolished during the 1980s, resulting in unprecedented growth rates. Between 1970 and 1987 the Katutura population doubled from 25,464 to abut 55,000. It almost doubled again in the five years between 1987 and 1991 (Pendleton, 1996; Pendleton, 1991). The most recent (2001) census data put the population of Katutura at approximately 142,000 (National Planning Commission, 2005), 61% of Windhoek's total.

The growth of Katutura's population has been mirrored by its physical expansion. According to Pendleton (1996) the Katutura of 1968 consisted of 4,000 rental houses organised into five ethnic groups, in addition dormitory-type housing estimated to accommodate about 1,000 people. Between 1970 and 1980 additional housing was developed in six new areas, which more than doubled the size of the township. Beginning in 1980, housing was added in three large undeveloped areas of Katutura and this more than tripled the area originally available in 1968.

It was only in the 1960s that the indigenous people were allowed to privately own, rather than rent, property. In consequence a variety of housing was developed to cater for this new demand, from luxury homes to low cost houses. Housing development really took off after the abolition of apartheid legislation in the 1980s (Pendleton, 1996). New areas of Katutura in which houses and erven could be purchased were opened. The new areas virtually surrounded old Katutura which local residents came to call the 'old location'. To the east Shandumbala was added; to the north Golgotha was developed and Freedom Square, Grysblok and Bloedrivier were constructed to the south. Luxury Hill where better housing was built on larger erven was developed to the west. At the time Luxury Hill was developed for the more affluent, Hakahana was developed primarily for men forced to leave the old migrant labour compound.

In the mid 1980s Wanaheda was developed to the west of Luxury Hill and Soweto. The major areas to be developed in the 1990s were Okuryangava to the north, also almost as large as the old Katutura, and Goreangab to the west of Wanaheda. Our empirical data is from the latter two settlements

As Pendleton (1991) observes Katutura today exhibits considerable variety in the type of dwellings available, quality of housing and size of houses. Housing in the northern areas, i.e. Katutara Central and Wanaheda, is primarily formal (i.e. cement blocks/bricks walls and corrugated-iron sheet roofs) and privately owned although many houses have informal structures (mostly corrugated-iron sheet walls and roofs) in their backyards. The north-western areas on the hand are primarily made up of informal structures or 'shacks'. The shacks are built with corrugated iron sheets, wood boards, plastic or tent tarpaulins (Peyroux, 1995). Other material used include cardboard boxes, oil or petrol barrels flattened and hammered into each other to build walls, as well as all sorts of plastic material. New material is bought in Windhoek whereas scrap material is derived from various sources, including residents leaving the area or picked up at public dumps and reused (*ibid*.)

Public infrastructure is not very well developed, particularly in the north-western areas. Roads networks mainly consist of secondary and gravel roads. The main tarred roads end at entry points to the areas, which cause transport problems. Similarly, sewerage networks are not well developed. Some residents have access to communal toilet facilities and water points. Many have no option but to use surrounding bushes. Solid waste collection is done by the municipality. There is hardly any street lighting though floodlights have been put up in a few areas (Peyroux, 1995).

Poverty levels in Katutura are high. A number of people have formal employment in Government, parastatals and nearby industries. Others work as domestics in the more affluent parts of Windhoek. But unemployment levels are high. The lack of employment opportunities in the formal sector has resulted in most people resorting to informal means of income generation. Peyroux (1995) report that 73% of heads of households in this area were engaged in informal activities, often carried out in the place of residence. According to Frayne (1992) the following are the main economic activities in Katutura:

- Street trading
- Backyard mechanics and metal working
- Taxi enterprises
- 'Shebeens' (illegal bars) and *cuca* (grocery) shops at private houses
- Other home based activities, such as tailoring and child minding etc

As indicated above, our empirical data is from Goreangab and Okahandja Park, located in Goreangab and Okuryangava areas respectively. These settlements share most of the characteristics of Katutura i.e. they are typical of low income settlements. Goreangab, also known as Greenwell Matongo (after a famous freedom fighters) is about 8 kilometres from the city Centre. It is a resettlement area where single quarter residents were resettled in 1992 and offered various options to buy land or housing property. The population of Goreangab consists of formal housing, resettled residents and squatters.

Okahandja Park lies at the northern edge of Okuryangava, also about 8 kilometres from the city centre. The name probably derives from Okahandja, the town which lies about 60 kilometres to the north of Windhoek. The settlement lies close to the highway leading up to that town. The population in this settlement is almost exclusively resettled residents and squatters.

Figure 5.2 View of section of Goreangab study area

Figure 5.3 View of section of Okahandja Park study area

5.7 Concluding Comments

This chapter has presented a mostly descriptive account of the Namibian socio-economic context in which the study is grounded. Salient features of this context include high income inequalities and widespread poverty. It is a context characterised by rapid growth in the urban population, of mushrooming informal settlements and the attendant problems that invariably accompany these phenomena. The problems of poverty, urbanisation and informal settlements are of course common to much of the developing world. This context therefore provides an appropriate backdrop against which questions and answers of a universal character are posed and sought.

Namibia makes for an appropriate context for this study in another more specific and pragmatic sense. While a large country in terms of its physical size, Namibia has a small population. Thus the scale of the problems in absolute terms makes for a more manageable research programme. The sizes of informal settlements, for instance, are much smaller than say their South African equivalents. In addition, physical security appears to be better, making it possible to undertake onsite household surveys.

CHAPTER 6: PRESENTATION OF DATA

6.1 Introduction

This chapter presents the empirical findings of the study and is arranged in eight sections. It starts off in section 6.2 with a description of how the data were analysed and the types of statistical tests carried out. This is followed in section 6.3 by a description of the general characteristics of the sample. The last five sections between them present the main empirical findings.

6.2 Statistical Tests

This study attempts to determine the effects of three types of property rights regimes on a number of variables. Three samples, one for each of the rights categories, are analysed comparatively with a view of, firstly, to identifying any differences between the samples and, secondly, attributing any differences to the type of property rights. This in turn requires that two basic questions be dealt with. Firstly is the question of the extent to which any differences between the samples is statistically significant. The second question relates to the extent to which any differences can be attributed to differences in property rights rather than other variables. To deal with these questions, three types of statistical tests were done for a few critical variables, using the Statistica software package.

- One way analysis of variance (ANOVA) to test for the significance of differences between continuous variables.
- Chi-square tests to test for significance of differences between categorical variables.
- Analysis of covariance (ANCOVA) to control for the effects of variables other than type of property rights, as described below.

Regarding the last type of test, there are differences between the three samples in three key variables other than property rights, namely education levels, employment status and average incomes. These variables are expected to exert systematic effects on certain outcomes of interest to the study, independent of the property rights categories, and need therefore to be controlled for. Since average monthly incomes are a function of both education level and employment status, controlling for income effects was considered the most effective way of dealing with this problem.

The income effect on *continuous* variables was obtained by doing an analysis of covariance using the Bonferroni test. The results provided information on both the significance of differences between the rights categories, once income differences are taken into account, and the extent to which the income effect altered the overall results. The effect of income on *categorical* variables of interest was obtained by dividing the sample into two, namely the ‘lower income group’ and the ‘higher income group’ using the median monthly income of N$950, and then running separate chi-square tests on each group. The results provided three types of information, namely, the significance of differences between the rights categories, the extent to which controlling for income effects changes the overall results and the extent of differences between the lower and higher income groups, this being an additional test for the income effect.

This is mainly a qualitative study and, other than for the above tests, uses descriptive statistics for the most part. The data presented in the following sections were generated from the household questionnaire survey and, except in circumstances described above, analysed using the SPSS software package.

6.3 Characteristics of Sample

As indicated in Chapter 4 a total of 440 respondents were successfully interviewed. Tables 6.1 to 6.6 show salient characteristics of this sample in terms of sex, age, education levels, employment status, monthly incomes and tenure status. In terms of sex, the sample consisted of about 60% women and 40% men (Table 6.1). The weight in favour of women in the sample is largely on account of their preponderance in the savings groups under the Shack Dwellers Federation of Namibia. As can be seen in the data they form close to three quarters of the respondents under group property rights. Reasons for this are not immediately apparent. The SDFN does not have an overt policy of gender discrimination even though women are dominant in its activities. There clearly must be other factors, operating via the process of self-selection, to account for this outcome.

It is instructive to examine the experience of international savings groups in this regard. For example, the participation of women in the credit programmes of the famous Grameen Bank of Bangladeshi is as high as 95% (Wahid & Hsu, 2000). Wahid and Hsu (*ibid.*) attribute this partly to the greater need of women for credit due to the higher incidence of poverty. It is not clear what factors are at play in the case of Windhoek and the SDFN. As in the case of Bangladeshi, relative poverty levels between women and men may be responsible. Perhaps it is a matter of pride, with men loathe to participate in formal savings groups. It could be that the discipline required to make mandatory regular savings may not agree with men's dispositions. Or it may be the case that men's time has a relatively high opportunity cost, making it problematic to regularly attend the obligatory and frequent group meetings characteristic of these savings groups.

Table 6.1 Sex of respondents

		Sex		
Type of property rights		**Male**	**Female**	**Total**
Informal	Count	84	84	168
	% within type	50.0	50.0	100
Group	Count	42	122	164
	% within type	25.6	74.4	100
Freehold	Count	48	60	108
	% within type	44.4	55.6	100
Total	Count	174	266	440
	% within type	39.5	60.5	100

As expected from the population statistics, most of the respondents fall in the age group 30-49 years. There is however a noticeable difference between the respondents in informal and group categories on one hand and those in the freehold category on the other. The bulk of the latter (52.8%) are in the 40-49 year category, with a sizable percentage in the 50-59 category. This suggests that on average heads of households in the freehold category are likely to be older than those of informal housing.

The picture regarding relative educational attainment is much clearer. Respondents in the freehold category have the highest levels of educational attainment, with those in informal areas the lowest. For example almost 70% of the former have a post-primary school qualification (defined as secondary school or vocational training), compared to just under 48% for the latter (Table 6.3). Similar conclusions can be drawn by comparing the proportions of respondents who have no formal educational qualifications.

Table 6.2 Age of respondents

		Age (Years)						
Type of property right		**< 30**	**30-39**	**40-49**	**50-59**	**60-69**	**.> 70**	**Total**
Informal	Count	38	60	50	12	4	2	166
	% within type	22.9	36.1	30.1	7.2	2.4	1.2	100
Group	Count	22	62	52	22	2	4	164
	% within type	13.4	37.8	31.7	13.4	1.2	2.4	100
Freehold	Count	3	30	57	18	0	0	108
	% within type	2.8	27.8	52.8	16.7	0.0	0.0	100
Total	Count	63	152	159	52	6	6	438
	% within type	14.4	34.7	36.3	11.9	1.4	1.4	100

As expected, the trends in educational attainment are mirrored by differences in both employment status and average incomes. Table 6.4 shows the employment status of the respondents. The highest levels of unemployment, at 27.4%, are to be found in the informal category, followed by the group category (19.8%) and the freehold category (2.9%). In addition respondents in the freehold category have qualitatively better jobs, with almost 46% holding ‘white collar’ jobs.

Table 6.3 Educational level of respondents

		Educational level				
Type of property rights		**None**	**Primary school.**	**Post primary school**	**University/ College**	**Total**
Informal	Count	38	44	80	6	168
	% within type	22.6	26.2	47.6	3.6	100
Group	Count	20	48	94	2	164
	% within type	12.2	29.3	57.3	1.2	100
Freehold	Count	12	15	75	6	108
	% within type	11.1	13.9	69.4	5.6	100
Total	Count	70	107	249	14	440
	% within type	15.9	24.3	56.6	3.2	100

The nature of employment is varied. Those in self-employment are likely to be engaged in activities such as selling *kapana* (i.e. cooked meat), running *cuca* (i.e. grocery) shops or *shebeens* (i.e. informal, usually illegal bars), backyard vehicle repairs etc. 'Blue collar' workers are mostly domestic servants and unskilled or semi-skilled labour working in nearby industries. Low level civil servants, nurses, policemen and soldiers and others fill the ranks of 'white collar' workers.

Table 6.4 Employment status

		Type of employment				
Type of property rights		**Not employed**	**Self employed**	**Blue collar job**	**White collar job**	**Total**
Informal	Count	46	26	84	12	168
	% within type	27.4	15.5	50.0	7.1	100
Group	Count	32	26	98	6	162
	% within type	19.8	16.0	60.5	3.7	100
Freehold	Count	3	0	54	48	105
	% within type	2.9	0.0	51.4	45.7	100
Total	Count	81	52	236	66	435
	% within type	18.6	12.0	54.3	15.2	100

Table 6.5 shows the monthly incomes of respondents. Though the data shows that those in the informal category have the lowest average incomes, the differences

between this and the group category is not statistically significant (see figure 6.1). There is however a clear difference between these two groups and those in the freehold category. The latter have definitely higher average monthly incomes, on account of less unemployment, higher education levels and better quality jobs. Note however the relatively high standard deviations of incomes in the informal and group categories. This underscores the point that in these settlements one finds a wide diversity of income generating activities. Thus one regularly finds relatively high earning individuals who have, for a variety of reasons, taken up residence in these settlements.

Table 6.5 Monthly incomes in N$

Type of rights	Mean	Standard deviation	Maximum	Minimum	Range	Median	Number of observations
Informal	958.85	866.13	4200.00	0	4200	725.00	156
Group	1210.68	1771.41	12000.00	0	12000	800.00	162
Freehold	2285.05	1128.23	6100.00	200	5900	2100	99

Figure 6.1 Test for significance of differences in mean monthly income

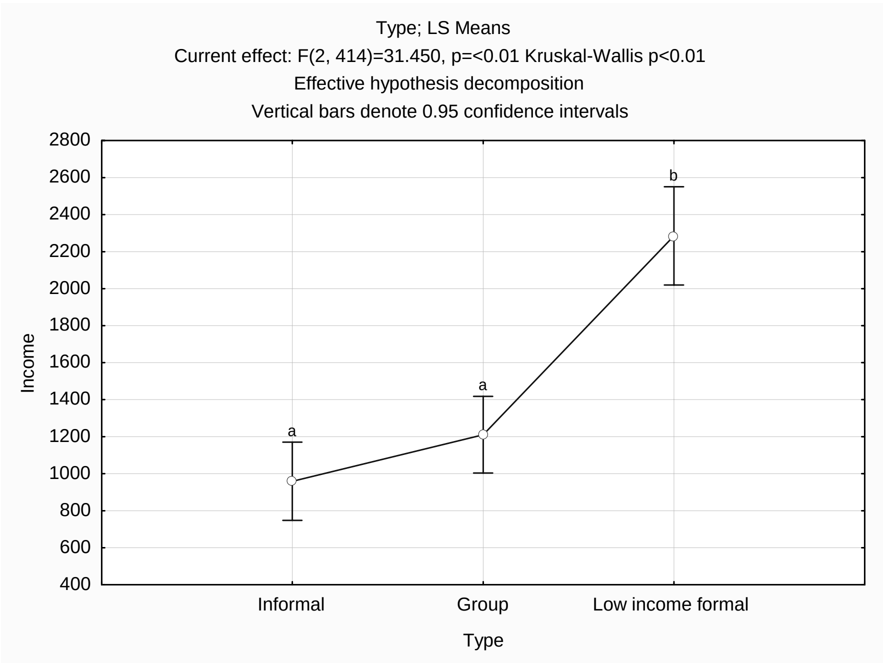


Table 6.6 shows type of tenure held by respondents. An overwhelming proportion of households across the property rights categories are 'owner occupiers'.

Table 6.6 Type of tenure

Type of property rights		Type of tenure: Owner occupier	Renter	Total
Informal	Count	166	2	168
	% within type	98.8	1.2	100
Group	Count	158	6	164
	% within type	96.3	3.7	100
Freehold	Count	99	9	108
	% within type	91.7	8.3	100
Total	Count	423	17	440
	% within type	96.1	3.9	100

6.4 General Characteristics of Market Activity

A key objective of the study was to gain an understanding of the nature and functioning of property markets in these settlements. The study was interested in a number of variables relating to market activity, such as modes of property acquisition, market churn, spatial extent of markets, search behaviour and information sources. Table 6.7 shows the methods by which property is acquired under the different property rights systems. The hypotheses that the methods of property acquisition in the lower and higher income groups are the same for all the rights categories are rejected, with chi-square tests yielding p values of 0.000 (figures 6.2 and 6.3). There are thus statistically significant differences in the way property is acquired between the informal and group categories on one hand, and the freehold category on the other, even when income differences are controlled for. Most of the former acquire vacant plots and build their own homes (60.2% and 92.4% respectively) whereas the vast majority (84.8%) of the latter acquire fully developed housing.

Table 6.7 Method of property acquisition

Type of property rights		Method of property acquisition: Acquired plot & developed it	Acquired Incomplete structure & finished it	Acquired fully developed house	Inherited property	Received property as gift	Total
Informal	Count	100	2	50	2	12	166
	% within type	60.2	1.5	30.1	1.2	7.2	100
Group	Count	146	2	2	0	8	158
	% within type	92.4	1.3	1.3	0.0	5.1	100
Freehold	Count	6	6	84	0	3	99
	% within type	6.1	6.1	84.8	0.0	3.0	100
Total	Count	252	10	136	2	23	423
	% within type	59.6	2.4	32.2	0.5	5.4	100

Figure 6.2 Test for significance of differences in method of acquisition: lower income group

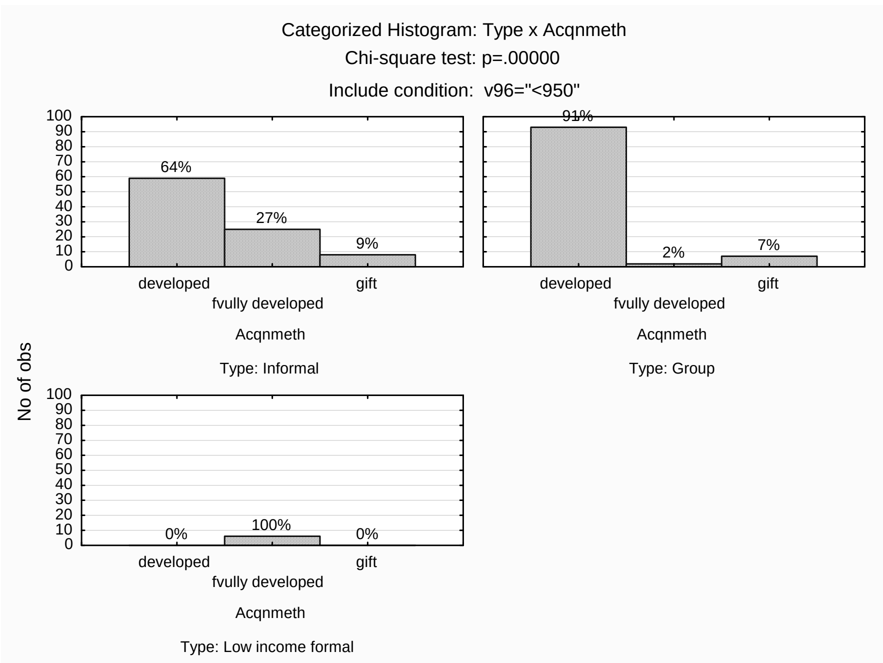
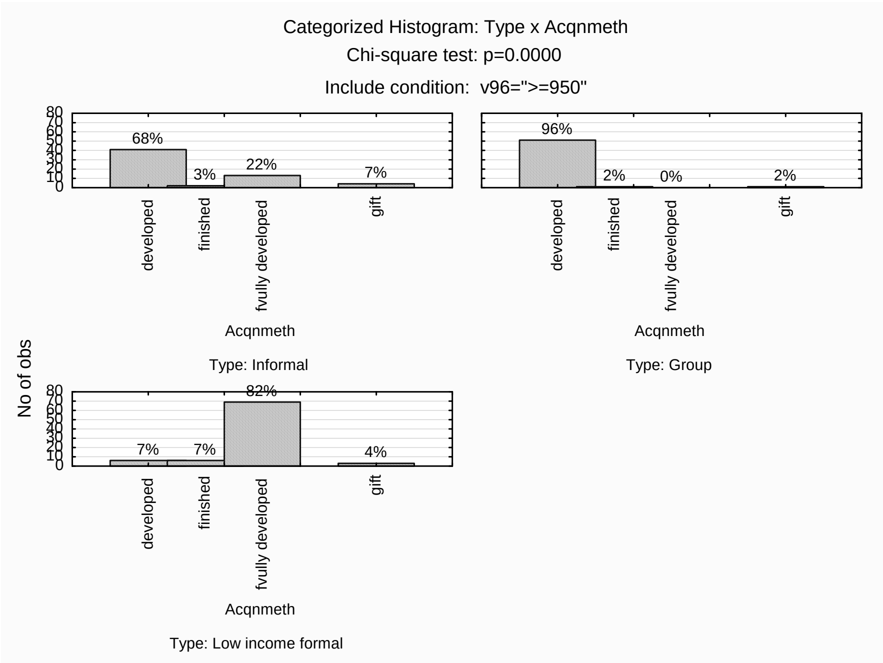


Figure 6.3 Test for significance of differences in method of acquisition: higher income group



The study was interested in finding out from who the respondents acquired their properties. Of particular interest was the extent to which impersonal, market modes of exchange were prevalent. The chi-square tests show that there are statistically significant differences between the rights categories, even with income differences controlled for, with the null hypotheses rejected with p values of 0.000 (see figures 6.4 and 6.5). The data reveals that for informal settlements, property was mostly acquired either ‘informally’ (39.3%) or from the municipality (31.0%). A significant proportion (19 %) acquired property from relatives or friends. Informal modes of acquisition refer to a range of practices which include illegal land invasion, settlement by ‘committees’ or by invitation from relatives or friends. Property acquired from the municipality was in the form of plots with basic sheet metal houses. This would be in the context of the municipality‘s resettlement programmes aimed at decongesting certain areas and providing better services.

Perhaps not surprisingly an overwhelming proportion of those in the group category obtained their property from the SDFN. Similarly the preponderance of the NHE as a source of property for the freehold category is evident. It is clear from the data that there is very little transactions between private persons (see 'private person' column in table 6.8).

Table 6.8 Source of property acquisition

		Source of property acquisition							
Type of property rights		**Relative/ friend**	**Private Person**	**Municipality**	**SDFN**	**Informal**	**NHE**	**Other**	**Total**
Informal	Count	32	6	52	12	66	0	0	168
	%	19.0	3.6	31.0	7.1	39.3	0.0	0.0	100
Group	Count	11	4	0	148	0	0	0	163
	%	6.7	2.5	0.0	90.8	0.0	0.0	0.0	100
Freehold	Count	3	24	0	0	0	78	3	108
	%	2.8	22.2	0.0	0.0	0.0	72.2	2.8	100
Total	Count	46	34	52	52	66	78	3	439
	%	10.5	7.7	11.8	11.8	15.0	17.8	0.7	100

If income differences are taken into account, the relative position between the groups changes somewhat (compare figures 6.4 and 6.5). At lower income levels, proportionately more respondents in the informal category rely on informal sources for their property, underscoring the importance of this source for the poor. For the freehold category, none of the lower income group obtained NHE housing, most likely on account of failing to meet eligibility criteria in terms of minimum income thresholds. Combining this response to the one on method of acquisition suggests that those at lower income levels in the freehold category, respondents acquired mostly complete housing from relatives or friends. This is to be expected as respondents in this segment are likely to have affordability problems regarding NHE housing. They nevertheless form only a relatively small proportion of this rights category, where the vast majority obtained complete dwellings from the NHE.

Figure 6.4 Test for significance of differences in source of property acquisition: lower income group

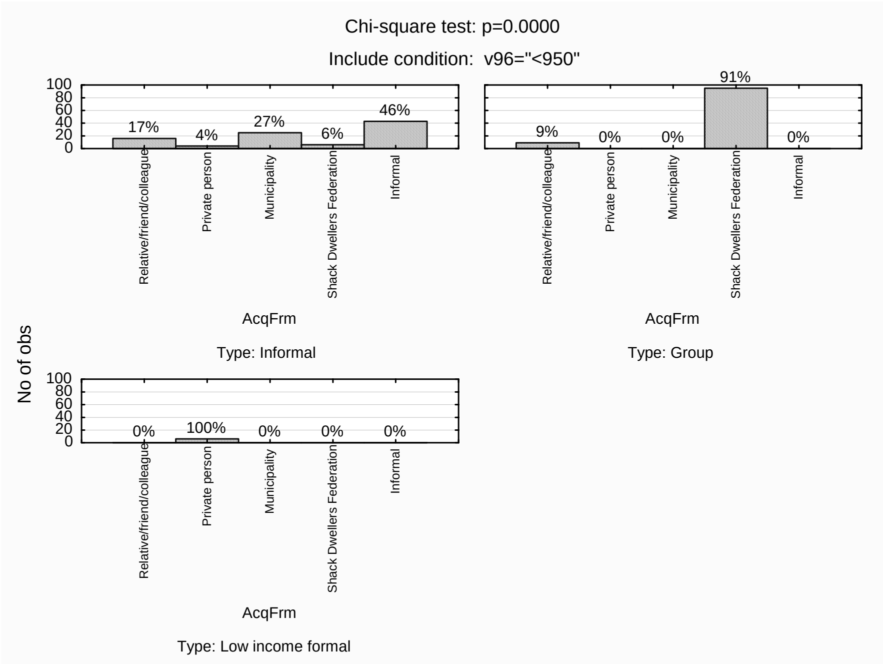
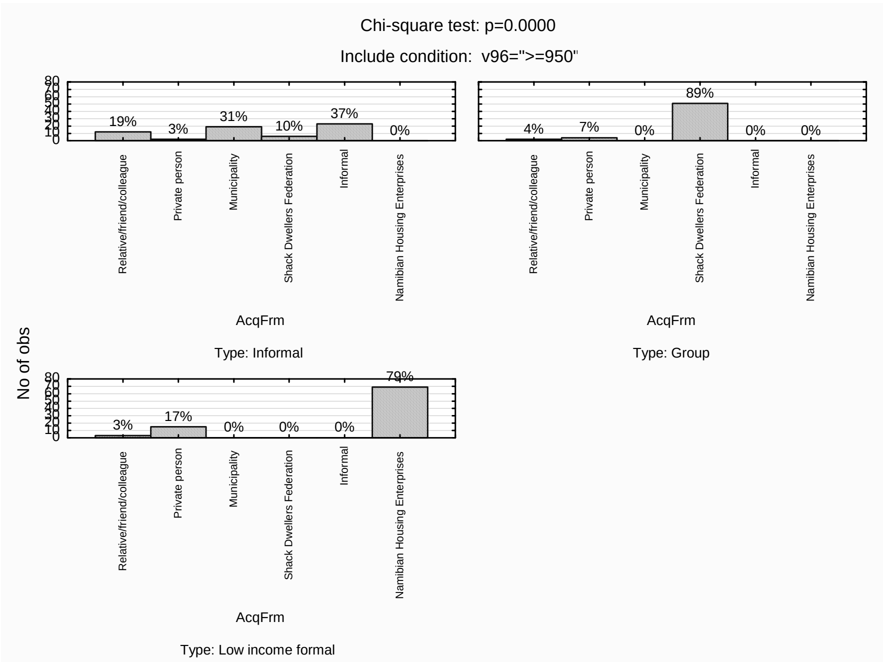


Figure 6.5 Test for significance of differences in source of property acquisition: higher income group



An attempt was made to measure the spatial extent of markets by obtaining data on the prior residence of respondents. The intention here was to gauge the ability of the various property rights systems to support activity beyond immediate neighbourhoods. Market expansion is of course one of the predicted outcomes of a clear property rights system. As Table 6.9 shows there are notable differences between the three categories. Respondents from the informal group are *not* recent arrivals in Windhoek, are *not* from within the same settlement and are *not* from other informal settlements in Windhoek. They *are* relatively old migrants from either outside of Windhoek or the formal areas of the city.

In contrast, a significant proportion of the respondents in the group category have moved from other informal settlements within Windhoek. This suggests that residents of this category first move into informal settlements and subsequebtly settle in the 'group' areas. It will be noted however that over 46% of their number share their place of origin with those of informal settlements. There is thus substantial common ground in terms of place of origin between these two groups.

Table 6.9 Prior residence

		Prior residence					
Type of rights	**property**	**New in Windhoek**	**From this settlement**	**From other informal settlement**	**From formal settlement**	**Other**	**Total**
Informal	Count	0	14	10	8	136	168
	% within type	0.0	8.3	6.0	4.7	80.9	100
Group	Count	0	4	84	17	59	164
	% within type	0.0	2.4	51.2	10.3	35.9	100
Freehold	Count	0	6	24	13	65	108
	% within type	0.0	5.6	22.2	12.0	60.1	100
Total	Count	0	24	118			440
	% all types	0.0	5.5	26.8			100

The picture regarding the prior residence of respondents in the freehold category is a bit more complicated. About one in five (22.2%) have moved from informal settlements within Windhoek but the majority by far (72.2%) have moved either from places outside of Windhoek or other formal areas within Windhoek.

Overall across the three categories there is both very little intra-settlement movement and very few recent arrivals. The latter point is further confirmed when data relating to period of residence in Windhoek is examined (Table 6.10). Most of the respondents have lived in Windhoek for over 5 years. The data does suggests some differences in the length of residence in Windhoek, with respondents in the freehold category having on average lived in longest in Windhoek, followed by those in the group category.

Table 6.10 Period of residence in Windhoek

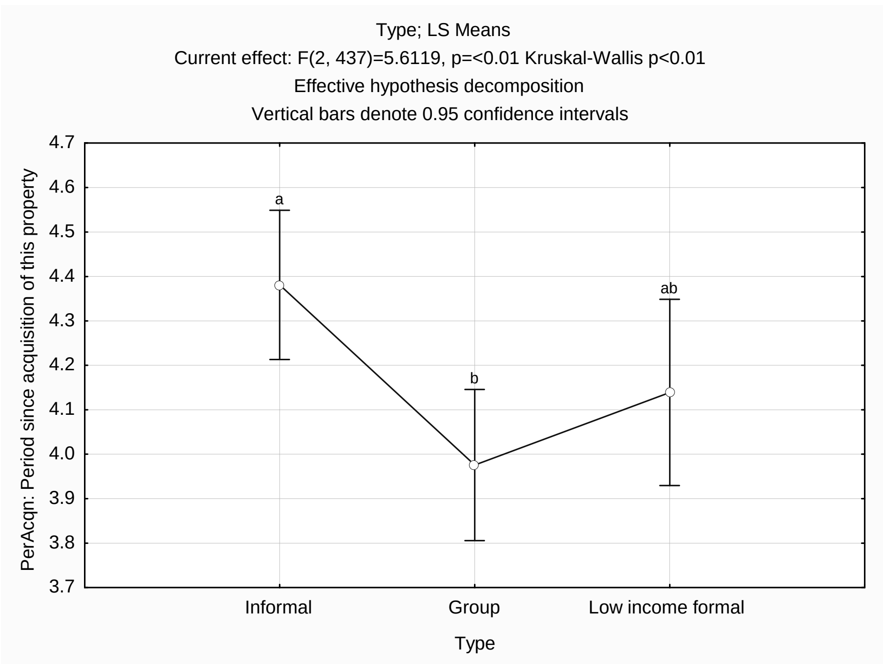
		Period of Residence in Windhoek					
Type of rights	**property**	**Less than 6 months**	**6 months to 1 year**	**1 year to 3 years**	**3 years to 5 years**	**Over 5 years**	**Total**
Informal	Count	2	2	4	6	154	168
	% within type	1.2	1.2	2.4	3.6	91.7	100
Group	Count	0	0	2	8	154	164
	% within type	0.0	0.0	1.2	4.9	93.9	100
Freehold	Count	0	0	0	0	108	108
	% within type	0.0	0.0	0.0	0.0	100	100
Total	Count	2	2	6	14	416	440
	% within type	0.5	0.5	1.4	3.2	94.5	100

The study was interested in establishing the period of time which had elapsed since the respondents had acquired their present properties. The aim was to obtain a sense of market movement or churn, and therefore an indication of secondary market activity. Proportionately more recent acquisitions would be indicative of secondary market activity. Table 6.11 shows that a substantial proportion of respondents have stayed in the present properties for over 5 years, with most of them staying for over 3 years. There is thus little evidence of recent market activity. Comparatively speaking the data suggests that there are statistically significant differences between the rights categories in the average length of the time period since acquisition. The hypothesis that the average length of the time period since acquisition is the same is rejected, with a p value less than 0.01 (figure 6.6). The significant differences however are, as figure 6.6 shows, between the informal and group categories. Proportionately more of the latter have relatively more recent acquisitions. This fits in with the pattern where residents first settle in informal settlements, then move into group areas. Further, the data shows that there is an appreciable proportion of more recent acquisitions in the freehold category, but that the differences are not statistically significant from either of the other two categories.

Table 6.11 Period since acquisition of property

Type of rights	property	Less than 6 months	6 months to 1 year	1 year to 3 years	3 years to 5 years	Over 5 years	Total
		Period since acquisition of property					
Informal	Count	10	10	8	18	122	168
	% within type	6.0	6.0	4.8	10.7	72.6	100
Group	Count	6	6	8	110	34	164
	% within type	3.7	3.7	4.9	67.1	20.7	100
Freehold	Count	12	3	3	30	60	108
	% within type	11.1	2.8	2.8	27.8	55.6	100
Total	Count	28	19	19	158	216	440
	% within type	6.4	4.3	4.3	35.9	49.1	100

Figure 6.6 Test for significance of differences in mean period since acquisition

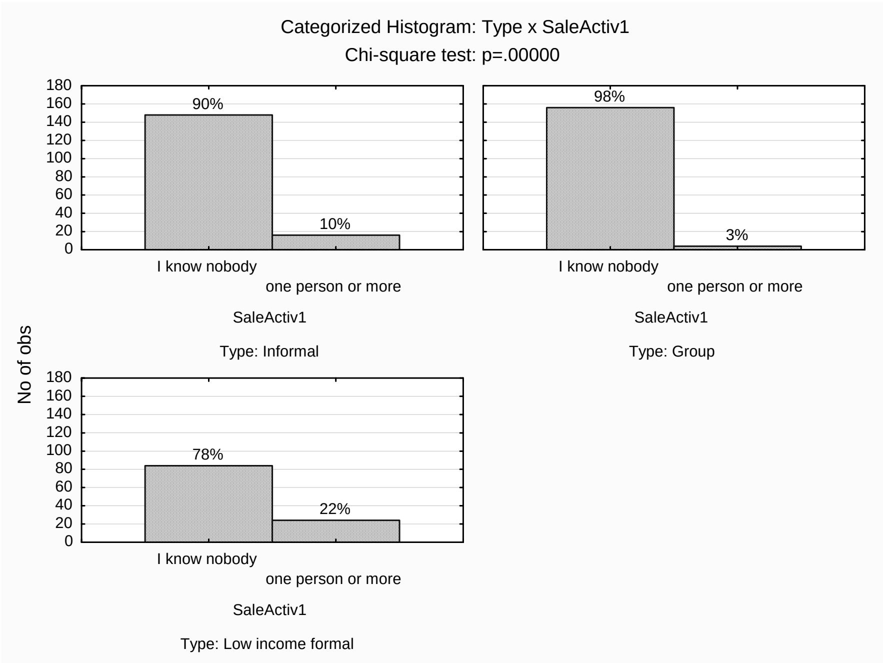


A further indirect measure of market activity was obtained by asking respondents for their knowledge about sale and rental transactions in their locality. The data is presented in tables 6.12 and 6.13. The data corroborates the finding of limited sale activity, with over 90% of respondents in the informal category stating that they have no awareness of any local sale. The respective figures for group and informal categories are 97.5% and 77.8%. The chi-square test shows that the differences are statistically significant. The hypothesis that knowledge of local sale activity is the same is rejected with a p value of 0.0000 (figure 6.7). The data shows that there is more sale activity in the freehold category (almost 20% respondents know of at least one sale), and in the informal category (where close to 5% are aware of at least one sale).

Table 6.12 Knowledge of local sale activity.

		Knowledge of local sale activity				
Type of property rights		**None**	**1 person**	**2 persons**	**3 persons**	**Total**
Informal	Count	148	8	6	2	164
	% within type	90.2	4.9	3.7	1.2	100
Group	Count	156	2	2	0	160
	% within type	97.5	1.3	1.3	0.0	100
Freehold	Count	84	21	0	3	108
	% within type	77.8	19.4	0.0	2.8	100
Total	Count	388	31	8	5	432
	% within type	89.8	7.2	1.9	1.2	100

Figure 6.7 Test for significance of differences in knowledge of local sale activity



The picture regarding rental markets is better. Table 6.13 shows awareness about outright rent of entire properties as opposed to letting a room or two. Overall, the data suggests more awareness about rental compared to sale activity. In comparing between categories, the situation is effectively reversed, with respondents in the group category more likely to be aware of rental activity. Thus 17.5% of this group know over 5 cases of outright rental of dwellings, compared to 8.4% and 5.6% for respondents in the informal and freehold categories respectively. Alternatively only 35% of the group category is not aware of any rental transaction, compared to 81.9% and 80.6% for the other categories respectively. (There is further discussion of rental markets in Section 6.8)

Table 6.13 Knowledge of local rental activity

Type of property rights		Knowledge of local rental activity: None	1 person	2 persons	3 persons	4 persons	5 persons	Over 5 persons	Total
Informal	Count	136	6	2	6	2	0	14	166
	%	81.9	3.6	1.2	3.6	1.2	0.0	8.4	100
Group	Count	56	26	22	12	4	12	28	160
	%	35.0	16.3	13.8	7.5	2.5	7.5	17.5	100
Freehold	Count	87	6	3	6	0	0	6	108
	%	80.6	5.6	2.8	5.6	0.0	0.0	5.6	100
Total	Count	279	38	27	24	6	12	48	434
	%	64.3	8.8	6.2	5.5	1.4	2.8	11.1	100

The study attempted to clarify various aspects of decision-making as well as actual processes involved in property acquisition. Of interest were variables relating to search behaviour, such as sources of information about property availability, search duration, search intensity, and decision factors informing choice of particular properties. Other variables relate to methods of payment and sources of finance.

Table 6.14 shows the various sources of information regarding property availability. Overall the differences between the rights categories are statistically significant (see figures 6.8 and 6.9). With that in mind, the results show that friends or relatives and ‘professional’ persons are the major sources of information for all three categories. The former source is particularly important for the informal and group categories. It must be noted that municipal officials and officials from the SDFN account for the majority under ‘professional persons’.

Two aspects of the data merit highlighting. Firstly, the relatively low reliance on formal advertisement, especially by the informal and group categories. Secondly the significant usage of personal physical search for property by the freehold category and to a lesser extent the informal category.

Table 6.14 Source of property information

Type of property rights		Source of property information: Relatives or friends	Professionals /officials	Previous owner	Advertisement	Physical search	Total
Informal	Count	98	50	2	2	16	168
	%	58.3	29.8	1.2	1.2	9.5	100
Group	Count	110	48	0	4	2	164
	%	67.1	29.3	0.0	2.4	1.2	100
Freehold	Count	33	33	3	12	27	108
	%	30.6	30.6	2.8	11.1	25.0	100
Total	Count	241	131	5	18	45	440
	%	54.8	29.8	1.1	4.1	10.2	100

Figures 6.8 and 6.9 compares chi-square test results for the ‘lower’ and ‘higher’ income groups. The results show that at higher income levels, respondents in all the three groups utilise a much wider source of information. Comparing the lower and higher income groups within the freehold category is particularly instructive. The lower income group in this category rely solely on friends and relatives. For the higher income group on the other hand there is increased use of professional sources, formal advertisement and personal search and a concomitant reduction in reliance on friends and relatives. This suggests that within the overall framework provided by the property rights regime, higher incomes are associated with increasingly impersonal modes of transaction.

Figure 6.8 Test for significance of differences in source of property information: lower income group

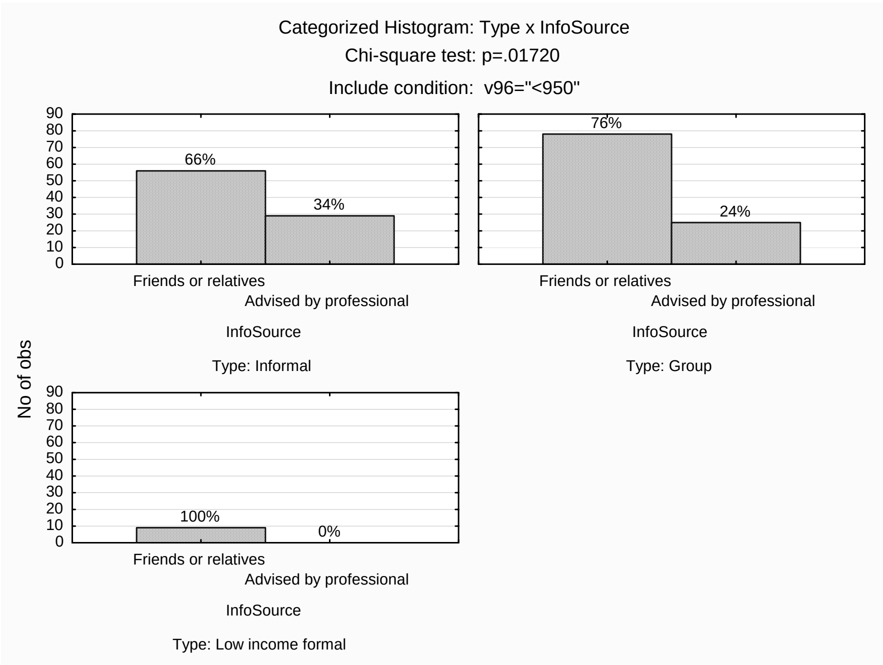
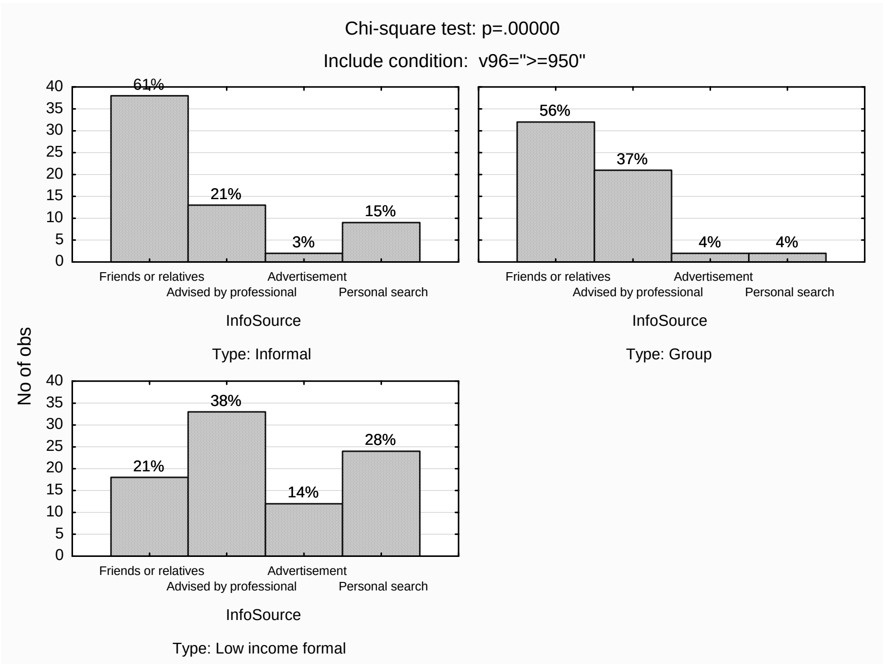


Figure 6.9 Test for significance of differences in source of property information: higher income group



Information on the number of properties respondents considered before choosing one was of interest. A related question probed key decision factors which informed the selection process. The process of choosing between competing goods is an integral part of normally functioning markets and, as we have seen, forms part of market transaction costs. Table 6.15 shows the number of properties considered. The differences between the rights categories are statistically significant (figures 6.10 and 6.11). Overall table 6.15 shows that most respondents do not find themselves in situations where they have to make a conscious choice between properties. When the three categories are compared, it would appear that those in the freehold category have an increased incentive to search more, with 26% looking at more than one property.

Table 6.15 Number of properties considered

Type of property rights		Number of properties considered		Total
		None	**Between 1 and 5**	
Informal	Count	146	20	166
	% within type	88.0	12.0	100
Group	Count	146	22	164
	% within type	86.6	13.4	100
Freehold	Count	78	27	105
	% within type	74.3	25.7	100
Total	Count	366	69	435
	% within type	84.1	15.9	100

When the lower and higher income groups are compared (figures 6.10 and 6.11) it would appear that with the exception of the informal category, higher incomes are associated with greater search activity. This strengthens the perception that the upper end of the low income real estate markets exhibits characteristics beginning to approach those of conventional middle class markets.

Figure 6.10 Test for significance of differences in number of properties considered: lower income group

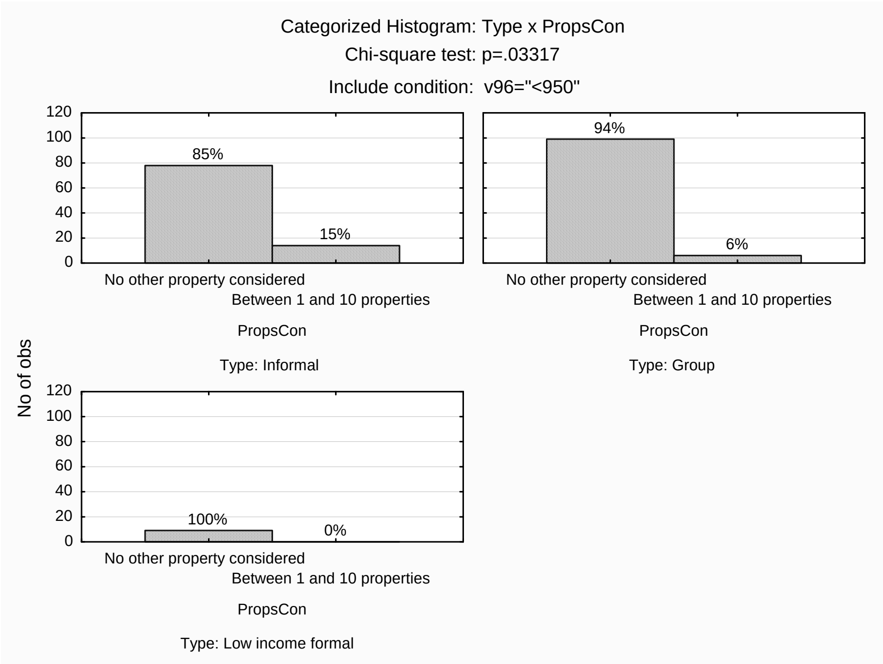
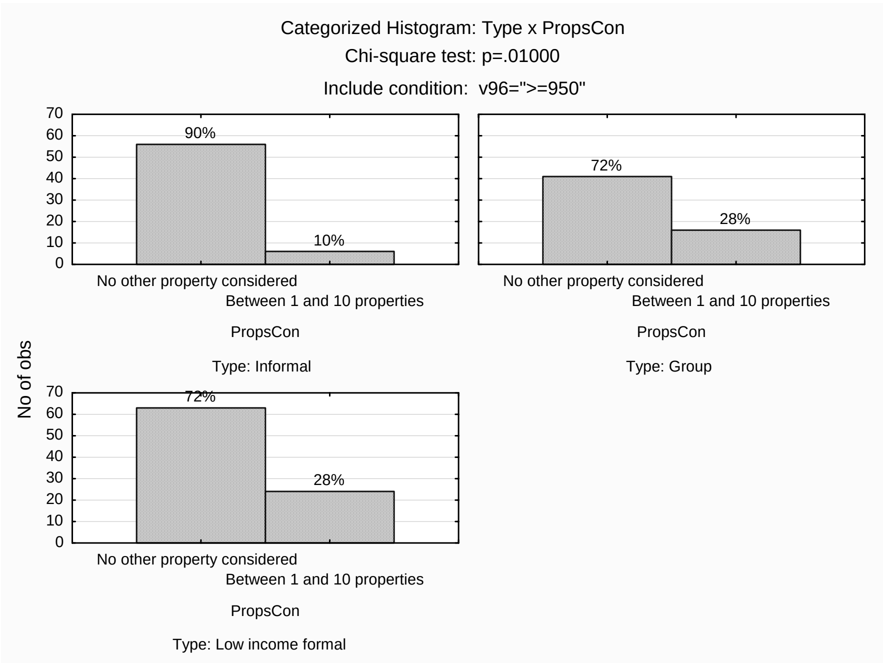


Figure 6.11 Test for significance of differences in number of properties considered: higher income group



Not surprisingly, price is cited as a key decision factor influencing the property acquisition processes (Table 6.16). Of interest however is the low premium given to availability of some form of documentation, and the relatively high scores for 'other' factors. By far the most common 'other' factor is the desire to acquire a home. It would seem that this desire for a place to call one's own dwarfs many other considerations. Note however the importance attached to proximity to work and other social amenities, and to friends and relations by respondents in the informal category.

Table 6.16 Key decision factors in property acquisition.

Type of property rights		Factor						Total
		Price	**Documents**	**Proximity to relations**	**Previous owner's reputation**	**Location near amenities**	**Other**	
Informal	%	21.7	0.0	3.6	0.0	13.3	21.7	166
Group	%	32.5	1.3	1.3	0.0	2.5	30.0	160
Freehold	%	23.5	0.0	0.0	0.0	5.9	50.0	102
Total	%	26.2	0.5	1.9	0.0	7.5	31.5	428

Table 6.17 shows the main sources of finance used by households to fund property purchases and/or construction. For informal respondents, the principal sources by far are gradual personal savings. This means that they essentially use cash to fund purchases or building costs. Respondents in the group category on the other hand have more varied sources, mostly a combination of personal savings, SDFN loans and 'other sources'. Of these, personal savings are the most important. Predictably, SDFN loans are a significant source for this category. Loans from employers represent the bulk of other sources. Finally, the NHE and employers are the principal sources of funding for respondents in the freehold category, with the latter a more significant source.

Table 6.17 Sources of finance

Type of property rights		Source of finance						
		Bank loan	**SDFN loan**	**NHE loan**	**Loan from relative/friend**	**Personal savings**	**Other sources**	**Total**
Informal	Count	0	0	0	0	154	2	156
	%	0.0	0.0	0.0	0.0	98.7	1.3	100
Group	Count	4	82	0	4	94	38	154
	%	2.6	51.3	0.0	2.6	61.0	24.7	100
Freehold	Count	0	0	36	0	9	54	96
	%	0.0	0.0	38.7	0.0	9.4%	56.3	100

The data shows that there is very limited use of formal bank finance to fund acquisitions or construction. Further, the data underscores the importance of formal employment as a basis for securing loans for housing

In addition to the direct cost of purchase and/or construction, other costs may have to be incurred. Table 6.18 shows the incidence of additional costs. The data suggests that the degree of informality is related to the likelihood of incurring additional costs. Almost 98% of respondents in the informal category do not have to make additional payments, compared to about 91% for group and just over 58% for freehold categories. For group respondents, demarcation fees represent the major additional cost. This relates to the costs of subdividing the jointly owned land into individual, though not formally recognised parcels. Legal fees are the chief additional cost for households in the formal category. In addition there are non-trivial proportions of households in this category who have to incur estate agent fees as well as fees for infrastructure.

Of interest was the extent to which respondents were prepared to engage in impersonal transactions regarding their properties, as opposed to transacting with friends or relatives. The intention here was to assess the extent to which respondents perceive their properties as commodities tradable on the ‘open market’. Table 6.19 shows that respondents by and large could trade their properties with perfect strangers as long as the price was right. There are statistically significant differences between the rights categories however (figure 6.12). Thus a sizable proportion of respondents in both the informal and group category hold the view that they could transact only with relatives or friends.

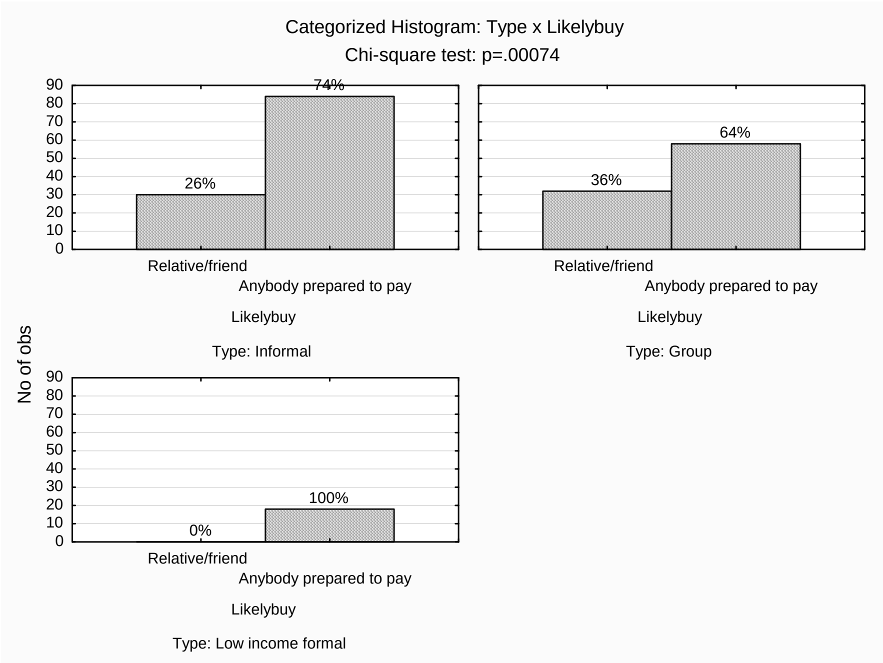
Table 6.18 Additional costs

Type of Property Rights		Costs							No. of Respondents
		None	Demarcation	Legal fees	Estate Agents	Taxes/ duties	Infrastructure	Other	
Informal	%	97.4	2.6	0.0	0.0	0.0	0.0	1.3	156
Group	%	90.8	7.9	0.0	0.0	0.0	2.6	0.0	152
Freehold	%	58.3	0.0	33.3	8.3	4.2	8.3	0.0	72
Total	%	87.4	4.2	6.3	1.6	0.8	2.6	0.5	380

Table 6.19 Likely buyers if property is sold.

Type of property rights		Likely buyer if property is sold		Total
		Relative/friend	Anybody at right price	
Informal	Count	30	84	114
	% within type	26.3	73.7	100
Group	Count	32	58	90
	% within type	35.6	64.4	100
Freehold	Count	0	18	18
	% within type	0.0	100.0	100
Total	Count	62	160	222
	% within type	27.9	72.1	100

Figure 6.12 Test for significance of differences in likely buyers if property is sold.



6.5 Property Rights

While the *de jure* position regarding the content of property rights is well known and treated as exogenous, the study was interested in establishing the *de facto* position regarding the perceptions of property rights by respondents, especially of their ability to make transactions of various kinds. The latter point is important if real estate markets are to work in aid of poverty alleviation. Table 6.20 shows data on perceptions of property rights and a composite index summarising the strengths of these perceived rights. The index is calculated as the sum of percentage scores as a proportion of the total possible score (i.e. 500). Thus if, say, a 100% of respondents in the informal category had indicated that they believed they had all the 5 rights, the sum of the percentage scores would be 500 out of 500, resulting in an index of 1. A score of 1 would indicate complete ability to exercise all the normal rights of ownership.

A number of inferences can be drawn from the data. Firstly, there are significant weaknesses in property rights, particularly for the informal category. The right to sell is clearly the most problematic. Secondly, in comparative terms, the strength of property rights conforms to theoretical predictions. Thus the more formal the category, the stronger the overall perceptions of property rights (see index column). There is however an unexpected dip in the perception of right to sell in the group category. The suggestion is that groups are more constrained in their ability to sell than their informal counterparts, a finding which runs counter to theoretical predictions. The third inference is that there is a lack of correspondence between de jure and de facto rights, particularly for the informal categories.

Table 6.20 Perception of property rights

		Perceived right to						
Type of property rights		**Sell**	**Lease**	**Run business**	**Bequeath**	**Build permanent**	**Rights index**	**No of Respondents**
Informal	%	38.5	61.5	78.2	76.9	41.0	0.592	156
Group	%	34.0	87.0	89.4	84.5	95.7	0.781	161
Freehold	%	96.9	100.0	100.0	100	100.0	0.994	96
Total	%	50.4	80.4	87.7	85.2	76.0		413

The perceptions about property rights are broadly mirrored by perceptions about potential threats to those rights. As Table 6.21 shows, there is a relationship between the degree of formality and perceived threat to property rights. Thus respondents in the informal category are proportionately more fearful for their property rights with those in the freehold category least fearful. With regard to the type of perceived threat, it is interesting to note that the municipality is considered to be the biggest source. For the informal category the possibility of boundary encroachment by neighbours and, to a lesser extent, arbitrary take-over by persons is a matter of concern.

Table 6.21 Threats to property right

Type of property rights		Type of threat					No. of respondents
		Boundary encroach.	**Municipal eviction**	**Municipal relocation**	**Take over By others**	**No threat**	
Informal	% type	18.2	57.1	55.8	6.5	27.3	154
Group	% type	2.5	25.3	22.8	0.0	71.4	158
Freehold	% type	0.0	0.0	0.0	0.0	100.0	99
Total	% all	7.8	31.1	29.7	2.4	61.7	411

Given the evidence of uncertainties regarding the security of property rights, it was interesting to explore the mechanisms that respondents relied upon to protect these rights. Table 6.22 shows that the main methods are physical occupation, seeking of official documentation and neighbours' solidarity. These methods are particularly important for the less formal categories. It is apparent that for group rights, the reliance upon neighbours for support is especially strong, with almost twice the proportion of these respondents citing this method, compared to respondents in the informal category.

It is important to note that the importance attached to official documentation is not matched by actual possession of these documents. As Table 6.23 shows, over 90% of respondents in the informal category do not have any documentation to support claims to their property. The figures for the group and freehold categories are 54.9 and 22.9% respectively. Thus the claimed use of documents for property rights protection is merely aspirational.

In comparative terms and perhaps not surprisingly, respondents in the formal group are more likely to possess formal documentation than the other two groups. Note the relatively high proportion of respondents in the group category who cite possession of 'other' documents. This refers to documents such as receipts for group savings contributions, or group members' registers. These are often regarded as good evidence of claim to group property rights.

Table 6.22 Methods of property rights protection

Type of property rights		Method of property rights protection: Physical occupation	Right documents	Neighbour's support	No action required	Number of respondents
Informal	% within type	31.0	36.9	33.3	2.4	168
Group	% within type	35.5	32.3	62.6	5.2	155
Freehold	% within type	0.0	0.0	0.0	100.0	99
Total	% all types	25.4	26.5	36.3	26.3	422

Table 6.23 Availability of documents

Type of property rights		Availability of documents: None	Deed of sale	Lease agreement	Other	Total
Informal	Count	148	0	2	14	164
	% within type	90.2	0.0	1.2	8.5	100
Group	Count	90	0	2	72	164
	% within type	54.9	0.0	1.2	43.9	100
Freehold	Count	24	81	0	0	105
	% within type	22.9	77.1	0.0	0.0	100
Total	Count	262	81	4	86	433
	% within type	60.5	18.7	0.9	19.9	100

6.6 Market information and outcomes

A key study objective aimed to establish the effects of different property rights configurations on market outcomes and, consequently, household welfare. This required obtaining a range of data regarding, inter alia, market values, building costs, purchase prices, building materials and household plans. It is argued that the magnitudes of at least some of these variables would give a useful indicator of the potential for gains from the operation of real estate markets.

There are costs associated with the property acquisition process. These arise from the (mostly informal) purchases of vacant plots, building expenses or costs of buying complete dwellings. Table 6.24 shows magnitudes of costs for plots (1 N$ = 1 ZAR, the South African rand is legal tender in Namibia). The differences between the rights categories are statistically significant (figure 6.13), even when controlled for the income effect (figure 6.14). If income differences are controlled for, the average plot costs for the informal and group categorises *rises* to N$ 217.26 and N$4,465.81 respectively while that of the freehold category *falls* to N$17,476.60.

While the average plot cost is the smallest for the informal category, there is a huge variance in this group as shown by the standard deviation. This attests to a wide range of modes of plot acquisition, from essentially free invasion of vacant land to arms length purchases in the 'open market'. Note that for the freehold category, only 12 respondents out of 108 had had to purchase a vacant plot, underscoring the fact that most in this category purchase completed dwellings.

Table 6.24 Cost of plot in N$

Type of rights	Mean	Standard deviation	Maximum	Minimum	Range	Median	Number of observations
Informal	160.71	531.75	3500.00	0.00	3500.00	0.0	112
Group	4449.63	2478.13	12000.00	0.00	12000.00	5427.00	108
Freehold	17750.00	11087.46	35000.00	6000.00	29000.00	15000.00	12

Figure 6.13 Test for significance of differences in mean plot cost

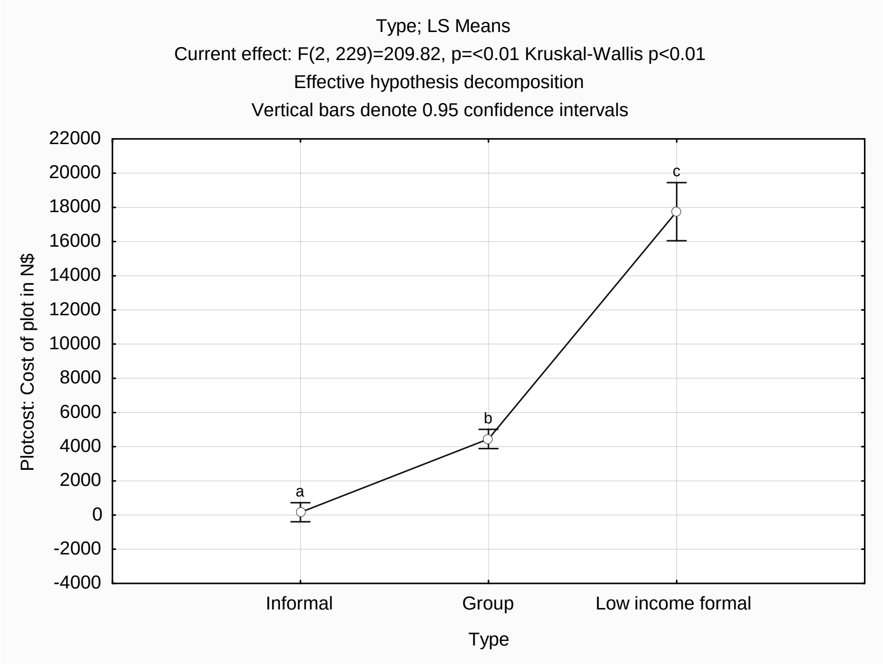
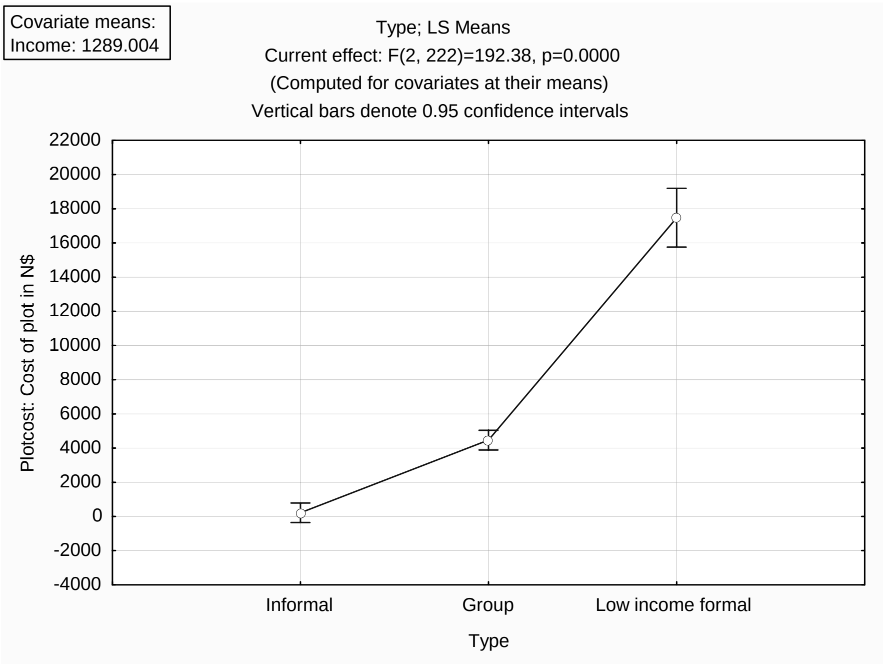


Figure 6.14 Test for significance of differences in mean plot cost: income effect



The cost of constructing dwellings is shown in Table 6.25. Again the differences between the rights categories are statistically significant (figure 6.15) even when the income effect is taken into account (figure 6.16). If income differences are controlled for, the average building costs for the informal category *rises* to N$ 2,620.44 while those of the group and freehold categorises *falls* to N$10,183.50 and N$37,208.61 respectively.

The data shows that there relatively big variances in building costs for both the informal and group categories. This variance reflects the wide variety in the quality of dwellings found in these settlements, ranging from shacks to substantial solid brick housing. Again the data shows that only a very few respondents in the freehold category had had to build their own houses.

Table 6.25 Cost of building in N$

Type of rights	Mean	Standard deviation	Maximum	Minimum	Range	Median	Number of observations
Informal	2542.71	2271.32	10000.00	0.00	10000.00	2000.00	130
Group	10402.37	12402.96	80000.00	0.00	80000.00	4000.00	152
Freehold	38500.00	11502.17	49000.00	28000.0	21000.00	38500.00	6

Figure 6.15 Test for significance of differences in mean building cost

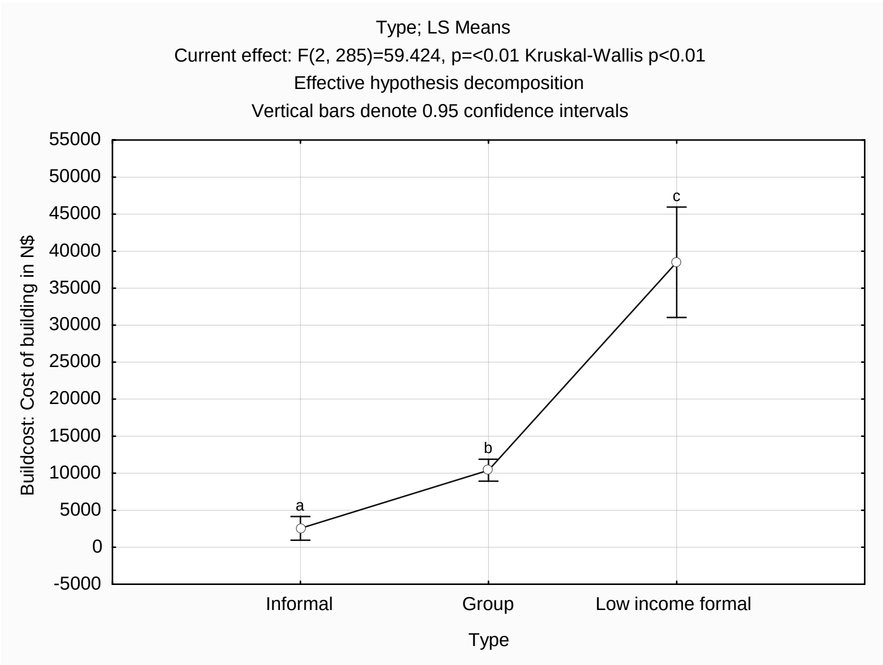


Figure 6.16 Test for significance of differences in mean building cost: income effect

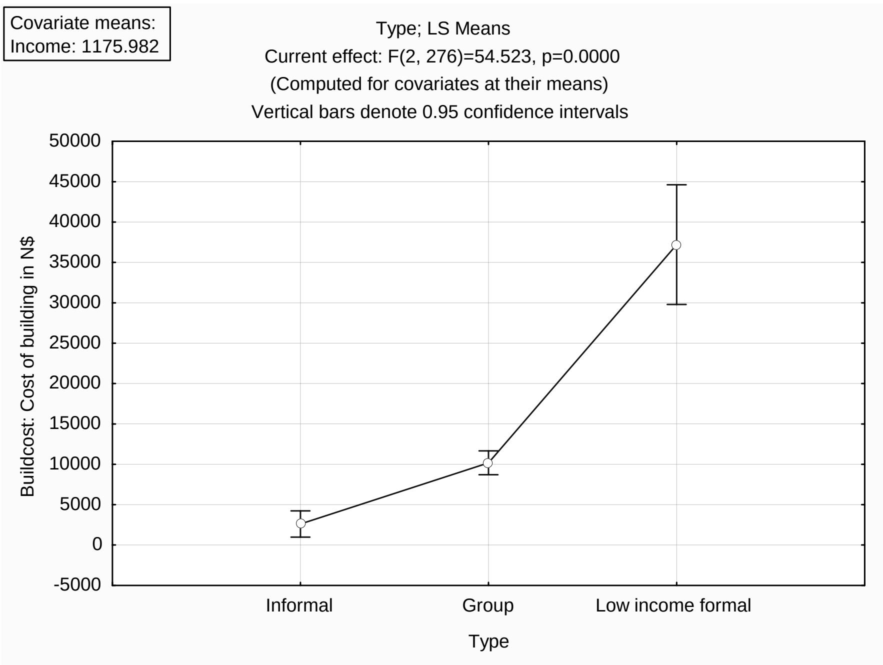


Table 6.26 shows the purchase prices for completed dwellings. A test for statistical significance of differences between the rights categories could not be carried because

there are less than three groups with responses (there were no recorded cases of outright purchase for the group category). Nevertheless it is quite obvious from the data that the differences are significant. Equally significant is the preponderance of the freehold category in the purchase of completed dwellings. Further, the sums of money involved in house purchases are significant, relatively speaking. (The 2 respondents in the informal category who paid 'nothing' for their purchase are an aberration).

Table 6.26 Property purchase price in N$.

Type of rights	Mean	Standard deviation	Maximum	Minimum	Range	Median	Number of observations
Informal	0.00	0.00	0.00	0.00	0.00	0.00	2
Group	0.00	0.00	0.00	0.00	0.00	0.00	0
Freehold	50607.24	20772.63	117000.00	26000.00	91000.00	47000.00	87

The study was interested in comparing the costs of property acquisition with the likely proceeds arising from the disposal of properties on the 'open' market. The aim here was to assess the likely magnitudes of capital gains from market sales. Table 6.27 shows estimated property sale prices, as perceived by respondents. As figure 6.17 shows the differences between the rights categories are statistically significant, with the highest estimates for the freehold category and the lowest for the informal. It must be stressed that these are estimates based on respondents' subjective views. There is no guarantee therefore that they could be realised upon actual sale.

Table 6.27 Estimated property sale price in N$

Type of rights	Mean	Standard deviation	Maximum	Minimum	Range	Median	Number of observations
Informal	6261.22	7570.84	30000.00	400.00	29600.00	3000.00	98
Group	24714.29	21953.90	90000.00	1500.00	88500.00	20000.00	84
Freehold	75757.14	44504.13	240000.00	24500.00	215500.00	75000.00	63

Figure 6.17 Test for significance of differences in expected sale price

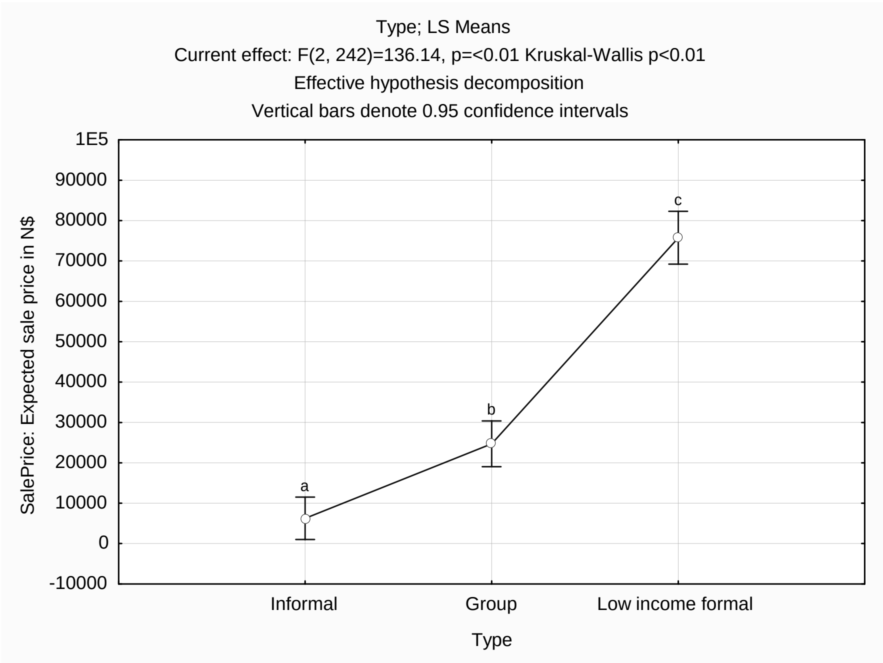


Table 6.28 Basis of sale price knowledge

Type of property rights		Basis of sale price knowledge: Price of similar property	Building cost	Guess	Total
Informal	Count	2	60	36	98
	% within type	2.0	61.2	36.7	100
Group	Count	0	62	24	86
	% within type	0.0	72.1	27.9	100
Freehold	Count	6	21	36	63
	% within type	9.5	33.3	57.1	100
Total	Count	8	143	96	247
	% within type	3.2	57.9	38.9	100

To put these values in context, respondents were asked to explain the basis of their knowledge (Table 6.28). The data shows that for the most part, respondents in the informal and group categories use estimates of current building costs as the basis for predicting sale prices. Those in the formal category on the other hand are more likely to have ‘guessed’ their estimates. The low proportion of respondents who cite knowledge of prices paid elsewhere for similar property, together with the relatively high 'no-response' rate for this question reinforce the finding of little secondary market activity. Building costs, on the other hand, are likely to be a valid predictor of the exchange value of property in such markets.

The study was interested in establishing the extent to which different property rights configurations engender specific outcomes. A key aspect of this was an examination of actual and planned investment in housing. Thus the study looked at variables such as house sizes, types of building material used, investment plans and perceived constraints.

Table 6.29 and figure 6.18 show that differences in average house sizes between the three categories are *not* statistically different, but only just (the Kruskal-Wallis test yields a p value of 0.06, just above the 0.05 confidence level threshold, clearly on account of the higher mean size for the freehold category). The hypothesis that the average house sizes are the same is therefore accepted at the 0.05 level, with a p value of 0.19. Any nominal differences are further narrowed if the income effect is taken into account (figure 6.19). In this case the respective means change slightly. The means for both the informal and group categories rise to 31.63 m^2 and 30.74 m^2 respectively while the mean for the freehold category falls to 31.11 m^2. This suggests that income differences have some influence on differences in house sizes. Standardised house designs and fixed plot sizes for the group and freehold categories and high densities in the informal category constrains house sizes, accounting for the lack significant differences. Note however the relatively high standard deviations which attest to the extreme variability of dwelling sizes in both the informal and group categories.

Table 6.29 House size (in m^2)

Type of rights	Mean	Standard deviation	Maximum	Minimum	Range	Median	Number of observations
Informal	31.18	16.19	78.5	5.8	72.7	28.75	168
Group	30.44	12.99	72.6	6.3	66.3	33.00	157
Freehold	33.63	11.57	63.1	7.6	55.5	27.80	105

Figure 6.18 Test for significance of differences in house size

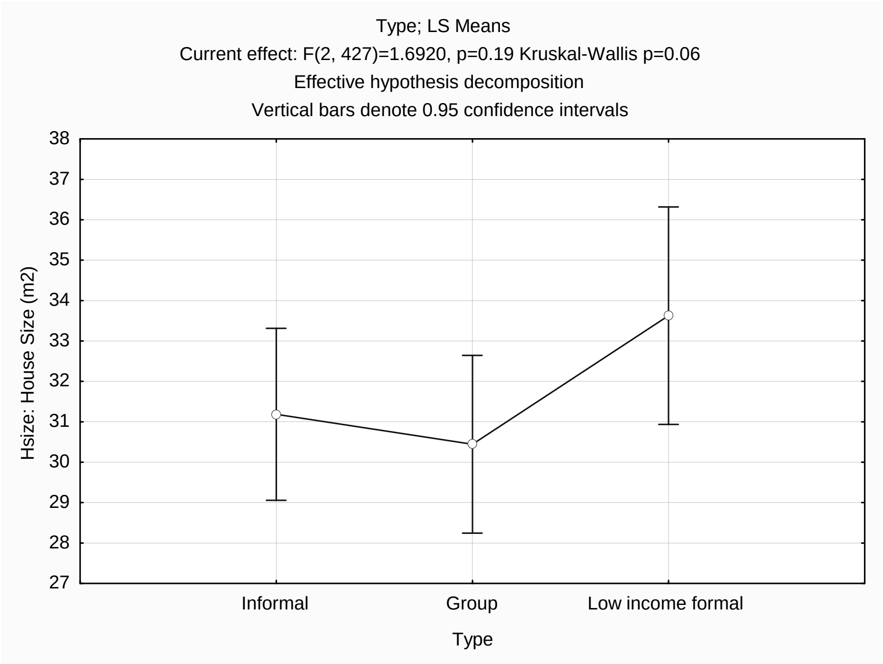
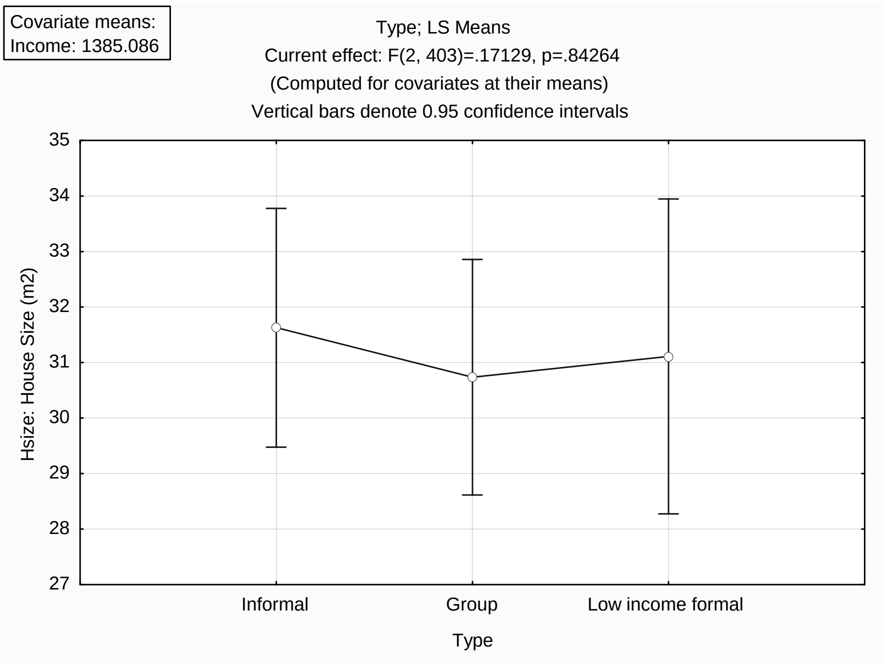


Figure 6.19 Test for significance of differences in house size: income effect



The differences in the type of building materials used, and by implication capital invested in the dwellings, are a lot clearer and statistically significant (table 6.30 and figures 6.20 and 6.21). These differences are important because households have more latitude to invest in the quality of their dwellings than to increase size. Table 6.30

shows that informal and formal categories are at opposite ends of the scale, with the group category in the middle. The data indicates that the type of building material used is related to property rights, with proportionate more usage of permanent brick walls in the formal category. Adjusting for the income effect yields interesting results. Chi-square tests for both the lower and income groups confirm that the differences between the categories are statistically significant. However, the effect of income differences is best seen in the group category where the property rights regime allows both the construction of sheet metal and brick housing. At lower income levels, a higher proportion of respondents have sheet metal housing, a picture which is reversed in the higher income group. Figures 6.20 and 6.21 suggest that that within the overall constraints provided by the system of property rights, income differences account for much of the observed differences in housing investment.

Table 6.30 Main building material

		Main building material		
Type of property rights		**Sheet Metal**	**Brick**	**Total**
Informal	Count	168	0	168
	% within type	100.0	0.0	100
Group	Count	96	68	164
	% within type	58.5	41.5	100
Freehold	Count	0	108	108
	% within type	0.0	100	100
Total	Count	264	176	440
	% within type	60.0	40.0	100

Figure 6.20 Test for significance of differences in main building material: lower income group

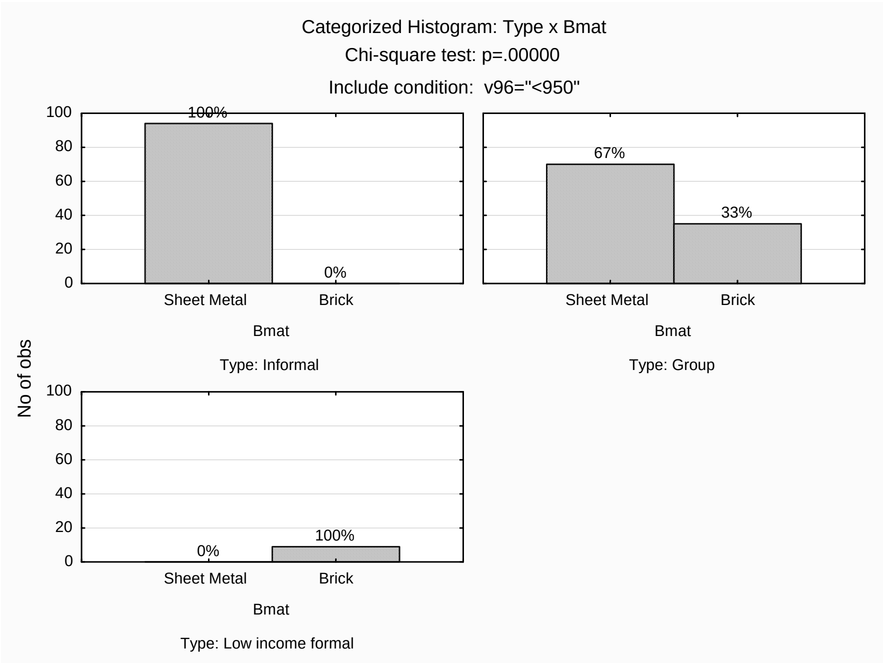
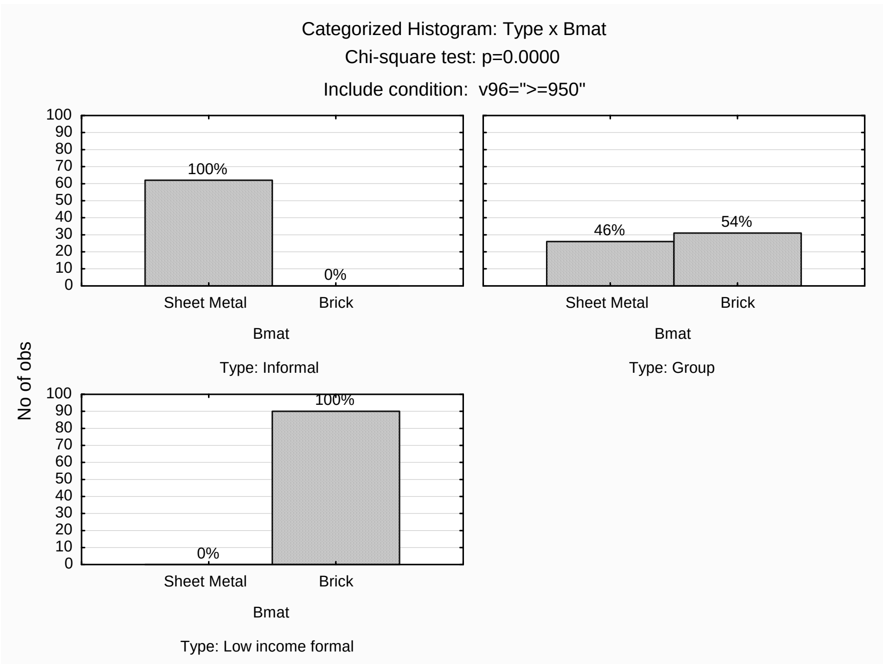


Figure 6.21 Test for significance of differences in main building material: higher income group



Respondents were asked to compare their current properties with their previous ones. The intention was to assess the degree to which households could be said to have progressed in climbing the property ladder. As Table 6.31 shows, a clear majority of respondents across the three categories see their current properties as better than previous ones. In comparative terms, however, the picture is less clear. The suggestion is that it is those in the group category who are likely to have made the most progress. These have both the most 'better' and the least 'worse' scores.

Table 6.31 Comparison with previous property

		Comparison with previous property			
Type of property rights		**Worse**	**Same**	**Better**	**Total**
Informal	Count	34	12	120	166
	% within type	20.5	7.2	72.3	100.0
Group	Count	22	10	132	164
	% within type	14.4	6.1	80.5	100.0
Freehold	Count	18	9	81	108
	% within type	16.7	8.3	75.0	100.0
Total	Count	74	31	333	438
	% all types	16.9	7.1	76.0	100

The study was interested in finding out the future plans of respondents regarding their property. The intention was to assess the nature and likelihood of market activity as well as household investment plans. As Table 6.32 shows, there are limited prospects for respondents entering either the sale or rental markets. This is further evidence in support of the previous findings about limited secondary market activity. The data on the other hand shows that many are planning to extend their properties. Thus there is firm evidence of intention to add to the capital values of their houses. There are clear differences, however, between the categories, with those in the informal group less likely to be planning extensions to their property.

A significant proportion of respondents, particularly for the informal and group categories, cite 'other plans' for their properties. These plans were mostly in the nature of obtaining formal recognition of title, described as 'ownership' (informal and group) or the completion of loan repayments (for group).

Table 6.32 Future plans for property

Type of property rights		Future plans for property					Total
		No specific plan	Sell property	Lease property	Extend property	Other	
Informal	Count	22	0	6	82	56	166
	% within	13.3	0.0	3.6	49.4	33.7	100
Group	Count	4	0	0	112	42	158
	% within	2.5	0.0	0.0	70.9	26.6	100
Freehold	Count	0	3	3	84	9	99
	% within	0.0	3.0	3.0	84.8	9.1	100
Total	Count	26	3	9	278	107	423
	% within	6.1	0.7	2.1	65.7	25.3	100

A follow up question sought to identify potential constraints to the realisation of these plans (table 6.33). Key constraints cited for the informal category is lack of rights and to a lesser extent land. For the group category a lack of finance is the chief obstacle while a lack of finance, space and to a lesser extent rights are significant in the freehold category.

Table 6.33 Constraints to future plans

Type of property rights		Constraints to future plans					No. of respondents
		None	Space (land)	finance	Not allowed	Other	
Informal	Count	0	40	26	92	8	166
	% within	0.0	24.1	15.7	55.4	4.8	100
Group	Count	0	24	111	10	13	158
	% within	0.0	15.2	70.2	6.3	8.2	100
Freehold	Count	0	20	59	17	3	99
	% within	0.0	20.2	59.6	17.2	3.0	100
Total	Count	0	84	196	119	24	423
	% all	0.0	19.8	46.3	28.1	5.7	100

An attempt was made to determine what households would mostly likely spend the proceeds of any capital sales on. The intention here being to assess whether such spending priorities are likely to be welfare enhancing or not. Tables 6.34 shows the respondents' likely spending patterns.

The data shows that, setting aside the 'other' category for the time being, the purchase of bigger and better properties is the most likely destination of any capital receipts. This is followed by the capitalising of new businesses.

Table 6.34 Likely spending of proceeds from property sale

Type of property rights		Likely spending of proceeds						Total
		Buy food	**Pay debts**	**Start business**	**Buy better property**	**Assist relatives**	**Other**	
Informal	Count	6	4	18	40	10	30	108
	% within	5.6	3.7	16.7	37.0	9.3	27.8	100
Group	Count	2	8	4	28	0	48	90
	% within	2.2	8.9	4.4	31.1	0.0	53.3	100
Freehold	Count	0	0	6	24	0	27	57
	% within	0.0	0.0	10.5	42.1	0.0	47.4	100
Total	Count	8	12	28	92	10	105	255
	% all	3.1	4.7	11.0	36.1	3.9	41.2	100

In comparative teams, no clear patterns are discernable. Two points are worth highlighting about the data. Firstly, the relatively low incidence of respondents who cite the purchase of food or the liquidation of debt as the likely destination of capital receipts. These are good indicators of the likelihood of distress sales. Secondly, the high proportion who cite 'other' priorities. This reflects the fact that for many respondents, the sale of their properties would occur only in the context of having to leave Windhoek, the likely destination being their 'homelands'. For such respondents, the purchase of farm livestock is a priority.

6.7 Incidence of Property Disputes

The study was interested in establishing, in comparative terms, the nature and incidence of property related disputes, as well as identifying the dispute resolution mechanisms employed. The intention here was to assess the possible effects of property rights on the incidence of property disputes and to determine the availability and accessibility of enforcement institutions. Weak property rights systems are predicted to be associated with relatively more disputes and problematic enforcement.

The data shows that eight (4.8%) out of 158 respondents and twelve (7.3%) out of the respondents in the informal and group categories respectively have had disputes regarding their properties. This in distinct contrast with no reported cases of property related disputes in the freehold category. These disputes are either over ownership, where there are conflicting claims over the same property, or over boundaries. Of the eight reported disputes in the informal category, six were over ownership and two over boundaries. All the 12 cases in the group category on the other hand were boundary related.

Not surprisingly, the majority of disputes are between neighbours. Thus all the six cases in the informal category and eight out of the twelve cases in the group category are between immediate neighbours. In the latter case, the remaining four involve disagreement with the municipality over boundaries, arising from the municipality’s prohibition of building over water and/or sewer lines.

While the data does not support the making of comparative conclusions, it suggests that disputes are in the main referred to local community structures for resolution. There are no cases where disputes have had to be decided to by formal courts for instance. A related point is that it appears that these disputes are generally resolved in a relatively short period of time. Six out of the 8 disputes in the informal category were of less than six months duration, compared to 4 out of the 12 in the group category. There is a suggestion that disputes in the group category tend to be more protracted, with half of them lasting over two years, compared to only a quarter for the informal category.

6.8 Rental markets

As we have seen before, there appears to be a very limited market for outright rentals of entire dwellings. Only 17 out of the 440 respondents (i.e. about 4%) were found to be renting in this fashion. However, the picture becomes vastly different if one considers the incidence of rentals of rooms in dwellings or backyard dwellings. Anecdotal evidence strongly suggests that this is very widespread. A conservative estimate based on direct observation suggests that at least 60% of dwellings have a 'back yard' structure linked to them. This is a consistent pattern across the three rights categories. These structures are especially visible in the freehold category as they are invariably made out of sheet metal, which contrasts with the brick material of the main dwelling.

It is quite clear that in many cases, these back yard structures are occupied by tenants paying rent. Getting an accurate picture proved difficult firstly due to methodological problems and secondly due to widespread reticence by respondents. The former was on account of the fact that the sampling was at household level, resulting in failure to capture room or back yard tenants. The latter was due to widespread reluctance by respondents to admit to renting out rooms or backyard structures. The stock answer in many cases was that these were occupied by family or friends at no cost.

Given these circumstances and bearing in mind the small sample size, the study was interested in interrogating a number of variables regarding the rental market. In addition to the size of the market, information on rents paid, reasons for renting, perceptions of tenure security and future plans was obtained. Table 6.35 shows the average rents paid. This is compared to perceptions of rental values of their properties by respondents in table 6.36. The data suggests that there may not be significant differences between rentals paid in the informal and group areas. Rentals paid in the formal areas on the other hand are significantly higher. The number of observations are however too small for meaningful statistical tests, though this has been done for estimated rental values (figure 6.25). Figure 6.25 suggests that the differences in the means of estimated rental values between the informal and group categories are not statistically different. The estimated rental value for the freehold category on the other hand is significantly higher. But perhaps what is of more importance is that the rentals, while little in absolute terms, represent a significant proportion of average household incomes Thus average rents paid in the informal area amount to about 26% of reported average household incomes. If perceived rental values are used, the proportion is about 23%. Equivalent figures for the group and freehold categories are 48% and 37% respectively.

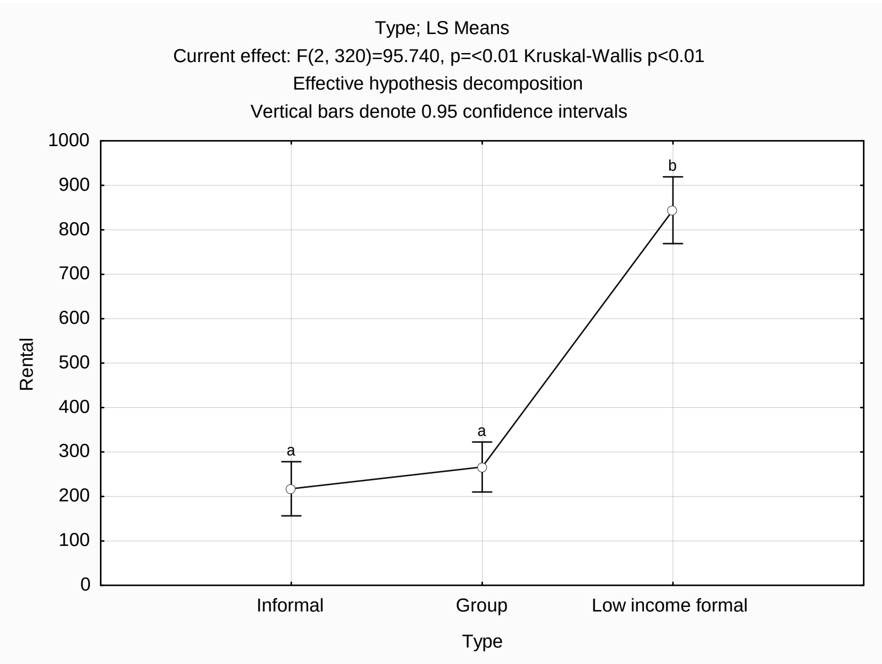
Table 6.35 Monthly rent paid in N$

Type of rights	Mean	Standard deviation	Maximum	Minimum	Range	Median	Number of observations
Informal	250.00	0.00	250.00	250.00	0	250.00	2
Group	100.50	112.89	250.00	0.00	250.00	76.00	8
Freehold	1100.00	312.25	1500.00	800.00	700.00	1000.00	9

Table 6.36 Estimated rental price in N$

Type of rights	Mean	Standard deviation	Maximum	Minimum	Range	Median	Number of observations
Informal	217.25	133.01	800.00	50.00	750.00	200.00	114
Group	262.31	149.07	800.00	2.00	798.00	200.00	136
Freehold	844.00	637.40	3500.00	250.0	3250.00	700.00	75

Figure 6.22 Test for significance of differences in estimated monthly rent



The principle reason for renting, rather than owner occupation, in both the informal and group category is a lack of land on which to build. Inability to purchase own dwelling is the main reason cited by tenants in the freehold category, followed by a lack of land on which to build their own houses. It is instructive to compare these findings with those that show the future intentions of these tenants. Both respondents in the informal category wish to acquire land on which to build their own dwellings. This is also the case for four out of the six respondents in the group category, with the rest looking to buy a complete property. Interestingly, all the nine respondents in the freehold category are looking for land on which to build, rather than looking for complete property to buy.

Finally, the study sought to establish perceptions of the tenants about the security of their property rights as tenants. Again, bearing in mind the very small sample size, the data points to significant perceptions of insecurity, particularly in the informal category. This is perhaps not surprising, given that none of the respondents have any formal documentation such as lease agreements.

Figures 6.23, 6.24 and 6.25 are photographs of typical dwellings in each of the three rights categories.

Figure 6.23 Typical informal rights dwelling

Figure 6.24 Typical group rights dwelling

Figure 8.25 Typical freehold (NHE) dwelling

CHAPTER 7: ANALYSIS AND DISCUSSION

7.1 Introduction

This chapter presents the analysis and discussion of empirical data presented in the preceding chapter, as well as qualitative information obtained from the unstructured interviews. The data is analysed comparatively, using as a framework the predictions of the conceptual framework and the findings from the theoretical and empirical literature as presented in chapter two.

Eight sections follow. The chapter starts off with a recapitulation of the aims, objectives hypotheses and conceptual framework of the study in section 7.2. The analysis of the empirical data follows in sections 7.3, 7.4, 7.5 and 7.6. Section 7.7 is an evaluation of the two working hypotheses in the light of the empirical evidence. Section 7.8 draws the analysis together with a synthesis and a direct engagement with the central research problem. This is followed by a discussion about the broader policy implications of the findings.

7.2 Aims, Objectives, Hypotheses and Conceptual Framework

This research investigated, using the conceptual and analytical tools of the New Institutional Economics, two interrelated problems. Firstly, the question of whether real estate markets in the urban informal settlements of Namibia could be used to in aid of capital accumulation for the urban poor. The second problem related to the question of whether specific forms of property rights could be associated with pro-poor outcomes in real estate markets, and if so, what their nature might be. The study had the following specific objectives, inter alia

i. To investigate the general nature of real estate markets in Namibia's informal settlements.
ii. To investigate actors involved in informal real estate markets, in terms of who they are, their behaviour and the incentives and constraints they face.
iii. To investigate the real estate market *process* in these settlements in terms of transaction costs and institutional arrangements.

iv. To investigate the effects of property rights, both formal and informal, on household investment, household welfare and the exchange process.

v. To make specific policy recommendations regarding how real estate markets may be leveraged for poverty alleviation.

The conceptual framework presented in Chapter 2 argued that property markets in informal settlements will need the following attributes if they are to be a tool for poverty alleviation:

- Well defined, secure and enforced property rights.
- Liquidity i.e. frequent numbers of impersonal transactions.
- Low levels of uncertainty with regard to individual transactions.
- Low levels of transaction specific investment.
- Facilitative regulatory framework/institutional arrangements.

Two working hypotheses provided the central framework for the analysis. Firstly, it was hypothesised that real estate is a significant asset held by the urban poor in Namibia and that there was potential for capital accumulation by trading up in real estate markets. Secondly, it was hypothesised that, by affecting the incentive structure of, and transaction costs in, real estate markets, systems of property rights affect market outcomes, thus ultimately determining whether these markets may be efficacious for poverty alleviation. The thesis of the study was that both (relatively) high transaction costs per exchange and inappropriate and/or inadequate property rights configurations account for the failure to unlock the potential of property to create wealth. It was argued that relatively low transaction costs and secure property rights in property markets are a necessary (but not sufficient) condition for the unlocking of the potential of property to alleviate poverty. These two factors together create conditions that make it possible for large numbers of secure and impersonal transactions in a decentralised market to take place.

The specific study objectives taken together attempted to generate empirical data with which to analyse the problems, thesis and hypotheses outlined above. Objective 1 aimed at giving a broad-brush account of the general characteristics of informal real estate markets in Windhoek, as an exemplar of such markets in Namibia and, hopefully, other developing country cities. Specifically, this objective hoped to establish the significance of these markets, in terms of numerical size or turnover. It will be apparent from our conceptual framework that market size and depth lies at the heart of whether real estate markets could be a tool for poverty alleviation.

The second objective aimed at building a profile of participants in the market, in terms of their motivations and constraints that they must navigate. This objective was motivated in part by a desire to provide some answers to Doebele's (1994:50) questions about informal property markets, highlighted in Chapter 3. The third objective sought to yield data on the entire informal market process. The main interest was in the relative magnitude of transaction costs, and whether different institutional arrangements result in significant differences in transaction costs. It was argued in this study that transaction costs were a key explanatory variable of market activity, and that institutional arrangements have a profound effect on these costs.

The fourth objective attempted to answer the question whether the type/content of property rights make a significant difference in households' investment decisions and, ultimately, household welfare. The underlying interest in this objective was to help provide answers to the vexed question of whether more formal property rights have a positive or detrimental effect on the poor. The final objective aimed at using the lessons drawn from the study to suggest appropriate policy recommendations.

Although each of the above objectives has a distinct perspective, there is a good deal of overlap between them. Taken together they are complementary and attempt to provide the empirical basis for answering questions concerning informal real estate markets and poverty alleviation.

The study employs the comparative institutional methodological stance to analyse the effects of three types of property rights regimes (i.e. 'freehold', 'group' and 'informal') on low-income real estate markets. The difference between these rights is the extent to which notions of formality impart different degrees of clarity and security to their holders. In effect, the three types of rights represent a continuum, from secure to less secure, or vice versa, depending on the starting point. Freeholds are generally assumed to be the most secure, with informal rights the least secure.

The three systems of property rights are argued to, at least partially, have a causal influence on outcomes in their respective categories. Of the three, freehold rights, on the face of it, appear to be the most facilitative of the expanded market suggested in chapter 2 as more likely to engender positive outcomes for the poor .i.e. secure, enforced property rights facilitating relatively low-transaction-cost markets. As is conventionally understood, the system of freehold ownership provides very clear property rights, which carry with them the full protection of the state. Informal rights on the other hand appear to be the weakest and therefore least likely to support the expanded markets argued to be necessary for poverty alleviation. Group rights lie in between the two.

7.3 General Nature of Real Estate Markets

The conceptual framework suggests that the ability of a property rights system to support frequent numbers of transactions, among perfect strangers, in a decentralised, spatially expansive market is a necessary condition for poverty alleviation. This provides increased opportunities for realising gains from trade as well as enhancing asset values arising from deeper and broader real estate markets. In addition such markets are welfare enhancing in that, by loosening the bond between labour and specific dwellings or locations, they facilitate the mobility of the workforce to pursue employment opportunities in a wider area. i.e. flexible real estate markets support flexible labour markets.

Respondents were asked about methods used to acquire their present property as an initial indicator of the broad nature of transactions. The findings show that for those with informal rights and group rights, the most common method is the acquisition of vacant plots, which are subsequently developed. Vacant plots in informal areas were in the main acquired for free, but payments of up to N$3,500 have been reported. The median price for informal plots is zero and the mean is N$160. Payment for plots in group areas range from zero up to N$12,000 with a mean price of about N$4,500 and a median of N$5,400. The vast majority of those with low-income freeholds on the other hand are most likely to have purchased a fully developed house. The mean purchase price in this category is about N$50,600, with a median of N$47,000. A few respondents in this category however bought plots at an average price of N$17,750 and subsequently built their own homes at an average cost of N$38,500.

It appears that the availability of suitable vacant land is important for the informal and group settlements. This is expected, as it allows them to build incrementally and therefore keep costs at affordable levels. The high reliance of respondents in the freehold category on commercially produced housing is unlike what is found in many African countries, where the norm even in formal areas is for households to acquire vacant plots and build incrementally.

The question on sources of property acquisition sought to identify the parties to transactions in the property acquisition process. The data shows that residents of informal settlements have varied sources for their acquisitions. As expected, the largest proportion at almost 40% report getting their properties 'informally'. This means invading vacant land or being illegally settled by a 'committee' (see discussion in following section). A sizable proportion report either being settled by the municipality (31%) or getting their properties from relatives or friends (19%). In fact, the proportion of informal acquisitions is most certainly likely to be higher than reported, and that from the municipality lower. Respondents had clear incentives to downplay the former and overplay the latter.

The picture regarding the other two categories is a lot clearer. Groups have one principal source, the Shack Dwellers Federation of Namibia. The fact that over 90% of this category report obtaining their property from the SDFN is testimony to the influence and ubiquity of this organisation in Namibia's informal settlements. Most freeholders (72%) on the other hand obtain their fully developed houses from the Namibian Housing Enterprises. This parastatal is clearly a dominant player in this segment of the market. Another 22% acquire property from private individuals in arms length transactions, a method of acquisition virtually absent in the other two categories.

To measure the spatial extent of markets, respondents were asked to indicate where they lived prior to moving to their current dwellings. The data shows that for informal settlements, the vast majority are in fact immigrants from outside Windhoek. Those in group settlements are split between those from other informal settlements in Windhoek (51.2%), those from formal parts (10.3%) and those from outside Windhoek (35.9%). The freeholders for their part have mostly moved from outside Windhoek (60.1%), with a smaller but significant proportion (22%) having moved from informal settlements within Windhoek. Another 12% of freeholders have moved from other formal areas in Windhoek. Overall the data therefore suggest that for all three categories, participants are able to make property acquisitions over relatively long distances. Indeed, the data shows little incidence of intra-settlement movement.

The conventional approach to determining market turn-over or churn is to look at the number of transactions in a given area over a specified period, expressed as a ratio of the total stock of property in that area. This approach requires some means of establishing the total stock of properties in the area of interest, as well as a system of registration of property transactions. Neither of these conditions could hold for both informal and group settlements. Such information with respect to freehold property on the other hand is available at the Windhoek Deeds Registry. An attempt was made to try and obtain it but proved unsuccessful because the paper-based records system required that thousands of transfer documents be manually checked. This would have taken several months to complete. In any case, the records in this system were not disaggregated at the required level.

Establishing market turn-over therefore required that we employ alternative, more indirect approaches. A sense of the state of market activity in the 5 years immediately prior to the study was built by combining responses from five questions, namely, period of residence in Windhoek, period since acquisition of property, knowledge of local sale activity, basis by which knowledge of property prices were obtained and future plans for property. The data shows that most of the respondents in all three categories have lived in Windhoek for over five years. Further, the data shows that most of the respondents have been on their present properties for over three years, with a significant proportion staying over five years.

The data regarding period of residence are indicative of market activity. Given the age of the settlements, a uniformly distributed or a higher proportion of recent acquisitions would be suggestive of elevated or recent market activity. The finding that respondents appear to have been on their properties for relatively long periods leads to the conclusion that market turn-over is limited across the three property rights categories. This finding is corroborated by responses to the question about knowledge of local market activity. In an active market, there will be a general awareness of properties changing hands. Just over 90% of respondents in the informal category, almost 98% in the group and about 78% in the freehold categories say they have no knowledge of sales of property in their area.

The basis of knowledge of the sale value of dwellings is another useful indicator of the state of market activity. In a relatively active market, with frequent transactions information about comparable prices would be readily available. In this case, only 2% of informal settlers, none from the group settlements and 9.5% of freeholders base their valuations on prices of similar property. Rather the majority price their homes with reference to the cost of construction, with a smaller proportion admitting to mere guessing. The final confirmation of little market activity comes from the question about respondents' future plans with regard to their dwellings. None in the informal and group categories, and only 3 % in the freehold category had intentions of selling their properties within the following two years.

An essential part of the normal market process is the selection between competing goods. The data from the study show that there is limited choice in the market. Thus 88% of the respondents in the informal category, over 86% in the group and about 74% of the freehold category did not have any other option at the time they acquired their present properties. This is further confirmation of little secondary market activity. Compared to the other two categories however, there is a suggestion of more choice and by extension market activity in the freehold category, with almost 26% having considered between 1 and 5 additional properties.

Formal real estate markets to a large extent depend on the availability of finance for their functioning. Finance is important for affordability reasons, and from a capital accumulation point of view, provides a basis for leveraging the equity held by households in the real estate. It is quite clear from the data that access to formal sources of funding, particularly bank finance, is limited for all categories including freehold. This may be explained by the perceived riskiness of the low income market generally. Limited secondary market activity mean that resale values on foreclosure are uncertain. Further, the relatively small amounts involved and the precarious financial situation of many households make this market segment an unattractive proposition for commercial banks. The group category has the added problem of rights that are not recognised in terms of the formal law and whose transferability is therefore questionable. Banks are unlikely to ever consider lending to the informal category.

In these circumstances other less commercially oriented approaches of providing funding becomes necessary. This accounts for the preponderance of the NHE in lending to the freehold category and of the SDFN to the group category. As a parastatal with access to public funds, the NHE is able to make loans of up to 20 years duration on less than full commercial terms. In effect, the NHE uses formal employment as a form of collateral for their loans. This link between employment and access to house finance is underlined by the fact that a quarter of respondents in the group category and about 56% in the freehold category relied on loans from their employers, mainly the central government, to acquire their properties.

The SDFN provides15-year loans to individuals who are able to afford the monthly repayments. Affordability is determined by a collective process involving members of the savings group to which the applicant belongs. This means that peer pressure can be brought to bear on the applicant should they become tardy in their repayments, a factor that explains the relatively low reported default rates. There is no requirement that the beneficiaries be formally employed, but this obviously helps in the assessment of ability to pay back. Most of those in the informal category on the other hand have no access to such funding and must rely on personal gradual savings. This explains their preference for incremental building.

This link between formal employment and access to housing finance has implications on how the poor can access and leverage real estate. There are two important issues here. Firstly, the fact that employment status determines access to finance fundamentally determines whether and how the poor can access formal real estate. Secondly, the type of property rights category households finds themselves in largely depends on their employment status. Access to formal property institutions require that one be formally employed and earn a regular monthly salary. For the poor, a regular job is almost certainly likely to be their only collateral. Employment therefore acts as a self-selection mechanism, allocating individuals into their respective rights categories. This means the poor and unemployed are locked in particular institutional arrangements and are likely to remain there without some sort of interventions.

A recurrent theme in the literature is the extent to which the poor see their real estate in utilitarian terms as tradable commodities. Two questions attempted to provide insights into this phenomenon. The first interrogated the extent to which factors such as price influenced acquisition activity while the second examined the willingness or propensity of parties to engage in trade with perfect strangers. Sensitive to price and willingness to trade in open market transactions may be taken as indicators of a market orientation. The signals from the data are ambiguous. As expected, respondents in all the three categories regard price as a significant factor in the decision making process. Interestingly, of equal or greater importance is the need to acquire a home or a place to call 'one's own'. It would appear that households place such a premium on home ownership that other considerations may be of secondary importance. The inference here is that while price is important, the value of their homes as places to live in is such that households are not predisposed to view them mainly in commodity terms. There are no significant differences between the groups in this regard.

In similar fashion the study shows that a significant proportion of respondents in the informal and group category would consider to trade only with relatives and/or friends. Nevertheless, a large majority in these categories would trade with anybody at the right price. There are two ways of looking at these data, depending on what one assumes the normal orientation of households in these two categories to be. If the normal orientation is to sale to anybody, the conclusion is that there is a significant proportion of households who will 'sell' only to friends or relatives. A factor that could explain this is the mode of property acquisition. There is evidence to suggest that many households in the informal and group categories are uncomfortable with a purely commercial orientation, given that a large proportion have acquire their property via networks and hierarchies rather than markets (see below). It is interesting to note that respondents in the group category are less inclined to trade with strangers than the other two categories, something that may be explained by group dynamics.

If on the other hand one takes the view that the default position in the informal and group categories is to sell only to relatives and friends, the data suggest that respondents are exhibiting strong commercial tendencies. These tendencies are very much in evident in the freehold category, where all respondents without exception would trade with anybody solely on the basis of price. This finding suggests that the higher valued the property, the higher the commercial orientation, due most likely to higher opportunity costs and the potential for higher capital gains.

A related concern in the literature is the possibility of distress sales in active markets, thereby impoverishing rather than empowering the poor. This is an important concern but which nevertheless has no foundation in the empirical literature. An attempt was made to establish the likelihood of distress sales in the study area. The historical position was established by measuring the extent to which respondents' current dwellings compared with their previous ones. The data shows overall improvements across all categories, with the highest proportion in the group category. There is thus a generalised improvement in dwellings occupied over time. The prospective position shows similar tendencies. Asked what their spending priorities would be in case they sold their properties, the largest proportion of respondents would like bigger or better property, followed by the (re) capitalisation of business. Indicators of triggers for distress sales, such as food purchases or the payment of debts, have relatively low prevalence. The point being made is widespread distress sales are unlikely. This is not say that at the individual level such things will not happen, but broadly households have a good sense about the value of their properties and will act responsibly.

At the core of the functioning of markets are prices payable or realisable, and costs incurred by participants. The magnitudes of market prices and costs, and their relative differences, lie at the core of whether real estate markets could be leveraged for capital accumulation. For real estate to make a difference in household poverty levels there is a requirement that sums of money changing hands, whether in the sale or rental markets be significant (or non-trivial) relative to average income levels A profitable property development market for its part requires that land and building costs be lower than market prices.

On the surface the data shows significant differences between average estimated market prices and acquisition costs across the three categories. The latter consists of plot purchase costs and building costs, and for the freehold category house, cost of purchasing complete dwellings. The magnitudes of these are given in the previous chapter. Average building costs (which in the absence of active markets provides the only basis for pricing, and therefore a good proxy for market value) for informal, group and freehold respondents are about N$2,500, N$10,400 and N$38,500 respectively. The addition of plot acquisition and building costs give total average acquisition costs of about N$2,700 for the informal category, N$14,900 for the group category and N$56,250 for those freeholders who purchased plots and built their own housing. The average purchase price of a fully complete freehold housing is about N$51,000. As seen in the previous chapter, the differences costs between the rights categories are statistically significant, with the informal the lowest and the freehold the highest.

Average estimated market prices are therefore about 2.3 and 1.6 times higher than acquisition costs for informal and group dwellings respectively. Average market prices for freehold property are about 1.3 times higher than average building costs and 1.5 times higher than average purchase prices. There is therefore, prima facie, potential for capital gains in the development market for all three categories. The picture in reality is a lot more complicated however. Firstly, the figures for construction costs are historical while estimates of market prices are based mostly on current construction costs. The lack of concurrency in time periods means that the potential for capital gains may be overstated. Secondly, the underlying value of the land is not reflected in many cases, especially in informal areas. Were underlying land value to be included, estimated market prices may well be higher, though any increases would have to be set off against increased land acquisition costs.

These complications make it difficult to make definite conclusions one way or the other about the potential for capital gains from trade in real estate. What is clearer however is the monetary value of capital tied in the real estate holdings of respondents. The estimated average selling prices costs are N$6,200, N$25,000 and N$76,000 for informal, group and freehold dwellings respectively. These figures give a sense of the order of magnitudes at the lower end of residential property market. Further they show the real and statistically significant differences between these three categories and demonstrate that movement from one level to a higher one represent a big step on the property ladder. In fact the ability of real estate markets to bring about capital accumulation would be evidenced by such movement.

We are now in a position to sum up the previous discussion and build up a picture of the general nature of real estate markets in our study area. Findings from the data show that most respondents in the informal category and group categories acquire vacant land for incremental building, while those in the freehold category usually acquire complete, commercially produced housing. Respondents in the informal category acquire their properties principally from ‘informal’ sources, and friends or relatives. Those in the group category mostly obtain their properties through the SDFN, while those in the freehold category obtain their housing mostly the NHE. Conventional market acquisitions in the form of arms-length exchanges between private individuals are not prevalent in all the three categories. The necessary conclusion from this is that the secondary market is very weak in these settlements.

In terms of the spatial extent of these markets, the data shows that there is little intra-settlement movement. On the contrary most acquisitions have been made from outside the settlements of interest, and in the majority of cases, from outside Windhoek. It is clear therefore that there exist mechanisms which facilitate acquisitions by ‘strangers’ over relatively long distances. Market turn-over, as measured by a number of indicators on the other hand appears to be low for all market segments, a finding which reinforces the conclusion of little secondary market activity.

These broad patterns are interrupted by two things. Firstly, a significant proportion (about 30%) of respondents in the informal category report acquiring fully completed dwellings. These are most likely to have been beneficiaries of the municipality’s resettlement programme. Secondly, there is some indication that in comparative terms, markets in freehold settlements are more active. For instance almost 20% of the respondents in this category are aware of at least one sale, compared to about 5% for the informal category and 1% for the group category. Further, over 11% of respondents in the freehold category moved into their properties in the period six months before the interview, compared to 6% and about 4% for the other categories respectively.

The discussion in this section has attempted to build a picture of the general nature and size of real estate markets in the study area. It has identified in outline the principal actors and the magnitudes of values potentially involved. The discussion thus addresses the first study objective as well as part of the second. The next section takes the analysis further to examine the market process, with a particular focus on its institutional structure, the behaviour of participants and transaction costs.

7.4 The Market Process

The market process entails a number of distinct activities which may usefully be seen as having a beginning and an end. This process entails six basic activities, namely, search, inspection, contracting, execution, control and enforcement (Furubotn & Richter, 1998). These activities in turn generate three basic types of costs, namely, search and information costs, bargaining and decision costs, and supervision and enforcement cost (*ibid.*). Theory predicts that the presence of these transaction costs will require institutions to facilitate exchange. By structuring the exchange process by a system of rules, norms and appropriate sanctions, institutions such as property rights, may reduce transaction costs.

For somebody in need of property, the sequence of activities begins with the search for potential properties and ends with physical occupation. In between a range of activities such as finding the rightful person with whom to trade, the evaluation of bona fides and comparing of prices must take place. These activities are costly in terms of money and/or time. The discussion in the previous section has shown that the participants in all three markets types were able to make acquisitions across wide distances. The study was interested in investigating the entire market process, to clarify institutional mechanisms facilitating market activity, as well as to measure transaction costs incurred by participants. To put in more concrete terms, key questions in, say, the case of immigrants wishing to find a plot in the informal settlement of Windhoek would be; How do they decide where in Windhoek to go to? How do they find the exact plot on which to build? What mechanisms or institutions facilitate or hinder this process? What costs in addition to paying for the plot do they incur? How long does this process take?

The plan was to obtain information on the market process from two principal sources, the household interview questionnaire and case studies of a few respondents from the three categories. In the case of the later, the intention was to follow these respondents through the actual process in 'real time' from beginning to end. This would have enabled a good understanding of the process, as well as providing a basis for measuring transaction costs. This however proved impractical chiefly on account of a lack of suitable cases, given the low secondary market activity. The analysis therefore draws heavily on questionnaire interview data, as well information obtained from additional unstructured interviews with selected respondents. In these circumstances, transaction costs could not measured in a comprehensive manner. The following analysis thus provides only partial, albeit significant, insights into the market process.

As a starting point to understanding the market process, respondents were asked to state how they came to know of the availability of their properties. The data shows that friends or relatives are the principal source of property information, followed by official sources. The latter refer to bureaucrats and other professionals working mainly for the SDFN, the NHE, various employers and the municipality. It is quite clear from the data that for the informal and group categories, conventional sources of market information, such as advertisements or estate agents are hardly ever used. An appreciable proportion of freeholders on the other hand rely on formal advertisement, though not to the same extent as acquaintances or official sources. In comparative terms, it would appear that the informal and group categories are proportionately more reliant on networks of friends or relatives than the freehold category.

A significant proportion of respondents in the freehold and informal categories rely on their own agency, rather than on networks or bureaucracies. The data shows that a quarter of the respondents in the freehold and almost 10% in the informal category have had to physically search for their properties. In the case of the former this entailed personally going to the offices of the NHE to enquire about property availability, whereas in the case of the later it involved walking around the informal settlement with a similar objective. The predominant sources of information were clearly not working for these types of respondents.

The broad finding about sources of property information tie in with those relating to the method of property acquisition discussed in the previous section. We have seen that respondents mostly acquire their properties either informally, from the SDFN or from the NHE, and that there are very limited transactions between private individuals. Similarly, it is networks of friends and official sources, rather than 'atomised' markets which provide the information on property availability. The conclusion from this is that the exchange process is structured mainly by 'social networks' (based on family or friendship ties) and 'hierarchies' (in the form of the municipality, the SDFN and the NHE), rather than impersonal markets. Again, there is evidence that the freehold category, by proportionately using more formal advertisement, is different from the other two categories.

While it was not possible to systematically measure and compare transaction costs for the reasons stated above, two indicators suggest that respondents in the freehold category incur higher transaction costs. Firstly, they are likely to search more as evidenced by the higher number of properties considered. Secondly, in addition to direct acquisition costs, they are more likely to incur other costs, notably legal and estate agents' fees and stamp duty. The data shows that over 97% and almost 91% of respondents in the informal and formal category respectively did not incur additional costs. This compares to just 58 % for the freehold category. A third of the respondents in the freehold category report having had paid legal fees and just over 8% estate agent's fees. The actual figures are certainly much higher because these costs tend to combined with the home loans such that the respondents may not be aware of them.

We can now combine the analysis in this and the previous section, as well as information obtained from the unstructured interviews, to paint a broad brush view of the market process in the three market segments. With regard to the informal category the typical process starts with a prospective immigrant to Windhoek who may be in a rural area hundreds of kilometres away. Having made the decision to move to

Windhoek, networks of friends or relatives will provide information about where to go in the city. They provide the entry point to the city and will often act as host until such a time that a suitable plot is found, often nearby. Thus one often finds that within the informal settlements, there are small pockets of homogenous clusters based on kinship, ethnic or friendship ties.

For those who have no access to these networks, the process is different and may require physical search. Once in Windhoek, the search process starts by approaching the head or members of neighbourhood ‘committees’. These committees are ubiquitous in Windhoek’s informal settlements. The municipality encourages them as they provide the basis for community engagement and mobilisation. Members are supposed to be democratically elected and to hold office for specific periods, but there is no evidence that this is happening. In fact the evidence is that most of these committees have taken a life of their own and in fact by, for instance, allocating land illegally, operate contrary to official policy.

Behind the chaotic façade of informal settlements these committee provide an important service to prospective immigrants. Since they are virtually everywhere, they provide an entry point to the settlement, especially for those who might be ‘strangers’. They allocate land, sometimes for free but frequently in return for payment of what are, to the poor, substantial, ‘fees’. It is safe to assume that these illegal payments end up in the private pockets of committee members. It must be stressed that settlement via social networks or by ‘committee’ are not mutually exclusive. The key issue is the nature of the relationship between members of the committee, the neighbourhood concerned and the prospective settler.

Once the immigrant has settled in, they may decide to join one of the many savings groups belonging to the SDFN operating in the area. Once enough has been saved, the SDFN (through the NHAG) will identify a suitable block of land, negotiate with the municipality and purchase it on behalf of the group. This block is then formally subdivided and registered in freehold title in the name of a trust. Group members then settle in the block on individual plots, of about 150 square meters in extent, which would have been demarcated according to lowered, informal standards. They are allowed to put up permanent brick housing, with the SDFN providing building loans for those eligible.

As we have seen in the previous section, most respondents in the group category have moved either from other informal settlements, from outside of Windhoek or from the formal areas of Windhoek. The third source consists mainly of former renters of rooms and backyard structures who wish to move, both to escape paying rentals and acquire their own homes. With regard to the first source, the analysis above shows how in fact group settlements may be the ultimate destination for many immigrants who started off in informal settlements. At that point, the fates of these two groups become intertwined.

The 'market' process in the freehold category is closely associated with employment circumstances of households and subject to the vagaries of the NHE waiting lists. Thus many have moved from informal settlements, where they may have been living in shacks as owner occupiers, or from the formal parts of Windhoek where they may have been renting rooms or backyard structures. A large proportion seems to have moved directly from outside of Windhoek. Whatever their origins, acquisition of NHE housing require that they be formally employed, meet the eligibility criteria in terms of income and place on the waiting lists. Given that the demand for NHE housing by far outstrips supply, a hierarchical or administrative rather than market based system of allocation becomes necessary to ensure that target groups acquire these homes. Such a system simplifies the market process for the poor in terms of the activities of search, inspection, contracting, execution, control and enforcement. The NHE provides a single-stop service, not only by providing finance but facilitating the registration of deeds and all related activities. NHE therefore acts as developer, lender, estate agent, conveyancer and property manager a combination that makes freehold property affordable to the poor. Administrative allocation of scarce and valuable resources like real estate however invariably spawns corruption and other forms of 'rent-seeking' behaviour. These may impose costs, whose magnitude cannot easily be quantified, on the poor.

7.5 The Effects of Property rights

In line with theoretical predictions and our conceptual framework, the three types of property rights regimes are expected to have differential effects on their respective domains. Respondents were asked about their ability to make a range of transactions regarding their properties. Specifically they were asked about their ability to exercise the following five rights; the right to sell, the right to lease their properties, the right to run a business from their properties, the right to bequeath their properties and the right to build permanent structures. These rights lie at the core of whether and how real estate markets could be a tool for capital accumulation, and are therefore central to this thesis. The right to sell and the right to rent underpin sale and rental markets and by extension the possibility to derive gains from these markets. The right to run businesses from home allows households to leverage the location of their dwellings to augment household incomes, while the right to bequeath ensures intergenerational transfer of wealth. The latter is a powerful incentive for capital accumulation by the present generation. The right to build permanent brick housing allows households to channel their savings into a tangible asset of higher value. Permanent housing is often the most visible manifestation of household wealth.

As a suitable entry point for analysis we compared perceptions of respondents about the content of their property rights to the de jure position regarding those rights. Perceived or de facto rights generally are of more relevance in influencing and therefore explaining actual behaviour, but the degree to which they conform to the de jure position is also important. For the freehold category, there is generally a good deal of correspondence between perception and precept. Freehold property confers the widest range of rights to the holder, and the response from the study reflects this. Two points about the data need brief comment. Firstly, a very small proportion of respondents believe that they have no power to sell their freeholds. Any number of explanations can account for this, ranging from strategic behaviour on the part of respondents to a lack of certainty about whether this is permitted. Secondly, while all respondents believe they have the right to run businesses from their homes, regulations require that express municipal be obtained. While the municipality is unlikely to grant such approval, the proliferation of home-based businesses in low income areas means that this will not be a significant deterrent.

A bigger difference between perception and the formal position can be observed in the case of the informal category and, to a lesser extent, the group category. In accordance with strict formal law, one cannot exercise rights of ownership over property one does not legally own. The land on which these informal settlements stand legally belongs to the municipality, and may not be sold, leased or given out by private individuals. Similarly the construction of permanent structures is forbidden, as is the running of unauthorised businesses. The data however shows that a significant proportion of respondents in the informal category believe that they can exercise all these rights.

Overall, the data suggest that there are weaknesses regarding the strength of property rights for the informal category and to a lesser extent the group category. For the informal category the right to sell is clearly problematic, as is the right to build permanent structures. Respondents in the group category for their part appear even more constrained in their ability to sell than their informal counterparts. This is probably on account of the generalised disapproval by the SDFN of sales.

In comparative terms, the strength of property rights conforms to theoretical predictions. Thus the more formal the category, the stronger the overall perceptions of property rights. An index to measure the strength of property rights was constructed by expressing the sum of the percent scores as a ratio of the sum of the total potential scores. On this index, informal respondents score about 59%, the group category 78% and the freehold category over 99%.

Given the weaknesses in perceived property rights, it was of interest to determine what respondents believed to be the potential source of threat to those rights. The data clearly shows that eviction and relocation by the municipality are the dominant fears, in that order. The municipality appears to be the single most significant source of threat to property rights in the informal settlements of Windhoek. This is followed by a fear of boundary encroachment by neighbours and, for informal respondents, a fear of dispossession by other private persons. In comparative terms, the strength of perceived threat mirrors that of strength of property rights. There are less fears of boundary encroachment by group respondents than their informal counterparts, and none of dispossession. Freeholders on the other hand have no such fears. A 100% of freeholders feel totally secure in their property holdings, compared to about 71% for the group category and only 27% in the informal category.

Theory predicts that property rights will affect the ability or willingness of households to invest in their housing. Investment in housing enhances the capital value of real estate thereby increasing the potential gains from both sale and rental markets. The data shows clear and statistically significant differences in the quality of housing between the three categories, and the evidence points to differences in property rights as the main causal factor. Differences were measured in terms of the quality of material used, building cost and house size. With regard to quality of material used, all of the respondents in the informal category have houses made mostly from sheet metal, but also plastic and other inferior materials. In stark contrast, a 100% of respondents have their main houses constructed with bricks. In between these extremes lies the group category at about 42% with brick housing, with the balance of the houses made out of sheet metal and the like.

As shown previously there are statistically significant differences in average building costs, even when controlled for income effects. We have seen that average building costs are R2,500, R10,400 and R38,500 for the informal, group and freehold categories respectively. These building costs are simultaneously indicators of both the level of household investment and the value of real estate. There are no significant differences in house sizes on the other hand. Average house sizes are about 31 m^2 for the informal category, 30 m^2 for the group and 34 m^2 for the freehold category. These results, though perhaps not in line with expectations, are explained by differences in the nature and degree of enforcement of property rights, as well as constraints posed by standardised house designs and lack of space. Freehold buildings must conform to municipal standards regarding maximum size, and enforcement is generally good. There is thus little room for variation in house sizes in this category, as can be seen by the relatively small standard deviation. Similarly, housing in the group category is constrained by the size of individual plots on one hand, and of the apparent need to mimic municipal building standards regarding permanent housing on the other. Respondents in the informal category have no such official restrictions, giving rise to a high standard deviation in house sizes, but the lack of space due to high densities is constrains house sizes in this category.

Theory predicts that that clear, well enforced property rights will reduce property related disputes and the need for private enforcement activities. This increases incentives for investment in housing, as well as channelling household energies, away from protective and towards more productive activities. The data show that the incidence of property relatively disputes, while not high, is not insignificant. More importantly, the data shows that while there is no record of property related disputes in the freehold category, about 5% of respondents in the informal and 7% in the group categories have had such disputes. It is instructive to note that these disputes are over boundaries and ownership. On the face of it, there is nothing to distinguish between the two categories in terms of overall incidence. The data however shows that disputes over ownership predominate in the informal category, while all of the disputes in the group category are boundary related. This points to the potential fluidity of ownership claims in the former category and of the need for more precise boundaries the higher the value of property in the latter. Predictably, the other parties to most of these disputes tend to be neighbours, though in a number of cases the municipality has been involved. The disputes are generally of relatively short duration and usually solved by local community structures. None have ended up in the formal courts.

This is a good place to consider the methods relied upon for the validation and protection of property rights. Conventional markets usually rely on formal institutions, such as title registration and formal contracts, all backed by the police power of the state and ultimately the court system. Over 90% of respondents in the informal category have no documentation to prove their ownership claims. The comparable figures for the group and freehold category are 55% and 23% respectively. The main documentation available in the informal and group categories are receipts of various kinds and membership registers, while deeds of sale predominate in freehold category. The lack of documentation means that for most, formal methods of validation and enforcement are not available. Given this scenario, it was of interest to establish what positive action respondents felt was necessary to ensure their property rights were protected. The data underscores perceptions of insecurity in the informal and group categories, where only about 2% and 5% respectively felt they did not have to do anything to protect their rights.

Three main methods for rights protection were identified, namely, physical occupation, obtaining of right documents and neighbours' support. Respondents in the informal category think all three are important, but put the need for right documentation as slightly more important than the other two. This shows that they regard state recognition of their rights as an important source of validation and protection. Respondents in the group category on the other hand think neighbours' support is by far the most important, a finding which attests to the importance of group solidarity in this category. It is instructive to note that none of the respondents in the freehold category feel that positive action was needed to ensure their rights.

An assessment of the respondents' future plans regarding their properties was made. The intentions were two-fold; firstly to establish the nature and likelihood of future transactions and secondly to identify factors that may be constraining the realisation of future plans. The time horizon selected was two years. The data shows little intention to sell or lease across all three categories, a finding that we have already referred to elsewhere. By far the most common plan is the physical extension or development of their houses. This is further confirmation of the finding that the purchase of better housing is a key spending priority by households should they come into a capital windfall.

Households clearly want to invest in their dwellings. The main constraints cited by respondents are dependent to some extent on the property rights regime. Respondents in the informal group point to a lack of rights and space as the main reasons. The municipality would almost certainly notice and demolish any brick house in the informal settlement, while the huge densities make physical expansion of individual dwellings difficult. A lack of finance on the other hand is cited as the chief hindrance in the group category. As noted elsewhere, brick housing is permitted in group settlements, but requires some kind of financing for it to become reality. Finally, respondents in the freehold category cite both a lack of space and finance as principle drawbacks to house investment. The lack of space is easily explained by the fact that these households are restricted to a maximum plot size of 150 m^2, leaving hardly any room for expansion. All in all therefore, appropriate property rights and financing appear to be the key factors if households have to realise their future plans.

7.6 Rental Markets

Rental markets form the third plank of real estate markets, the others being the sale and development markets. Income from the rent of property, either of entire dwellings, rooms in dwellings or backyard structures, is potentially an important means of augmenting livelihoods. Two aspects of these markets are important in this regard. Firstly the size of the market (or the prevalence of rental activity) and secondly the level of rents relative to average incomes. With regard to size, the overall picture from the study shows that the market for outright rentals of dwellings is very small, at about 4%. An overwhelming majority of households across all the categories are owner occupiers. Observational and other evidence on the other hand show a very high incidence of rental of rooms and backyard structures. Well over half of all households have backyard structures, used either for residential purposes or businesses such as illegal liquor stores. There is no doubt that this is an important source of household income but due to methodological problems discussed previously, its scale could not be accurately determined.

Two related reasons account for the little outright rental of dwellings. Firstly, renting out the entire house implies that the owner must give it up and find alternative accommodation. To most, this may neither be a feasible or attractive proposition. Secondly, those who rent entire dwellings see this as a very temporally solution to their housing problem. The data clearly shows that the chief reason why people rent is a lack of land on which to build their own housing. They move out of rented housing as soon as this is found. The rental of rooms and backyard structures is a temporal solution for those seeking a toe-hold in the city. It has to be remembered that these tenants are on average not any less poor than their landlords, and that the rents paid represent a significant welfare loss to them in as much as they represent a welfare gain for the landlords.

The pressure from immigration means that at, a macro level, there is a constant and huge demand for accommodation and that rental markets play a big part in meeting it.

While low in absolute terms, the data suggest that these markets are bigger than sale markets. A higher proportion of respondents report being aware of rental activities in their neighbourhoods than is the case for sale activities. Equivalently, less proportions of respondents report having no knowledge of rental activity. In comparative terms, the group category appears to have a more active rental market than the other two. 35% of respondents in the group category have no awareness of rental transactions, compared to about 81% for the other groups. In similar fashion almost 18% of the group category knows of at least 5 cases of rental, compared to about 8% for the informal group and 6% for the freehold group. This may be explained by the practice prevalent in the group category whereby households first build a brick house, then rent it out and promptly move into an adjacent backyard structure. For those without regular incomes, the rental income may be the only means by which to pay off the instalments on the house loans.

Due to the small sample size, the data on average actual rentals paid may be taken as merely indicative of the sums of money involved. Perceived rental values of respondents on the other hand may be taken to be valid indicators of actual values, given the activity levels in the market. The data shows that average perceived rental values represent a significant proportion of average household incomes. Average rentals are about 23%, 22% and 37% of average incomes in the informal, group and freehold categories respectively. Rentals are clearly a non-trivial source of household incomes even though they may appear small in absolute terms.

The study sought to clarify other aspects of rental markets so as to improve general understanding. Of interest were why respondents chose to rent in the first place, what their future plans were and potential constraints. Again, due to the small sample size, it is difficult to draw firm conclusions. The data suggests that a lack of land on which to build is the major reason for both the informal and group category, while a lack of land and the high cost of complete housing cost are the main reasons in the freehold category. Not surprising, most of the respondents across the three categories want to acquire land on which to build their own dwellings as soon as possible. In this, they have a choice of either going into the informal settlements or joining a savings group for eventual group settlement. At that point, the renters become owner occupiers and their fate becomes identical to that of the latter, as discussed above.

7.7 Evaluation of Hypotheses

Having concluded the analysis of the empirical data, it is now appropriate to evaluate the working hypotheses. It must be emphasised from the outset, and will be apparent from the analysis above, that this is a qualitative study. The data is not in a format as to yield statistical results with which to perform formal quantitative hypothesis tests. The hypotheses themselves are not framed in a manner that would permit such tests. Rather in evaluating the hypotheses, the study relies on the weight of cumulative qualitative evidence to make judgements about the extent to which they have been confirmed or rejected.

As has been pointed out, two hypotheses underpinned this study. Firstly, it was hypothesised that real estate is a significant asset held by the urban poor in Namibia and that there was potential for capital accumulation by trading up in real estate markets. The study attempted to determine the significance of real estate assets held by respondents using a number of variables. These included the absolute and relative magnitudes of capital investments in dwellings, capital values and rental values. The potential for capital accumulation was measured by such variables as differences between capital values and construction costs, market extent, volumes of transactions as well as differences between capital values between the rights categories.

Results of the analysis show that on many counts real estate is indeed a significant asset held by the poor. Average construction costs, capital values and rental values are all a significant proportion of average household incomes. The results show that there are considerable differences between average capital values and average construction costs. Perhaps more significantly from a capital accumulation point of view, there are significant differences between the average capital values between the rights categories. Possibilities therefore exist for capital gains both from trading within the rights category as well as trading-up between the rights categories. Regarding market activity, the results show that the spatial extent of the market is very wide and that while the rental market is relatively healthy there is very limited secondary sale activity. Rental markets are clearly providing an important source of household income but the potential of sale markets remain under-exploited due to lack of activity. Overall the results partially confirm the first hypothesis.

The second working hypothesis for the study was that, by affecting the incentive structure of, and transaction costs in, real estate markets, systems of property rights affect market outcomes, thus ultimately determining whether these markets may be efficacious for poverty alleviation. Establishing the incentive effects of property rights required comparisons of perceptions of strengthens of rights and of financial investment in dwellings. The effect on market outcomes was established by comparing market activity and governance structures for transaction activity.

The results show that property rights do matter and that there are significant differences between the rights categories on the perceived strength of their respective rights. The results show that the strengths of property rights conforms to theoretical predictions, with freehold rights the strongest and informal rights the weakest. The results show that property rights have an affect on housing investment, even when the income effect is taken into account. Further the results suggest that weak property rights may be associated with particular modes of governing transactions via social networks. This has implications for the way markets governed by such systems of property rights may work in aid of capital accumulation. Finally, it was not possible to measure transaction costs and therefore the study was unable to establish the effects of the different rights categories on the costs of exchange. Overall, the second hypothesis has been substantially confirmed.

7.8 Informal Real Estate Markets and Poverty Alleviation: Synthesis and Discussion

We are now in a position to draw all of the previous analyses together and engage directly with this study’s central questions. There are two interrelated questions to be addressed. Firstly, the fundamental question of whether or not real estate markets could be a tool for capital accumulation or, equivalently, poverty alleviation. Secondly, the question of the institutional form best bring about a market facilitative of such outcomes. These questions are important in the context of developing countries such as Namibia where not only is poverty endemic but numerous programmes of land rights reform are underway, most of these being touted as means of fighting poverty.

The study has shown that there is very little secondary market activity for all three rights categories in the study area. The finding of limited transaction activity is consistent with results elsewhere (see for instance Gilbert, 2002; Home & Lim, 2004; Ward *et al*., 2004). It would appear therefore that the opportunities to derive benefits from trade and expanded markets are limited in the case of Namibia. The obvious question is why this is the case. In their study, Home & Lim (2004) conjecture that the lack of market activity could be attributed to householders' reluctance to view their houses as marketable commodities. Our own study suggests that there is merit in this argument, but that it can not be the only explanation. High transaction costs on the other cannot be the sole or main explanation, as there is no evidence of high propensities to trade being frustrated by such costs.

Whatever the reason are for the state of affairs, it is clear that real estate markets in Windhoek at present cannot be leveraged for capital accumulation in any significant manner, and that this will remain so unless deliberate interventions are made to prime these markets. In other words, the sort of market envisaged in the conceptual framework to be welfare enhancing, or something close to it, needs to be deliberately created. We return to develop this point later in the discussion. It is important at this juncture to note that notwithstanding thin markets, the study shows that in terms of the magnitudes involved, the possibilities of capital gains are good. This is not only as a result of short run differences between cost of acquisition and sale values but long term capital appreciation arising from free or low cost initial land occupation, followed by land valorisation due to population increase, better property rights and infrastructure development. Further, the clear differences in average costs between the categories as well as the significant overlap between categories show that trading-up is possible. The study in addition suggests that more active markets are unlikely to result in distress sales, but rather in increased investment in better housing and the capitalisation of businesses. Both these are potentially welfare enhancing.

While the lack of market activity affects all property rights categories, the data suggests that the freehold category is the most active. In terms of market activity indicators, such as knowledge of local sale activity, period since acquisition of property, basis of price formation and search behaviour, the freehold category outperforms the others. There is a sense of a nascent market struggling to emerge, one that is closest in character to conventional middle class real estate markets. It seems that more activity levels could have been observed were it not for some distortions. Compared to middle class housing, NHE housing is heavily subsidised. Housing is developed with state funding obtained on less than commercial terms, and on land obtained from the municipality at cost. Because the NHE has access to low cost finance, it lends up to 4% below market rates. Due to the huge demand for housing, even from the middle classes, it was felt appropriate to restrict eligibility to the poor. Thus eligibility for these houses has been officially restricted to those earning up to R4, 000 per month though there is some flexibility in this. Further, in an attempt to prevent 'down-raiding' by the middle class the NHE has had a policy of discouraging sales of these houses, effected in part by restricting formal transfer of ownership to individuals . This has had a dampening effect on market activity. This is an example of an instance where strong rights, because they are not easily transferable, have had a negative impact on market activity.

There is another sense in which the subsidised nature of the NHE houses has had a negative effect on market activity. The relatively low (i.e. affordable) prices combined with limited availability of stock, largely on account of insufficient developable land for low income housing, have created conditions whereby demand outstrips supply by far. The NHE is able to provide their most basic two-room 24 m^2 core house at R65, 000. A conventional 2 bedroom 63 m^2 house is priced at between R163, 000 and R175, 000. In comparison, the minimum normal price for a 2 bedroom house with full finishes in Windhoek is over R250, 000. This makes the NHE houses a very attractive proposition and explains on one hand the long waiting list and need to allocated units administratively, and the reluctance of householders to trade their properties on the other. In these circumstances, there is no guarantee that a seller can easily find another house in a similar or slightly higher price range. Distortions caused both by restrictions on sale and insufficient stock therefore prevents the emergence of normal market activity in the freehold category, despite pressures for movement in that direction.

If sale markets are weak, rental markets on the other hand appear to be quite robust in all categories. There is a thriving market in the rental of rooms and backyard structures. The size of the market and the level of rentals as a ratio of average incomes makes this market a significant source of income for households. There does not appear to be any reasons for intervention, except perhaps to strengthen the rights of tenants most of who expressed vulnerability to summary eviction. Strengthening tenants' rights may be intuitively appealing but raises questions about implementation and may not necessarily be good from a poverty alleviation perspective. Encouraging lease agreements may restrict the flexibility of landlords to manoeuvre in search of higher rentals, while preventing the tenants from moving out as soon as they have found their own properties.

The study has shown that acquisitions take place over relatively long distances, indicating the presence of organising structures or institutions to facilitate such transactions, thereby reducing transaction costs for participants. For conventional or formal real estate markets this means systems of property advertising, legal contracts, system of title registration et cetera, all backed by enforcement capabilities of the state via the police and the judicial system. Most of these institutions are by definition inoperable in informal markets. Informal institutions therefore must emerge to perform similar functions. In our case these informal institutions are embodied in social networks.

Our study has shown that market activity in the informal category is largely facilitated by social networks, while hierarchical organisations predominate in the group and freehold categories. Networks play important social and economic functions. As Smith-Doerr & Powell (2005) observes, much of the literature on networks emphasise the important role that they play in the domain between the flexibility of markets and the visible hand of organisational authority. Smith-Doerr & Powell (*ibid*.) goes on to identify three broad categories of benefits provided by networks, namely, access, timeliness and referrals. Social ties can facilitate access to parties that provide information or resources. Timeliness refers to the ability of networks to provide expeditious linkages to information sources, whereas referrals refer to opportunities provided by networks to bypass formal, impersonal channels.

The study has shown that informal areas are characterised by small homogenous pockets, based on common ethnic or kinship background. This is a visible manifestation of the results of network activity. Social networks facilitate the six transaction activities, thereby lowering transaction costs for those seeking to access land in the city. Networks provide information on land availability, where to settle, whom to see and so on. Solidarity and a shared understanding arising from a common ethnic or kinship heritage lowers the need for, and therefore the costs of, bargaining, decision making, control and enforcement. The relatively low incidence of property related disputes is testimony to this.

Networks based purely on ethnic or kinship ties, while clearly playing an important role in facilitating access to land, are not sufficient in themselves to deal with the pressures of high immigration and the urban imperative towards more heterogeneity in the composition of the population. Managing these pressures require more authoritarian structures, a role played by neighbourhood committees discussed earlier. These committees occupy a space between the purely informal social networks and the formal, hierarchical organisations, such as the municipality, the NHE and the NHAG. They are partly network based in that members may have a shared origin and partly hierarchical in that they are composed of officials supposedly elected by local communities and with some de facto authority over local land affairs.. As seen previously, these committees provide an important role, not only in providing information and access to land, but have a control and enforcement functions as well. They are particularly important in this regard for those who might not have access to social networks. It must be stressed that these functions are not sanctioned by the municipality or any other official entity and are in fact illegal in terms of the formal law.

The key question for this thesis however is not only the extent to which these informal institutions lower transaction costs for participants but also the extent to which they facilitate capital accumulation. Specifically of interest is their ability to support the types of market described in the conceptual framework as necessary for capital accumulation. The study shows that while social networks are able to support spatially expansive markets, and guarantee access to urban land for poor immigrants, this is largely restricted to ethnic or kinship enclaves. They are not well placed to support impersonal transactions between perfect strangers, thus limiting market depth. The neighbourhood committees go some way in mitigating this, but they too have certain limitations. As indicated they appear not to be fully accountable either to the local authority or the local residents. Due to pressures arising from immigration and the huge demand for land, these committees may be susceptible to corruption. The study came across instances of conflict between households and committees, arising from the latter's contested allocations of plots. These committees are therefore potentially a source of insecurity in property rights and, if not checked, could assume a mafia-like character. The NHAG has expressed the view that these committees are opposed to formalisation programmes, something that may be explained by a fear of loss of power and rents arising from the status quo.

Access to land in the group category is facilitated by the SDFN and its service NGO, the NHAG. These hierarchical organisations lower transaction cost for members by identifying suitable land, negotiating its acquisition with municipal bureaucrats and facilitating its subdivision and settlement by individual households. They help the savings groups to devise constitutions, which in turn provide a basis for the creation and enforcement of group and individual property rights. In addition, they respond to the failure by formal finance markets to provide funds to the poor for house development. Using nothing more than group membership as collateral, the SDFN has been able to provide house loans to many. It is important to note that loan recovery rate is relatively high, at about 86% (Anna Muller, personal communication) compared to the 35-50% recorded for NHE loans (Solomon Tekie, personal communication). From a capital accumulation point of view, the SDFN loans have played the key role in transforming the gradual savings of group members into higher valued real estate. The main problem appears to be related to a lack of clarity regarding the content of property rights. This point is taken up presently.

The preponderance of the NHE in the low income freehold market is a result of failure in both financial and development markets. The relatively low incomes of households, poor credit ratings and limited secondary market activity means this category is perceived as too risky for commercial banks and private commercial developers. The NHE acts both as developer and financier, and has a virtual monopoly in this regard. Because it has access to finance and land at concessionary rates, and is prepared to accept higher risks than commercial operators, it is able to provide affordable housing to the poor. What is significant is that NHE housing effectively provides the only means for the poor to reach the lowest rungs of the formal real estate ladder. It is an important bridge between the fully commercialised middle class markets on one hand and the low income informal ones on the other. For those in the informal and group categories, it represents something to aspire for. But, and as we have noted above, this market is negatively affected by insufficient stock, restrictive eligibility criteria and some restrictions on sale activity. There are grounds for optimism going forward, however, with the NHE expected to ease all restrictions, particularly on sale activity. It has in any case been struggling to restrict eligibility to those earning less than R4, 000 per month.

The most obvious difference between the three categories of property rights is in the quality of dwellings, reflecting differences in the amount of investment. It is quite clear that property rights matter in this regard, with the degree of formality associated with better quality housing. It must be stressed that property rights should not be seen as causing these differences in any autonomous sense. Other factors, such as income levels and access to finance, are important as well. However, what this case demonstrates is the power of the system of property rights to create a permissible environment in which households can invest. This is perhaps best illustrated in the group category, where the right to build permanent housing, combined with access to microfinance, allows a significant proportion of households to transform their gradual savings into substantial, good quality homes. The system of property rights therefore directly affects the ability of households to accumulate capital. It is instructive to note that the major constraint to house investment cited in the informal category is a lack of right to do so.

The study has shown that there are weaknesses in the quality of property rights in all categories. The informal category has, as expected, the most problems in this regard, followed by the group category. Both these groups exhibit significant amounts of insecurity. It is interesting to note that for both, the municipality is perceived to be the single most significant source of threat to the security of their rights, rather than private individuals. The incidence of ownership and boundary disputes in these categories, while relatively small, is indicative of a lack of clarity of rights. This lack of clarity is further manifest in confusion about whether holders of group rights can sell those rights. For the freehold category, the problem is related to restrictions on the right to sell.

As a final observation, it must be noted that while property rights matter and informal households clearly want better rights, movements up the ladder is neither automatic nor assured. Acquisition of group rights is dependent on an ability to save regularly, which may require regular income. This may be difficult for the unemployed. However evidence, from the success of the Grameen Bank in Bangladesh and this study, has shown that the poor, suitably mobilised, are able to save irrespective of their employment status. The bigger hurdle is the acquisition of freehold rights. This requires formal regular employment as collateral. This automatically rules out a big proportion of households. The point that is being emphasised here is that, in considering various institutional arrangements for pro-poor real estate markets, issues of accessibility should be paramount.

We can now return to our central questions, that of whether real estate markets could be an efficacious tool for poverty alleviation and of the institutional form such markets might take. Evidence from the study shows that rental markets are widespread and provide a significant source of incomes for households. However, the study has also shown that a lack of secondary market activity severely limits the potential for capital gains from sale markets. This has negative implications on the ability of these markets to support trading-up, therefore inhibiting the movement of households up the property ladder. The study has however shown that there is good potential that real estate markets could be efficacious in capital accumulation. The challenge appears to lie in devising ways of priming these markets, and in the creation of appropriate institutional arrangements to support decentralised impersonal markets which allow households to invest in their dwellings. The study has demonstrated that freehold rights are associated with greater market activity but that these are inaccessible to many because of cost. Informal rights on the other hand are widely accessible to the poor but they prevent investment in housing, are associated with perceptions of insecurity and lock households in enclaves based on ethnicity and kinship. Appropriate institutional arrangements to help the poor leverage real estate markets would have to facilitate the priming of these markets allow impersonal decentralised markets to develop, and permit investment in permanent durable housing. This will require new institutional arrangements, based on the strengths of freehold rights but retaining the accessibility and flexibility advantages of informal rights. A system of group rights provides an ideal reference frame for such institutional arrangements.

To begin to develop the case for new institutional arrangements, it is perhaps useful to restate some of our key arguments regarding the link between real estate markets and poverty alleviation. Economic theory holds that well-functioning markets that support competition and lower the cost of doing business provides incentives for trade and investment, thereby promoting growth and poverty reduction (DfID, 2005). In the context of real estate, markets represent aggregations of *transactions* in the sales (capital), rental and development sectors. The potential contribution of these markets to poverty alleviation must clearly lie in, or result from, the exchange process. Making real estate work for the poor means leveraging the exchange process so that it can become a tool for capital accumulation. This in turn requires that informal land markets work better (i.e. more efficiently). The role of institutions, by their effects on transaction costs and economic incentives, is clearly important.

The policy implication of this argument is that exchange in informal real estate markets must be facilitated. Policy interventions must seek to increase the *volume* of transactions in these markets. It is only under these circumstances that one can conceive of real estate markets as being a tool for poverty alleviation. If the contrary were true these markets could not possibly work for the poor. This is counter-intuitive, as these markets are pervasive and real estate is a significant asset for the urban poor.

The three clusters of independent variables affecting real estate markets under the IAD framework (i.e. institutions, physical/material conditions and attributes of community) provide a basis for policy intervention. Three ‘variables’ in particular should be the focus of policy attention. These are *property rights, physical infrastructure* and *culture*. It is argued that each of these is the most critical in their respective cluster and therefore likely to generate the most ‘bang’ in policy terms.

The overall policy objective in urban land markets must be to reduce transaction costs, thereby encouraging market expansion. Policy should seek to encourage the development of appropriate property rights institutions in urban informal settlements. The study has shown that property rights matter to the poor and that they affect investment and market activity. There is therefore a strong case to support land titling programmes in Namibia and around the world. The key question however relates to what is the appropriate system of property rights for the poor. The NHE case in this study illustrates that individual freehold ownership, without some sort of subsidy, remains unaffordable even to the poor, even if they are in formal employment. Further, due to limited land and financial resources, it is not possible to provide freehold property in sufficient quantities to meet demand. This necessitates an administrative rather than a market based allocation, system which in turn causes distortions in market activity as bureaucrats attempt to restrict market activity or engage in rent-seeking activities. These distortions are in evidence in South Africa in the case of RDP houses.

This study has shown that informal property rights on the other hand are associated with feelings of vulnerability, prevent households from investing in their homes and are associated with institutional structures which lock households in ethnic and kinship networks. The challenge therefore is to devise appropriate property rights systems which combine the advantages of freehold ownership with the affordability of informal ownership. Such a system should provide secure tenure, allow households to invest in home improvement and facilitate the development of impersonal markets

Contrary to de Sotoesque and conventional wisdom however, such a property rights system must not be seen primarily as a means of encouraging credit. Rather the focus should be on the way the system support the expansion of sale, rental and development markets. This means that property rights should be easily tradable in an impersonal market, by making it possible to easily and cheaply validate ownership and property boundaries. Results from this study suggest that such a system would have to be built around group ownership, with clear boundaries between group and individual rights. In particular, individuals should have the ability to sale in the open market. The policy implication arising from this is that there should be less emphasis on land titling programmes aimed at giving individual freehold titles.

To support a pro-poor system of property rights will require the development of decentralised land administration systems or local community property offices (CPOs). These offices could play a range of roles to reduce transaction costs and facilitate market expansion. They could act as property registries, issuing certificates of title and keeping records of transactions. They could serve as clearing houses or information centres thus help to bring buyers and sellers together in a central place by providing property listings. They could assist parties to transact by validating ownership documents and helping them to complete (standard) contract forms. Where disputes occur, they could facilitate resolution using local mechanisms. All in all the CPOs should greatly help to reduce the uncertainty and information costs associated with exchange in markets that are not well served by equivalent institutions.

To keep costs low for the users, the CPOs will almost certainly have to be subsidised by governments. These offices should be seen in the context of government responsibility to create an ‘enabling environment’ for markets to work better and therefore are legitimate areas for public expenditure in the current development orthodoxy. As Deininger & Binswanger (1999) argue, the provision of market information systems is one area suitable for government intervention. Such systems should reduce transaction costs by improving the availability of information about land prices and markets. According to the authors, these systems would expand participation in sales and rental markets thereby improving the acceptance of real estate as collateral by financial institutions.

It is contended that the long term benefits will out-weigh the costs of these offices. However costs could be kept relatively low by using a number of devices. Firstly the CPOs should be located in close proximity to where the poor live, to reduce transport costs. Secondly by using less skilled ‘paraprofessionals’ these offices could provide services currently provided by lawyers, valuers, estate agents and land surveyors at a fraction of their cost. Thirdly the use of standard-form contracts will simplify administrative procedures, reducing skills requirement and making the system user friendly. Finally the use, for record keeping, of inexpensive but widely available database systems held on personal computers could be another way of enhancing efficiency and reducing cost.

The above discussion clarifies the conditions under which the proposed flexible land tenure system, and similar property rights based approaches, can bring about capital accumulation via real estate markets. A system of appropriate property rights combined with the device of CPOs could probably have the greatest impact on market activity. This is because together they have the potential to significantly reduce *all* the three categories of transaction costs in urban real estate markets. They thus form the cornerstone of the information infrastructure required to support increased market activity.

The second important area for policy intervention is the provision of physical infrastructure, especially roads, transport systems and telecommunications. Infrastructure does of course have an immediate positive impact on land values. Equally important however is that good transport and communication systems aid the diffusion of market information as well as the mobility of participants in markets. This reduces search and information costs.

The final area of policy intervention, which is that of culture, is probably the least tractable of the three but is important nonetheless. The 'embedded' nature of culture means that it is not malleable and therefore not easily amenable to policy intervention. However greater policy attention must be placed on the extent to which culture determines economic outcomes. This is an area fraught with ethical landmines but there is an understanding that successful market systems require participants who have common values, and who place a premium on 'keeping one's word'. A degree of shared understanding and community trust is a necessary condition for the functioning of impersonal exchange systems. These reduce bargaining and decision costs as well as supervision and enforcement costs. Communities that exhibit high degrees of shared understanding and trust need relatively less of the costly formal institutions to structure market activity.

Policy should therefore aim at strengthening social capital in urban communities. This requires measures to build, strengthen and widen social networks and forums. We have seen that social networks based on ethnicity and kinship are prevalent in the informal settlements. These need to be transformed into networks based on 'citizenship of the city' to facilitate better interaction of the heterogeneous communities that make up the urban social landscape. The role of non-governmental organisations (NGOs) and community based organisations (CBOs) is crucial in this regard.

Appropriate policy intervention in the areas of property rights, physical infrastructure and culture should have the effect of priming real estate markets in informal settlements, argued to be necessary if these markets are to be leveraged for poverty alleviation. A key indicator would be the extent to which increased trading activity has resulted in increased incomes and assets for the poor. Increased market activity should facilitate this, but will not be sufficient by itself. The study has shown that access to finance plays a catalytic role in transforming the small savings of the poor into higher valued real estate holdings. Policy makers would therefore have to pay closer attention to the availability of microfinance to support real estate market activity in informal settlements. In the final analysis, capital accumulation will depend on individual agency, especially on the ability of individuals to see the strategic value of real estate and to take advantage of opportunities brought about by increased market activity. This may require education and training.

It must be acknowledged in conclusion that sustained, broad based structural poverty alleviation ultimately depends on creating employment opportunities for the poor, which in turn depends on sustained economic growth. Employment does not only provide consumption income but, as this study has shown, may be the decisive factor in providing access to finance and formal property ownership. Employment, finance and real estate combine synergistically to accelerate capital accumulation for the poor.

CHAPTER 8: SUMMARY, CONTRIBUTION AND FURTHER RESEARCH

8.1 Summary of Thesis

The principal aim of the study has been to investigate the extent to which real estate markets in urban areas could be an efficacious tool for poverty alleviation. Within that broader aim, the study hoped to establish the appropriate institutional structure of markets that may be better placed to achieve this objective and therefore contribute to knowledge and policy development in this increasingly important area. The context is Windhoek in Namibia but the study is of wider application to many developing countries grappling with the intertwined problems of urban poverty and burgeoning informal settlements.

This study is cast in a broad international context characterised by the increasing urbanisation of developing countries and the urbanisation of poverty on one hand, and greater attention being given to institutions and property rights in the development agenda on the other. With the 2015 target date set for halving the number of very poor set by the Millennium Developments Goals (MDGs) rapidly approaching, there is increased pressure to explore ways of accelerating poverty alleviation. Recent approaches to fighting poverty as encapsulated by the MMW4P framework focuses on changing the structure and characteristics of markets to increase participation by the poor on terms that are of benefit to them (DfiD, 2005). Real estate markets potentially provide a particularly efficacious tool for poverty alleviation as real estate is often the most significant asset held by the urban poor.

The thesis consists of eight chapters altogether. Chapter 1 gave the background to the research problem, as well as stating the aim, objectives and significance of the study. Chapter 2 comprised two distinct parts. In the first part the conceptual framework for the study was developed. Early sections of the first part introduced the key theoretical concepts in NIE relevant to this study, namely institutions, transaction costs and property rights. Then the way in which the NIE could contribute to the analysis of real estate markets was illustrated. Finally the theoretical predictions provided by transaction cost theory and property rights theory were used to develop a conceptual framework linking real estate markets and poverty alleviation. The second part of chapter 2 reviewed the theoretical and empirical literature on real estate and poverty and demonstrated that there were significant gaps in our knowledge of the subject matter. The chapter ended with an articulation of a research agenda, and within that, the envisaged contribution of this study.

Chapter 3 was a review of the broad context within which urban informal settlements, real estate markets and poverty alleviation are cast. This chapter reviewed the evolution of urban policy in general, as well as policy towards informal settlements and poverty. The overall conclusion was that while there has been a great deal of convergence in policy prescriptions in these areas, there has been inadequate follow through in real estate markets. Thus, it was argued, the potential contribution of real estate markets to poverty alleviation has not been sufficiently articulated in policy and practice, resulting in a good deal of ambivalence and contradictions in policy.

The chapter argued there were three main reasons the contribution of real estate markets to poverty alleviation has not been optimised. Firstly the conceptual and methodological problems arising from the traditional neoclassical analysis of real estate markets has meant that many of the questions relevant to the leveraging of markets for poverty alleviation have remained unasked. Policy has therefore been largely based on inappropriate premises. Secondly, the widespread ambivalence, if not outright hostility, to the idea that freer markets in real estate were a good thing for the urban poor have generated uncertainty and contradictions. It was pointed out that a number of policy makers and researchers held the view that freer markets would exacerbate poverty. It was argued that many of these views lack unequivocal empirical support, and that they were motivated by antipathy towards capitalism or paternalistic views of the poor. Lastly it was pointed out that the state of knowledge about how informal markets actually operate is insufficient. It was noted that we cannot say with confidence whether or not informal real estate markets can be an efficacious tool for poverty alleviation, and if so, under what conditions.

Chapter 4 discussed the methodological approach adopted for the study. The chapter started off with a description of the conceptual and practical challenges to the analysis of informal real estate markets. This was followed by a contrastive analysis of the fundamental differences in methodological approaches between orthodox and heterodox economics. Various methodological issues in NIE research were then examined. From this base, the chapter presented the methodological approach employed for the study, the specific research design and how this design was implemented.

Chapter 5 presented a mostly descriptive account of the socio-economic context in Namibia and Windhoek in which the study is grounded. Salient features of this context include high income inequalities and widespread poverty. In common with much of the developing world, this is a context characterised by rapid growth in the urban population, of mushrooming informal settlements and the attendant problems that invariably accompany these phenomena. This context therefore provided an appropriate backdrop against which questions and answers of a universal character are posed and sought.

Namibia makes for an appropriate context for this study in another more specific and pragmatic sense. While a large country in terms of its physical size, Namibia has a small population. Thus the scale of the problems in absolute terms makes for a more manageable research programme. In addition, physical security appears to be better, making it possible to undertake onsite household surveys.

In a more profound sense, the country provides a unique opportunity to explore questions of property rights and real estate markets. For many Namibians, the right to own formal property is of relatively recent origin, having been denied these rights under apartheid. Finally, and significantly for this study, the country is testing a new and innovative system of property rights for informal settlements. Considered a first for many countries, the proposed flexible land tenure system may have significant implications for the way informal settlements are managed throughout the developing world.

Chapter 6 presented the research findings, with analysis and discussion following in Chapter 7.

8.2 Main Findings, Conclusions and Recommendations

This study investigated two interrelated problems. Firstly, the question of whether real estate markets in the urban informal settlements of Namibia can be used to alleviate poverty or, to put it differently, create wealth. The corresponding hypothesis for this question was that real estate is a significant asset held by the urban poor in Namibia and that there is potential for capital accumulation by trading up in real estate markets. The study finds that real estate is indeed a major asset held by the respondents. Indicators such as average market values, construction costs and rental values expressed as a ratio of average household incomes clearly show the significance of this asset to the households and the possibilities for gains from respective markets. The study however finds that, while there are robust rental markets for rooms and backyard structures, there is very limited sale activity. The study therefore concludes that while not insignificant gains are to be had from rental markets, there is at present limited potential to derive benefits from sale markets in Namibia due to a lack of trading activity. The hypothesis is thus only partially confirmed.

The second problem investigated related to the question of whether specific forms of property rights matter for engendering pro-poor outcomes in real estate markets, and if so, what form these are likely to take. The respective working hypothesis for this question was that, by affecting the incentive structure of, and transaction costs in, real estate markets, systems of property rights affect market outcomes, thus ultimately determining whether these markets may be efficacious for poverty alleviation. The study finds that in the absence of formal property rights, social networks and hierarchical organisations rather than impersonal markets provide the institutional structure to transaction activity. The study finds that the degree of formality of property rights correlates to perception of security, that property rights affect investment in housing and that property rights (to some extent) affects the degree of market activity. The study concludes that while social networks guarantee access to urban land for the poor, they tend to lock them in enclaves of ethnic and kinship relations, inhibiting the development of wider, impersonal markets argued to be necessary for capital accumulation. Further, the study concludes that formal property rights create incentives for investment and therefore matter for capital accumulation but that they are not necessarily accessible to the poor. The hypothesis that property rights affect market outcomes has nonetheless been substantially confirmed. The gap remaining is on account of the inability to measure relative transaction costs under respective property rights regimes.

Overall the study concludes that there is good potential for leveraging real estate markets in Namibia's (and other developing countries') informal settlements for capital accumulation but that these need to be primed first. This is consistent with new thinking which suggests that increased market activity, arising out of decreased transaction costs, is the key to leveraging markets for poverty alleviation. In this regard specific proposals have been made for policy intervention in three key areas, namely, the creation of appropriate property rights systems, together with supporting organisational infrastructure, the expansion of physical infrastructure and the building of shared understanding and trust in urban communities.

The study argues that these policy recommendations create the necessary market infrastructure to support increased market activity in informal settlements. It is acknowledged however that increased market activity will by itself not necessarily result in capital accumulation in an autonomous sense. It merely creates opportunities. The study has shown that access to finance is key to transforming the gradual savings of poor households into higher valued real estate. This means that greater attention will need to be placed on developing and extending microfinance in informal settlements. Further, training or education is required to enable the poor grasp the strategic value of real estate and prepare them to take advantage of opportunities that may arise as a consequence of increased activity.

8.3 Contribution of Thesis to Knowledge

This study has made a number of contributions to the stock of knowledge. This contribution can usefully be broken down into the following categories; contribution to theory development, contribution to methodology, contribution to policy development and contribution to the empirical literature.

8.3.1 Contribution to Theory Development

The study makes a two-fold contribution to the development of theory. Firstly, it extends the tenets of the NIE to the analysis of real estate markets in general and to the broad context of urban settlements in developing countries, using Namibia as a case study. Good theory is one that is simultaneously parsimonious and one that is capable of explaining a wide range of phenomena in diverse contexts. The development of any theory therefore requires that it be empirically tested in a range of different situations and contexts. In this regard, the theoretical propositions of the NIE have been applied to a wide range of areas (see Alston *et al*, 1996; Menard, 2001; Menard & Shirley, 2005 for examples). There however has not been much application to the analysis of real estate markets, the notable exceptions being Alston *et al. al.* (1999) application of property rights theory in the Brazilian Amazon and Kim's (2004; 2007) work on property rights and culture in Vietnam. This study builds on these studies and extends the literature substantially, to examine the interface between real estate markets and poverty alleviation.

The second contribution to theory, and one that is perhaps the most significant of this thesis, is the development of a conceptual framework which links real estate markets to poverty alleviation. Using theoretical tools of the NIE, and combining the dominant contemporary approaches to conceptualising poverty alleviation, that of the MMW4P and the Capital Assets frameworks, the conceptual framework prescribes theoretical conditions under which real estate markets can be a mechanism for capital accumulation by the poor. As Menard (2001) notes the empirical project in the NIE has to contend with two main problems, the lack of data and the lack of refined concepts to enable the collection of relevant data. This study makes a contribution in this regard, by providing a theoretical platform on which empirical work by researchers interested in the area of real estate markets and poverty alleviation could be based. The conceptual framework provides a basis for deriving a range of testable propositions with potentially wide applicability. In this regard it provides a basis for a long term research agenda.

8.3.2 Contribution to Methodology

Though the literature is replete with reference to 'real estate markets', the concept or phenomenon itself is often not well articulated. Speaking more widely, Coase (cited in Furubotn & Richter, 1998) says that the market has had a shadowy role in economic analysis. The usual practice has been to assume the existence of these markets in the background, defined vaguely as mechanisms of exchange, and then to focus the analysis on some or other consequence of market activity, such as the determination of market prices. The fundamental building blocks or ontology of markets and the manner in which these markets become manifest in empirical terms is hardly ever interrogated, and less described in any concrete manner.

Recognising that real estate markets are an aspect of social reality, this study contributes to a deeper understanding of their nature. Based on the latest thinking in institutional analysis, the thesis goes beyond offering a definition of markets, to identify specific variables by which they can be described. And very significantly, the thesis suggests that real estate market outcomes can be understood in terms of specific causal influences of a universal character. This reorients thinking to a causal, rather than merely predictive, methodology. Further, the methodological approach enunciated in the thesis emphasises dynamic, rather than static aspects of market activity, placing actors rather than prices or quantities at the centre of the analysis. This marks a departure from conventional practice.

8.3.3 Contribution to Policy Development

The importance of any research in the end rests on the ability to apply its results to practical problems. In the social realm, this means translating results into policy prescriptions and interventions. This requires that research have an eye to policy implications. Doebele (1994) highlights four requirements that must be met for research to have impact on policy makers. First, it must resonate with issues that have priority on the agenda of policy makers concerned. Secondly, the work must be done within an established and rigorous intellectual framework that makes it comparable with work by others on the same subject. Thirdly, it must have the ability to be predictive. Fourthly, it should be in a form that suggests prescriptions for policy.

This study meets all four requirements. With regard to the first, the study deals with poverty alleviation, an issue of central importance to policy makers in a developing country such as Namibia. As we have noted above, this thesis has developed a conceptual framework that lays a theoretical foundation for a sustained comparative research programme in the area of real estate markets and poverty alleviation. In terms of the last two requirements, we have seen in the methodological discussion how real estate markets are influenced by specific variables. These causal variables not only make prediction possible, but they become the levers for practical policy interventions.

The study makes contribution to policy in a number of respects. At a fundamental level, it creates space for official acceptance of freer, more efficient low income real estate markets by demonstrating that standard fears about their potential adverse impacts are without empirical foundation. In this regard, the study argues that priming real estate markets to enable expanded markets to develop should be a primary policy objective, if these markets are to be leveraged for poverty alleviation. The study makes proposals for the creation of the necessary infrastructure to support such markets. As noted above, specific policy interventions in the area of properties rights reform, supporting institutional and organisational arrangements, culture and physical infrastructure are suggested.

8.3.4 Contribution to the Empirical Literature

This study makes contribution to the empirical literature generally and to the Namibian case specifically. The functioning of informal real estate markets is not well understood in the literature. As noted in chapter 1, questions such as the numerical size of the informal sector, the volumes of transactions, sums of money involved, the amount of land changing hands, the general pattern of the distribution of land transactions, land prices, or land values have not been satisfactorily answered (Doebele 1994; Kironde 2000). Further, it was observed that we remain relatively ignorant about the behaviour of actors, the incentives and constraints they face, the cost of exchange that they incur and the mechanisms by which exchange is facilitated.

This study makes an empirical contribution by providing answers to some of these questions. Using the Namibian case, the study provides insights into the scale and nature of informal real estate markets, types of actors involved and the mechanisms by which transactions are facilitated as well as the effects of property rights on various outcomes. The study has clarified conditions under which a modified property rights systems might work in aid of poverty alleviation, thereby providing empirical support for the proposed flexible land tenure system and similar innovations that may be tried elsewhere.

A recurrent problem in the empirical literature is how to define and measure ‘security of tenure’. This of course refers to strength of property rights. This study makes a contribution in this regard by introducing a property rights index which can be used to measure both absolute and relative tenure security.

8.5 Limitations of Study and Areas for Further Research

The main weakness of this study is a failure to meet all the intended objectives, particularly an attempt at measurement of comparative transaction costs. If the major contribution of the study is the conceptual framework, its Achilles heel is an inability to measure these costs. This of course is a well known problem in the NIE literature but is this case is primarily on account of lack of cases on which transaction costs could be observed. Failure to measure transaction costs means that the study provides only a partial view of markets.

An additional methodological problem is one which is inherent to the case study approach and relates to the generalisability of these findings to other settlements, cities or even countries. While there is no reason to suggest that the findings of this study are not representative of Namibia, caution needs to be exercised when considering other countries.

These weaknesses and the conceptual framework suggest areas for further research. Firstly, greater effort must be directed at the analysis of specific transactions, particularly the comparative measurement of transaction costs and other aspects of market activity. A productive research programme in low income real estate markets will require multi-disciplinary expertise, especially a combination of economic and anthropological/sociological methodological approaches. It will also have to be longitudinal in character so as to allow various processes to play out. It is clear that only such an approach could hope to unravel the complex interplay between informality, culture, markets, real estate and capital accumulation.

Secondly, there is a need to extend this study either by way of a large scale survey or replicating it in different cultural, institutional and material contexts. Namibia is of course a specific context. For example, it has a relatively small population. While this may have its practical advantages, it may be the case that a minimum population threshold is required for a viable real estate market, of the sort envisaged in the conceptual framework as facilitative of capital accumulation.

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YUNIBESITHI YA PRETORIA

HOUSEHOLD INTERVIEW QUESTIONNARE
OWNER OCCUPIER
CODE:A

OBJECTIVES OF STUDY

1. To investigate the general nature of real estate markets in Namibia's informal settlements.
2. To investigate actors involved in informal real estate markets, in terms of who they are, their behaviour and the incentives and constraints they face.
3. To investigate the real estate market *process* in these settlements in terms of transaction costs and institutional arrangements.
4. To investigate the effects of property rights, both formal and informal, on household investment, household welfare and the exchange process.
5. To make specific policy recommendations regarding how real estate markets may be leveraged for poverty alleviation.

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** This questionnaire benefited greatly from a version provided circa 2004 via email by A. Antwi.*

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

1. GENERAL BACKGROUND

1.a. Sex

1. Male
2. Female

1.b. Age (Years)

1. Under 30
2. 30-39
3. 40-49
4. 50- 59
5. 60-69
6. Over 70

1.c. What is the highest formal education you have?

1. None
2. Primary School
3. Post primary (e.g. secondary, vocational training)
4. University or college

1.d. What is your current employment status?

1. Not employed
2. Self-employed (specify)______________________
3. Blue collar job (e.g. auto mechanic, security guard, brick layer))
4. White collar job (e.g. teacher, bank employee,

1.e. What is your monthly income? (Please state)______________________

1.f. Size of improvements (measure)______________________

1.g. Main building material______________________________

2. PROPERTY ACQUISITION

2.a. Which of the following best describes how you came to own this property?

1. Acquired plot and developed from scratch.
2. Acquired uncompleted structure and finished it up.
3. Acquired fully developed house.
4. Inherited property
5. Received property as a gift.

2.b. Before acquiring this property, where were you residing?

1. I am new in Windhoek
2. In another part of this area
3. In another informal settlement in Windhoek.
4. In a formal part of Windhoek
5. Other (state)__________________

2.c. How long have you lived in Windhoek

1. Less than six months ago
2. 6 months to 1 year ago
3. 1-year to 3 years ago
4. 3 years to 5 years ago
5. Over 5 years ago

2.d. This property is

1. Worse than my previous property
2. The same as my previous property
3. Better than my previous property

2.e. When did you acquire the plot or property?

1. Less than six months ago
2. 6 months to 1 year ago
3. 1-year to 3 years ago
4. 3 years to 5 years ago
5. Over 5 years ago

2.f. From whom did you acquire the plot or property?

1. Relative/friend/colleague
2. Private person (not relative or friend or colleague)
3. Municipality
4. Other (please specify) ……

2.g. How long did it take you to find this property?

1. Less than one month
2. Between 1 month and 3 months
3. Between 3 months and 6 months
4. Between 6 months and 1 year
5. Between 1 year and 2 years
6. Over 2 years

2.h. How did you know the plot or property was available?

1. Through friends and/or colleagues and/or relative
2. Advised by professional (municipal officer/estate agent/lawyer etc.)
3. Approached by owner
4. Advertisement (where)______________________

2.i. How much did you pay for the plot or property?

____

Or

2.j. How much did it cost you to put up this property?___________________________

2.k. How was the payment effected? (✓)

1. Lump sum in cash
2. By cash instalments
3. Payment in kind
4. Other form (please specify)

2.l. From the day you approached owner or chose plot or property how long did it take to gain access?

1. Under 3 month
2. 3 - 6 month
3. 7 - 12 month
4. Over 12 months

2.m. Before acquiring this property how many other properties did you consider ?

1. I did not consider any other property
2. Between 1 and 10 properties
3. Between 10 and 20 properties
4. Between 20 and 30 properties
5. Over 30 properties

2.n. What influenced your decision to acquire this particular one instead of other(s) considered? (✓)

1. I did not consider any other property.
2. Price level
3. Documents of ownership available
4. Relatives/friends located nearby
5. Credible record of owner's integrity
6. Location near employment and/or social amenities
7. other (specify)…………

2.o. Which of the following did you incur in addition to price of the plot or property? (✓)

1. None
2. Demarcation/surveying fees
3. Legal fees
4. Estate Agents Fees
5. Government Taxes/Stamp duty
6. Infrastructure fees
7. Other fees (specify)

2.p. What was your main source of finance for acquiring the plot or property? (✓)

1. Bank loan
2. Loan from relative/friend
3. Personal gradual savings
4. Other (please state) ………

3. PROPERTY RIGHTS

3.a. What interest do you think you have in the property?

1. Freehold (forever)
2. Municipal lease
3. Private lease
4. Don't know
5. Other (please specify)........

3.b. What document do you have to prove your interest?

1. Deed of sale
2. Lease agreement
3. Receipt from the previous owner
4. None
5. Other (please specify)

3.c. What rights do you have over your property? (✔)

1. The right to sell
2. The right to lease out
3. The right to run a business from it.
4. The right to give out
5. The right to erect permanent structures

3.d. Which of the following could happen to your property? (✔)

1. Encroachment by a neighbour
2. Eviction by the municipality
3. Relocation by the municipality
4. Take over by another person
5. None of the above could happen

3.e. How do you ensure that your property is protected from third parties? (✔)

1. Making sure that it is occupied all the time
2. Making sure that I have the right documents
3. Relying on neighbours to support me
4. I do not have to do anything to protect my property.

4. PROPERTY DISPUTES

4.a. Have you ever been involved in any dispute with respect to the plot or property?
1. Yes
2. No

4.b. If the answer is yes who was the other party to the dispute?

1. Previous owner
2. Neighbour
3. Rival purchaser
4. Relative
5. Other (Specify)________________

4.c. What caused the dispute(s)? ♣

1. Ownership dispute
2. Boundary dispute
3. Other(please specify)________________________

4.d. Has the dispute been settled? If yes, where was it settled?

1. The dispute is not yet settled.
2. Formal court system
3. Local community system
4. Traditional court system
5. Other (please specify)________________________

4.e. How long did the dispute last?

1. Less than one month
2. Between 1 month and 3 months
3. Between 3 months and 6 months
4. Between 6 months and 1 year
5. Between 1 year and 2 years
6. Over 2 years

4.f. When did the dispute start?

1. Before any work on the plot started.
2. When building started on the plot
3. Half way through the building work
4. After building was completed.

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5. MARKET INFORMATION

5.a. If you sold your property now how much would it fetch?
(state)________________________________

5.b. How do you know how much your property would fetch?

1. This is what others are selling similar properties for in this area.
2. This is what it will cost to build this property
3. Just a guess

5.c. If you rented your property now, how much rent will it fetch?
(State)________________________________

5.d. How do you know how much rent your property would fetch?

1. This is what others are renting similar properties in this area.
2. Just a guess

5.e. How many people do you know who have sold their property in this area?

1. I do not know anybody who have sold their property
2. 1
3. 2
4. 3
5. 4
6. 5
7. Over 5

5.f. How many people do you know who have rented their property in this area?

1. I do not know anybody who have rented their property
2. 1
3. 2
4. 3
5. 4
6. 5
7. Over 5

6. OTHER

6.a. What plans do you have for your property in the next 2 years?

1. I have no specific plans
2. To give it out as a gift
3. To sell the property
4. To rent the property
5. To extend the property
6. Other (please specify)

6.b. What do you see as the main constraint to realising these plans?

1. I have no constraint
2. I lack space/land
3. I lack finance
4. I am not allowed/cannot obtain permission
5. Other (please specify)

6.c. If you sold of your property, who are you most likely to sell it to?

1. Relative/friend/colleague
2. Anybody who is prepared to pay

6.d. If you sold your property, what are you most likely do with the proceeds?

1. Buy food
2. Pay off my debts
3. Start a business
4. Buy a bigger/better property
5. Assist relatives
6. Other (please specify)

6.e. In this area, what do most people usually do with their money after selling their property?

1. Buy food
2. Pay off my debts
3. Start a business
4. Buy a bigger property
5. Assist relatives
6. Other (please specify)

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HOUSEHOLD INTERVIEW QUESTIONNARE RENTER CODE:B

OBJECTIVES OF STUDY

6. To investigate the general nature of real estate markets in Namibia's informal settlements.
7. To investigate actors involved in informal real estate markets, in terms of who they are, their behaviour and the incentives and constraints they face.
8. To investigate the real estate market *process* in these settlements in terms of transaction costs and institutional arrangements.
9. To investigate the effects of property rights, both formal and informal, on household investment, household welfare and the exchange process.
10. To make specific policy recommendations regarding how real estate markets may be leveraged for poverty alleviation.

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** This questionnaire benefited greatly from a version provided circa 2004 via email by A. Antwi.*

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1. GENERAL BACKGROUND

1.a. Sex

3. Male
4. Female

1.b. Age (Years)

7. Under 30
8. 30-39
9. 40 - 49
10. 50 - 59
11. 60-69
12. Over 70

1.c. What is the highest formal education you have?

5. None
6. Primary School
7. Post primary (e.g. secondary, vocational training)
8. University or college

1.d. What is your current employment status?

5. Not employed
6. Self-employed (specify)________________________
7. Blue collar job (e.g. auto mechanic, security guard, brick layer))
8. White collar job (e.g. teacher, bank employee,

1.e. What is your monthly income? (Please state)__________________________

1.f. Size of improvements (measure)_____________________________

1.g. Main building material______________________________

2. PROPERTY ACQUISITION

2.a. Before renting this property, where were you residing?

6. I am new in Windhoek
7. In another part of this area
8. In another informal settlement in Windhoek.
9. In a formal part of Windhoek
10. Other (state)____________________

2.b. How long have you lived in Windhoek

6. Less than six months ago
7. 6 months to 1 year ago
8. 1-year to 3 years ago
9. 3 years to 5 years ago
10. Over 5 years ago

2.c. This property is

4. Worse than my previous property
5. The same as my previous property
6. Better than my previous property

2.d. When did you start renting the plot or property?

1. Less than six months ago
2. 6 months to 1 year ago
3. 1-year to 3 years ago
4. 3 years to 5 years ago
5. Over 5 years ago

2.e. From whom do you rent the plot or property?

5. Relative/friend/colleague
6. Private person (not relative or friend or colleague)
7. Other (please specify) ……

2.f. How long did it take you to find this property?

7. Less than one month
8. Between 1 month and 3 months
9. Between 3 months and 6 months
10. Between 6 months and 1 year
11. Between 1 year and 2 years
12. Over 2 years

2.g. How did you know the plot or property was available?

5. Through friends and/or colleagues and/or relative
6. Advised by professional (municipal officer/estate agent/lawyer etc.)
7. Approached by owner
8. Advertisement (where)______________________

2.h. How much rent per month do you pay for the plot or property

____

2. i. How is the payment effected? (✔)

5. Cash
6. Payment in kind
7. Other form (please specify)

2.j. From the day you approached owner how long did it take to gain access?

5. Under 3 month
6. 3 - 6 month
7. 7 - 12 month
8. Over 12 months

2.k. Before renting this property how many other properties did you consider ?

6. I did not consider any other property
7. Between 1 and 10 properties
8. Between 10 and 20 properties
9. Between 20 and 30 properties
10. Over 30 properties

2.l. What influenced your decision to rent this particular one instead of other(s) considered? (✔)

8. I did not consider any other property.
9. Price level
10. Documents of ownership available
11. Relatives/friends located nearby
12. Credible record of owner's integrity
13. Location near employment and/or social amenities
14. other (specify)………….

2.m. You are renting because

1. You cannot afford to buy your own property
2. You cannot find land to build your own property
3. Other reason (specify)________________

3. PROPERTY RIGHTS

3.a. What interest do you think you have in the property?

6. Freehold (forever)
7. Private lease
8. Don't know
9. Other (please specify)……..

3.b. What documents do you have to prove your interest?

6. Lease agreement
7. Receipt from the owner
8. None
9. Other (please specify)

3.c. What rights do you have over this property? (✔)

6. The right to sell
7. The right to lease out
8. The right to run a business from it.
9. The right to give out
10. The right to erect permanent structures

3.d. Which of the following is likely to happen to this property? (✔)

6. Eviction by owner
7. Encroachment by a neighbour
8. Eviction by the municipality
9. Relocation by the municipality
10. Take over by another person
11. None of the above could happen

3.e. How do you ensure that your rights in the property are protected from others? (✔)

5. Making sure that it is occupied all the time
6. Making sure that I have the right documents
7. Relying on neighbours to support me
8. I do not have to do anything to protect my property.

<u>4. PROPERTY DISPUTES</u>

4.a. Have you ever been involved in any dispute with respect to the plot or property?

3. Yes
4. No

4.b. If the answer is yes who was the other party to the dispute?

6. Owner
7. Neighbour
8. Rival renter
9. Relative
10. Other (specify)_________________

4.c. What caused the dispute(s)?

4. Ownership dispute
5. Boundary dispute
6. Rent
7. Other(please specify)______________________

4.d. Has the dispute been settled? If yes, where was it settled?

6. The dispute is not yet settled.
7. Formal court system
8. Local community system
9. Traditional court system
10. Other (please specify)______________________

4.e. How long did the dispute last?

7. Less than one month
8. Between 1 month and 3 months
9. Between 3 months and 6 months
10. Between 6 months and 1 year
11. Between 1 year and 2 years
12. Over 2 years

4.f. When did the dispute start?

5. Before occupying the property
6. After occupying the property.

<u>5. MARKET INFORMATION</u>

5.a. If this property is sold now how much would it fetch? (state)______________________________

5.b. How do you know how much this property would fetch?

4. This is what others are selling similar properties for in this area.
5. This is what it will cost to build this property
6. Just a guess

5.c. How many people do you know who have sold their property in this area?

8. I do not know anybody who have sold their property
9. 1
10. 2
11. 3
12. 4
13. 5
14. Over 5

5.d. How many people do you know who have rented their property in this area?

8. I do not know anybody who have rented their property
9. 1
10. 2
11. 3
12. 4
13. 5
14. Over 5

6. OTHER

6.a. What plans do you have for the next 2 years?

7. I have no specific plans
8. To buy a completed property
9. To acquire land and build my own property
10. To extend this property
11. Other (please specify)

6.b. What do you see as the main constraint to realising these plans?

1. I have no constraint
2. I lack space/land
3. I lack finance
4. I am not allowed/cannot obtain permission
5. Other (please specify

6.c. If you bought a property, who are you most likely to buy it from?

3. Relative/friend/colleague
4. Private person other than relative/friend/colleague
5. Municipality

6.d. If you came into some substantial cash what are you most likely do with it?

7. Buy food
8. Pay off my debts
9. Start a business
10. Buy a bigger/better property
11. Assist relatives
12. Other (please specify)

6.e. In this area, what do most people usually do with their money after selling their property?

7. Buy food
8. Pay off my debts
9. Start a business
10. Buy a bigger property
11. Assist relatives
12. Other (please specify)