Building Institutions that Make Property Markets Work

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Article at a glance

• Understanding of property rights often remains limited to property titles, without deeper appreciation of the underlying and interconnected institutions that make property rights meaningful and allow property markets to function.

• Although private property rights are legally protected in most countries, that protection varies greatly in practice because the implementing regulations and institutions that build property markets remain weak.

• The development of competitive and transparent property markets for small businesses requires not only legally protected rights but also strengthening of the broader institutions of good governance and market economy.

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Why Property Rights and Markets Matter

Property rights are among the most fundamental principles enshrined in Article 17 of the United Nations’ Universal Declaration of Human Rights and are constitutionally protected in most states. Despite this worldwide legal recognition of the importance of property rights to building peaceful, democratic, and prosperous societies, access to and protection of property rights vary greatly in practice. What is more, in many countries understanding of property rights often remains limited to property titles, without deeper appreciation of the underlying and interconnected institutions that allow property markets to function.

Peruvian economist Hernando de Soto famously asked: although cities across the developing world are teeming with entrepreneurs, why do those countries seem unable to become prosperous market economies? The answer, he argues, is that they hold “resources in defective forms: houses built on land whose ownership rights are not adequately recorded, unincorporated businesses with undefined liability, industries located where financiers and investors cannot see them.”¹ Because property rights are not properly documented and institutions that make them meaningful are weak, the property that so many small entrepreneurs around the world hold remains “dead capital” that cannot be easily turned into productive use.

If a small business does not have a title to the location where it operates, it cannot use it as collateral for a bank loan to invest or expand operations. If the justice system is dysfunctional, small entrepreneurs cannot rationally resolve disputes over property or any other business matter. If rules and regulations on business conduct are too complex and costly for compliance, or if local land and tax officials are corrupt, businesses are forced to operate in the informal sector.

Those examples illustrate that property markets are multi-dimensional institutional frameworks that touch upon issues key for all citizens but particularly vital for small businesses – from access to credit to appropriate regulation. As such, property markets are a microcosm reflecting the state of a country’s institutions that build democracies and market economies alike.

International Property Markets Scorecard

The International Property Markets Scorecard is a tool jointly developed by the Center for International Private Enterprise (CIPE) and the International Real Property Foundation (IRPF) in order to map the institutional components of property markets and evaluate their effectiveness. The Scorecard provides a methodology for property market system analysis to investigate the six core elements necessary for sustainable property market development: property rights laws and enforcement, access to credit by small businesses, efficiency of governance, rational dispute resolution, financial transparency, and appropriate regulations.

This approach not only illustrates the linkages between property market elements but also helps identify gaps where some of those important institutions remain weak, either due to a lack of proper legal and regulatory framework or its weak implementation. Such gaps represent key areas that countries should prioritize when considering reforms to strengthen institutions that support healthy and inclusive property markets.

In a current multiregional project, CIPE has used the Scorecard methodology to highlight barriers that small businesses face in urban commercial property markets, in particular when it comes to property rights and access to credit. This limited focus was chosen given how vast and complex a subject property rights are (rural, urban, residential, commercial) and how relevant the accessibility of property rights and institutions is for advancing broad-based participation of small entrepreneurs in the economy. The focus on another city in addition to the capital also helped gain a fuller picture of urban property markets since conditions in the capital are often different from other cities.
To implement the Scorecard approach, CIPE cooperated with the following country partners:

- Association for Foreign Investment and Cooperation in Armenia (Yerevan and Dilijan),
- Unirule Institute of Economics in China (Beijing and Nanchang),
- Institute of Economic Affairs in Kenya (Nairobi and Mombasa), and
- Institute for Solidarity in Asia in the Philippines (Manila and San Fernando Pampanga).

This country selection was driven by local demand and interest in property market issues, as well as emerging opportunities for reform in this area. CIPE has also launched a similar effort in Russia in partnership Saratov Chamber of Commerce and Industry focusing on the conditions within the Saratov region. The objective in all countries has been to look beyond the indices typically used to describe property markets, gain first-hand perspective of local entrepreneurs on the barriers they face in property transactions, and identify reform priorities in order to effect change through advocacy.

The Scorecard consists of two major levels of inquiry – secondary research and field assessments of actual property market conditions. Following an in-depth analysis of the available secondary data such as international indices and national statistics, CIPE partners conducted fieldwork in two select cities to localize the results. This work was tailored in each country through a mix of focus groups and interviews to obtain the most accurate snapshot of the conditions entrepreneurs face in dealing with the government, banks, and professional services providers in the property sector. Although necessarily subjective, these views from small businesses have a unique power to illustrate key problem areas precisely because of the real, personal experiences they reflect.

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The result is a series of country reports distributed locally and available on CIPE’s website and partner websites. This article summarizes key findings and reform recommendations.

Shared Findings

Not surprisingly, given the similarity of institutional weaknesses that many countries share, several key findings are common across all the focus countries.

Level of legal protection does not match implementation

Although in all examined countries property rights are enshrined in the respective constitutions and legally protected, the implementation of laws and regulations governing property markets varies in practice, leaving many small businesses vulnerable. The laws on the books are often not applied effectively and violations are common. Illegal evictions – sometimes carried out in collusion with the police or vigilantes – and insufficiently compensated government expropriations are a frequently cited problem and a leading threat to property rights protection.

These shortcomings of property markets are a function of the overall capacity deficiencies of a country’s institutions. When the legal and
regulatory frameworks, the judicial system, and enforcement mechanisms pertinent to property rights protection remain weak, it is commonly an indication of larger governance and rule of law issues.

Tenants’ rights are of particular concern

Due to their size and limited assets, many small businesses cannot afford to purchase the premises where they operate – especially in expensive capital cities – and remain dependent on renting. Interviews with entrepreneurs show that, regardless of geography, tenants lack adequate protection from arbitrary termination of lease contracts. When a business must unexpectedly vacate its premises, it not only bears the cost of finding new space and moving, but also often loses its investment in equipment and any immovable improvements to the occupied property.

This insecurity in part comes down to the fact that most rental arrangements are handled informally and therefore provide no legal recourse for tenants. At the same time, even where formal lease contracts exist, small businesses are often not knowledgeable or confident enough to undertake meaningful negotiations of rental terms, leading to exploitation by property owners. The abuse of tenant rights happens not only in illegal evictions but also through the negligence of property service obligations by landlords.

Blurred line between formal and informal sector

Although the explicit focus of this project was on formal businesses, when it comes to small businesses it is hard to separate formal from informal; even registered businesses often hide a part of their operations, fearing excessive taxation. The same factors that keep businesses informal or semi-formal play a role in whether or not they participate in formal property markets. Many small entrepreneurs are not registered because of the high costs and onerous bureaucracy involved. Many choose to forgo formal property purchases or rentals for the same reason.

Lending based on real property collateral remains the norm. That excludes many small businesses from access to credit because most do not own immovable property, or if they do their ownership title is not formally documented.

Also when it comes to real estate service providers, the formal vs. informal line is not always obvious. Actors on both the supply and demand side of the property market often engage in informal activities, regardless of whether they are registered or unregistered entities, to avoid tax and fee burdens involved in property transactions that they consider too high.

Fragmented nature of property market information

It is difficult to accurately estimate the size of urban commercial property markets in the examined countries because of the fragmented and opaque nature of real estate information. The division between commercial and residential property is not always clear given that many small businesses operate from their homes or occupy properties that are classified as residential. Comprehensive data is rarely accessible in easily searchable, standard electronic formats. Instead, pieces of information on sales and rentals remain dispersed on various websites, in databases, newspapers, real estate offices, or simply travel by word of mouth. Ownership information, in particular, becomes difficult to ascertain as a result of a common practice of multi-level subleasing.
What is more, the veracity of available pricing information is often undermined by problematic valuation of real property. While the applicable standards are typically regulated by law, they are not always applied and fully compliant with the International Valuation Standards.

**Complex regulation governing property rights**

The fact that land regimes tend to be overly complex remains a major challenge. There are multiple agencies dealing with land and property issues, some with overlapping responsibilities, and numerous procedures involved in buying, selling, and renting real property. This complexity not only creates inefficiencies but also opportunities for corruption. It also leads to a common lack of awareness among small businesses of the legal provisions and rights involving land ownership and transactions. What is more, interviewees in all countries noted that businesses and civil society organizations alike are not always adequately informed when property-related laws change, which contributes to the perpetuation of the knowledge gap.

**Computerization of land records is not a cure-all**

In countries where land registries are still paper-based and operated manually, computerization of property records is definitely a welcome improvement and such efforts are currently underway in Kenya and the Philippines.

Yet, the courts in the focus countries tend to be expensive, overburdened, and slow. Judges are not well trained for adjudicating commercial cases and often subject to political pressures.

Computerization has the potential to not only improve information management and accessibility but also limit the “human factor” of interacting with public officials involved in property transactions and therefore limit opportunities for corruption. However, experience shows that digitization is not a silver bullet.

For one, the speed of the digitization process often leaves a lot to be desired. The intermediate stage, when some records are electronic but others still not, creates confusion and opportunities for bribery meant to facilitate faster record retrieval. Such delays are most common at the level of local registries where reliable access to property records matters most for small businesses. One reason is that local officials often are not computer savvy and lack the capacity to work with digitized registries. Another factor has to do with the fact that manual searches are a source of income for local registry offices and they may be reluctant to give it up.

**Corruption in the property transactions**

In addition to bribes sometimes involved in registry record searches, corruption is present in many other stages of property transactions: from questionable land deals involving government officials, though ill-compensated land takings, to favoritism in public land sales to developers, or preferential zoning. Corruption in many of those cases is not overt. Rather, it permeates the system of real property transactions behind the scenes through conflicts of interest and collusion involving public officials, developers, and individual buyers or sellers.

**Difficulty in accessing credit**

Lending based on real property collateral remains the norm. That excludes many small businesses from access to credit because most do not own immovable property, or if they do their ownership title is not formally documented. Lending based on business ideas is slowly being introduced in some markets but small businesses often lack proper accounting skills and financial projections needed to develop solid business plans. Even if businesses
possess those skills and can present a viable loan application, interest rates offered by commercial banks are unaffordable for many.

Targeted small business funds, development banks, and microfinance institutions help to broaden small businesses' access to credit but their lending requirements are still too onerous for some businesses, especially in the informal sector. Venture capital and angel investment – vital to the success of many small but innovative companies in developed countries – remain virtually unknown or extremely limited for small business in developing countries.

Weak judiciary and dispute resolution

The protection of private property requires an effective and honest judicial system that is available to all equally and without discrimination. Yet, the courts in the focus countries tend to be expensive, overburdened, and slow. Judges are not well trained for adjudicating commercial cases and often subject to political pressures. As a result, many small businesses do not trust the public justice system and do not consider it as useful for resolving business disputes, including those related to property transactions. Instead, some businesses use alternative dispute resolution if it is available if their country, but most rely on trust based on previous transactions and reputation rather than on written contracts that are often unenforceable.

Country-Specific Findings

Armenia

Addressing property rights issues and the development of well-functioning property markets is particularly crucial in countries such as Armenia that are in a transition stage. The overall system of real property, including legal framework as well as implementing and supporting institutions, has been one of the most important areas of reform for Armenia, with efforts intensified in the past ten years.

The right to the use of land is what is transferred in Chinese property markets, rather than true property rights.

Property rights were established in the Constitution adopted shortly after independence in 1991, as the new government began moving state property back into private hands. Today, Armenia has strong cadastral, title, and mortgage registries, and property rights are well defined owing to the initial reform focus on private property during the early stages of transformation toward a market economy. However, many institutional and policy-level barriers persist. Private property is guaranteed by law but neither legal enforcement nor the judicial system provides adequate protection. Also, legislation does not contain mechanisms for securing the rights of tenants.

One well-known example of poor property rights protection was the flawed implementation of the Law on the Alienation of Property for Public and State Needs. Adopted in 2006, this law dealing with expropriation was used to force hundreds of central Yerevan residents to vacate their properties with inadequate compensation to allow for construction of a business district.

A helpful recent development has been the creation in July 2011 of the Small and Medium-sized Enterprise (SME) Development Council chaired by the Prime Minister and consisting of nine members, five from the private sector, two from the government, and two representing international organizations. The Council provides an opportunity for a more effective policy dialogue between the government and the Armenian small business community.
The Business Advocacy Network, a group of 30 business organizations including AFIC that, with CIPE support, has emerged as the country's most prominent advocate for SMEs, has been invited to the Council and already raised some of the key issues. At the first Council meeting, the Network highlighted the need to simplify the procedures for lease of commercial property. The government indicated that it intends to implement that reform. As of January 1, 2012, businesses will no longer need notary verification of leases and payment for the state registration of leasing contracts will become a fixed amount (now it is calculated per square meter). This early success augurs well for the prospects of further dialogue and reforms.

China

Private ownership in China was banned by the 1954 Constitution and private companies began to emerge only after the liberalizing reforms of the late 1970s. With the constitutional reform of 1999, private enterprises become fully recognized. However, discrimination against private ownership remains in the newest 2004 constitutional amendment stating that public ownership shall remain dominant while diverse ownership forms develop side by side.

The 2007 Property Law provided further protection of property rights of the state, collectives, and private persons. It defines these property rights and rights derived from them, which is an important step. Yet, state-owned enterprises remain favored. Another key limitation of property rights is the fact that private persons cannot legally own land. The right to the use of land is what is transferred in Chinese property markets, rather than true property rights.

What is more, the state may, in the “public interest” often too broadly defined by municipal governments, expropriate or requisition land for its use. Compensation is legally required but the adequacy of its amount often comes into question. As a result, property rights protection is compromised by political decisions and a dual system where the ownership/use rights of legally registered properties enjoy robust protection while large amounts of collectively owned land have yet to be formalized.

In recent years, land-related disputes and resistance to land takings in particular have become the number one source of social instability in China. Land takings and property demolitions continue to take place often without due process and proper compensation. Small businesses are especially vulnerable to government discretion and property rights violations.

Many small companies purchase land use rights to property or rent property from municipalities and developers with no official title. Such properties, known as “small title” properties, are mostly in rural areas or suburbs where cities are expanding. Since these properties are considered illegal by the central government, small businesses cannot protect their interest in land taking cases.

Small businesses also have difficulties with the access to credit. Banks require mortgages and high levels of collateral or guarantees and there are too few financial institutions catering to the needs of small businesses. The banking sector is dominated by state-owned commercial banks that disburse loans mainly to state-owned enterprises or large state infrastructure projects.

Valuation standards are also not strictly enforced and few small businesses use the services of professional valuers, believing that they are overpriced.
Kenya

The history of communal ownership, colonization, and one-party rule left Kenya with a property rights system full of conflicts, abuses, and multiple allocations of single plots of land. The Land Registry remains in disarray and the lack of a reliable decentralized registry is a major hindrance as buyers and sellers still come to the Ministry of Lands headquarters in Nairobi to obtain cadastral information. It has also impeded the pace of land transactions, presenting opportunities for extralegal payments. This situation has only recently begun to be addressed through the 2009 National Land Policy and Kenya’s 2010 Constitution.

The Constitution brings significant change in how property rights are viewed and enforced. For instance, traditional discrimination against women in terms of land inheritance has been made illegal. The old Constitution was silent on land inheritance by women and therefore customary and traditional practices prohibited women from inheriting their family’s land.

The Constitution also introduced important administrative changes that may affect local property markets. It provided for a devolved system where the national government shares functions with 47 newly created counties. Each county has a locally elected assembly with the power to pass local laws, including those on raising revenue. This is of significance for determining the level and methods of collection of local property tax rates, lands registry fees, and other levies.

Small enterprises based outside Nairobi face the costs related to formal registration since it is centralized in the capital. In addition, the registration process assumes that businesses have dedicated premises and postal address. Because the majority of small businesses are one-man firms that operate in small-scale informal trade, the requirement to establish physical offices is too costly. This is aggravated by the fact that local authorities are often unable to dedicate specific land for them to operate on. What is more, the existing tax regime for administration of Value Added Tax is cumbersome for small businesses, further discouraging formalization.

Stamp duty levied by the government on land transfer transactions – currently at 4 percent of property value – is a major hindrance to efficient transfer of land titles. Valuation standards are also not strictly enforced and few small businesses use the services of professional valuers, believing that they are overpriced. However, they often end up losing more money when those unlicensed valuers disappear with the deposit they collected or provide inaccurate valuation.

Informal processes in property rentals also remain prevalent. Many small businesses enter into arrangements that differ from one landlord to the other. For example, a large number of small businesses within Nairobi’s city center rent commercial spaces of 1 square meter for 24-hour periods or less. Typically these agreements are not well documented, resulting in property rights violations by landlords.

Philippines

The legal framework for securing and protecting property rights is well defined thanks to the constitutional provisions, Philippine Civil Code on ownership, Administrative Code, and related laws and regulations at the national and municipal
levels. Nonetheless, small businesses report that there is a discrepancy between laws on the books and how they are applied.

The extent of informal settlements is also a serious problem impeding the development of secure property rights system. The Urban Development and Housing Act of 1991 (the so-called Lina Law) has served as a legal shield for informal settlers. This law was intended to provide compensation and comparable conditions to informal settlers when they unlawfully occupy land and are forced to move to another location. However, the law gave rise to “professional” squatters who occupy valuable, strategically-located land anticipating expropriation and compensation.

Another key factor contributing to widespread informality is the lax implementation of the laws on property rights, in part due to extensive bureaucracy. There are 19 agencies involved in property administration and new laws are continually being passed. Many of the laws are outdated and conflicting, and there are inconsistencies and overlap between the mandates of the agencies. Small businesses see that the rule of law is not followed and are therefore discouraged from participating in the formal system.

Stakeholders in both cities underscored the need to have consistent, time-bound, and accountable channels that would better protect the rights of property owners. Reforms are needed both at national and local levels to streamline the mandates of various agencies and improve information sharing between national government agencies and local government units.

Given the growing importance of the real estate sector, the Real Estate Service Act (RA 9646 or RESA) was passed in 2008. The law created a body regulating the sector, the Real Estate Services Board, and provided guidelines on the certification of real estate professionals. However, the implementation of RESA poses some challenges. While the intention was to professionalize the industry and develop the capacity of real estate agents and brokers, some feel that the mandatory licensing and trainings are too costly.

Interviewed stakeholders also highlighted that small businesses have difficulty accessing loans because of the lack of teeth in the implementation of the mandatory lending to small businesses found in Philippine legislation. What is more, the Central Bank’s guidelines prohibit many commercial banks from providing more small business financing. Banks have to meet specific caps on non-performing loans and asset turnover. These contribute to the rather conservative position of some banks when it comes to financing for small entrepreneurs.

**Russia (Saratov Region)**

The right to own real property is guaranteed and protected by Russia’s constitution. However, protection of private property remains weak, as evidenced by the country’s low ranking in international indices such as 2011 Index of Economic Freedom where Russia’s score on property rights is only 25 out of 100. All real property transactions must be registered with a government agency set up for that purpose. Both federal and regional laws apply to the transfer of real property. In practice, such transactions are often registered at a fraction of the real sale price in an effort to avoid taxes. Russia has a dual taxation system on real property, with one rate for land and one for buildings. This is set to change in 2013 with the implementation of a Unified Real Estate Tax that will also set in place a national system for the valuation of property. The shape of the upcoming reform is a source of great concern for entrepreneurs. Specifically, entrepreneurs fear that large property holders will influence the process of valuing property for tax purposes so as to shift a disproportionate part of the tax burden onto SMEs. Entrepreneurs are also concerned that the process for appealing valuations will not be transparent and fair.

A key factor contributing to the weakness of property rights protection is widespread corruption.
The rate of corruption connected to Russia’s real property market is significantly high for two reasons. First, government entities own a large percentage of Russia's land. The laws – municipal, regional and federal - governing how that land is sold or leased are vague and contradictory. This gives government officials significant, non-transparent discretion in determining the terms of the land's disposition. Second, Russia’s courts are ineffective guarantors of property rights because of their inability to uphold judicial standards and punish instances of corruption. A system of mediation of property disputes is still in the development stage.

In the course of reaching out to entrepreneurs in Saratov region, another source of corruption became apparent. In the Saratov region, the property market is subject to local laws and regulations from 41 different jurisdictions. This degree of localization gives local officials considerable discretion and makes it difficult for SMEs to collectively seek the reform of corruption-prone laws.

### The Way Forward

The work conducted by CIPE and local partners produced recommendations unique for each country. They outline priorities and specific steps that should be taken to improve small businesses’ property rights, access to credits, and ability to productively leverage their assets. Several shared themes emerged:

#### Property Rights

- Simplify and harmonize property rights frameworks, including the functions and procedures of agencies involved in land administration.
- Create a more structured, accountable, and transparent process of property rights administration, starting with fully digitized registries.
- Develop new legal tools tailored to small business needs that would formalize the informal transactions already common in the market (e.g., short-term leases or daily permits that do not require bulk rent payments).
- Educate small businesses about their rights, in particular those related to new or revised property-related laws.
- Improve legal protection of tenants, especially regarding business losses related to abrupt lease termination by landlords.
- Provide tenants with standard simplified lease templates and educate them about the benefits of signing formal leases.

#### Access to Credit

- Develop new forms of financing tailored to small business needs (lending based on leasehold, business plans, purchase orders, or movable assets; factoring in future income in loan eligibility; greater availability of venture capital and angel investment).
- Provide guaranty systems to finance start-ups and newly established small businesses.
- Standardize loan and mortgage documents to help small businesses transfer from one financial institution to the other in search for better loan terms.
- Educate small businesses on proper methods of financial record keeping and preparing sound business plans in order to help them become more credit worthy.
- Improve cooperation between non-governmental organizations, cooperatives, microfinance institutions, and local governments in providing alternative formal lending.
- Encourage formalization of small businesses as the ultimate solution to enhancing their access to credit.
Efficient Governance

- Restructure agencies dealing with property rights so that the division of responsibilities is clear and property-related procedures are more efficient.

- Institute better linkages between national and local government units responsible for property administration.

- Enhance governance and accountability, especially at the local level, for instance through more effective setting and enforcement of service charters.

- Develop expertise (including computer proficiency) relevant to property issues and foster a culture of professionalism in the civil service.

- Improve city planning and zoning in the face of rapid urbanization to dedicate space for small vendors in commercial centers.

- Improve market facilities and provide small businesses with the public services they need so that they can see the value in registering their operations.

- Recognize that corruption is a two-way street and push for higher integrity standards and anti-corruption mechanisms among both government officials and businesses.

- Strengthen dialogue between the public and private sectors so that private sector stakeholders participate in public hearings, technical working groups, and consultations on property-related issues at various government levels.

Rational Dispute Resolution

- Educate businesses about the need to enter into formal transactions – regarding property or any other aspect of business – in order to possess legal recourse should a dispute arise.

- Provide judiciary training, capacity building, and better accountability mechanisms in the resolution of property-related cases, notably expropriation, legal ownership, and informal settlements.

- Given the entrenched inefficiency of courts, develop alternative dispute resolution methods such as tribunals tailored to small businesses or small claims courts.

Financial Transparency

- Improve the uniformity of valuation standards through legislative action to bring them in line with international standards.

- Harmonize data standards to ensure that accurate property information is available to all market participants.

- Provide incentives for commercial banks to tailor their services to the needs of small entrepreneurs.

Appropriate Regulations

- Implement public policy and administrative improvements to reduce the level of bureaucracy, corruption, and monopolization in the economy.

- Raise the qualifications of real estate professionals – agents, brokers, and valuers – through proper regulation of licensing, certification, and training.

- Lessen the burden of tax involved in property transfers to encourage formal transactions and limit incentives for corrupt practices aimed at avoiding excessive transaction costs.

- Lower the overall tax rate for small businesses and simplify tax administration and collection procedures to encourage formalization.
Property Rights and Democratic Governance

Having a secure space to operate from, whether owned or rented, is a key concern of any business regardless of size. Yet, few small businesses make use of commercial property markets and financing tools for their operations due to the numerous barriers they face. If property market institutions become more closely aligned with small business development strategies and needs, the overall competitiveness of the sector can be substantially raised.

The importance of improving property rights and related institutions for small businesses goes beyond the economy. Complex requirements for property registration and leasing, building permits, or taxation are often at the root of corruption and undermine democratic governance. Similarly, legal and administrative barriers affecting the overall business environment create significant uncertainty for entrepreneurs and often make them resort to informality. Those problems are interrelated, making it difficult to tackle each one separately. Therefore, reforming property market systems cannot be viewed in isolation but rather as a part of a comprehensive reform process that touches upon many areas of governance, legislation, and enforcement.

In The Spirit of Democracy, Larry Diamond argues that constitutional protection for property rights is one of the fundamental aspects of a rule of law society and that “guarantees of property rights, including the ability of small holders and informal sector workers to get title to their land and business property, set a broader institutional landscape that limits government corruption.” Indeed, the development of competitive and transparent property markets that support operations and growth of businesses of all sizes and small businesses in particular requires not only legally protected rights but also strengthening of the broader institutions of good governance and market economy. This is the challenge – and opportunity – that Armenia, China, Kenya, the Philippines, Russia, and many other countries around the world face.

Endnotes

2 Definitions of a small business vary by country and sometimes also by industry. The focus here has been on businesses with 50 employees or fewer, given that those businesses account for the bulk of employment in most countries.

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