Lesson 1: Nigerian Land Markets and the Land Use Law of 1978

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Introduction

Among the main objectives of the Nigerian Land Use Decree of 1978 were: 1) reducing land conflicts among citizens; 2) unifying and simplifying land tenure concepts and land administration procedures throughout the country; 3) achieving a more equitable distribution of and access to land rights for all citizens regardless of wealth or position; and 4) facilitating greater government control over land use and development. Today, almost 35 years after adoption of the law, questions continue to be raised about whether the law has achieved its objectives, and, if so, whether it has created as many new problems for Nigerian land markets as it has solved. This lesson reviews some of the apparent outcomes of the 1978 Land Use Law (Ch. 202 of the Laws of Nigeria 1990, as amended; herein the “Land Law”) from the perspective of how they are affecting development of formal land markets in Nigeria.
BACKGROUND OF THE LAND LAW

From about 1900 until 1978, Nigerian land tenure was governed by several disparate legal systems. These included: customary law in the south emphasizing collective ownership among family and social groups; Islamic law and custom in the north; and two separate systems of British colonial law—common law private ownership in the south and Crown ownership in the north. Nigerian opinion leaders believed that disparities among these systems, lack of a unified national property law system and antiquated aspects of both customary and colonial era law were impeding investment and preventing an equitable allocation of land among citizens. In 1977, a national commission was created by the government to study the land tenure question, and, in 1978, the Land Law was adopted.

The Land Law nationalized land, placing ownership in the hands of the state governors “in trust” for the benefit of all the Nigerian people. In urban areas, which may be delineated by the governor of each state, allocation of land rights is administered by the governor’s office, and in non-urban areas, by local governments. In urban areas, all pre-existing types of land rights were superseded and today, landholders may obtain only a statutory right of occupancy. In the non-urban areas, customary land rights are preserved under the law and “customary” rights of occupancy may be obtained. In practice, there appears to be little difference between the urban and rural variations—landholders in both areas are entitled to obtain a “certificate of occupancy” evidencing their rights, which is essentially a state lease of up to 99 years.

Land appears to be available to citizens and businesses in Nigeria, however, various degrees of scarcity may exist depending on location, and land may be relatively expensive. Although scarcity and high prices may hamper access to land in some highly developed areas of the country, some argue that Nigerian land markets face more fundamental problems. These include: 1) inadequate infrastructure—electric power, in particular—and scarcity of serviced land; 2) widespread and increasing informality in the land market caused by cumbersome administrative procedures and high official transaction fees; and 3) an insufficient number of reliable land titles, another result of the conversion procedures of pre-1978 rights. Cumbersome transaction procedures, high transaction fees and an insufficient number of reliable land titles can arguably be traced to certain aspects of the Land Law.

While this overview is necessarily generalized, it is likely that each Nigerian state has experienced most of the issues discussed below. Nigeria is a federal system comprised of 36 states and a federal capital area. The Land Law and Constitution give the states significant discretion in setting the rules and procedures governing land relations. States set the level of their transaction fees and land charges and design the administrative procedures governing land transactions. Each state is responsible for developing and implementing a system for registration of land rights. States are progressing at different rates in addressing land issues. Some are making noteworthy efforts to implement new ideas and approaches in land administration, developing new management and registration systems as well as seeking ways to simplify and reduce the transaction costs of administrative procedures.

MARKET INFORMALITY AND THE LAND LAW

The Land Law has had several significant outcomes for land market development. First, it ended private ownership of land per se and established statutory and customary rights of occupancy that may be alienated in market transactions (including sale and mortgage) only with the official written consent of the state governor or local government. In the opinion of many commentators, this step gave rise to elaborate land bureaucracies and administrative procedures that have greatly increased the time and costs of simple land transactions. In addition to the usual requirements of a private legal transaction, obtaining official consent to transfer a right of occupancy can now take months and require submission of multiple documents and certificates issued by different government agencies, including cadastral officials, land administrators and tax collectors.

A second outcome of the Land Law, directly related to the complex land transaction procedures, is that it contributed to the growth of a vibrant informal land market. Probably more than 70 percent of land transactions in Nigeria today are in the informal market. Though the Land Law nationalized all land, persons in occupancy in 1978, and whose land has not been physically expropriated by the state since that time, remain in possession and are entitled to obtain a registered certificate of occupancy. Since it is possible for any current holder of the land to obtain the certificate by proving the chain of title or possession, there is an active market for rights of occupancy. These transactions with land rights often enjoy full contractual formalities between the parties, but they are informal in the sense that they lack the certificate of occupancy and the official consent required by law and are unregistered.

There are also many transactions in which rights under statutory certificates of occupancy are transferred by standard contractual documents without official consent and registration. State approved and registered transactions with certificates of occupancy, sometimes referred to as the “organized market,” may account for fewer than 20 percent of land transactions. In 2007 in Lagos state, an urban agglomeration of more than 11 million people, the Ministry of Lands recorded only 2,714 applications for official consent to transfer a right of occupancy. While the typical rules of thumb for predicting property turnover in developed markets do not apply in Africa, it may nevertheless be reasonable to assume that in an urban area of this size tens of thousands of properties would turn over in any year, but this is not reflected in official records.

Mortgaging rights of occupancy, specifically permitted by the Land Law, provides a good example of complex administrative procedures. A 2010 IFC-sponsored study of the process for obtaining a governor’s consent to mortgage a certificate of occupancy in Lagos state found that the average time for issuance was 240 days.
and that on average the application file was touched by 16 government officials. That study found that an average of 40 days was spent just getting the signatures of senior officials. Some analysts believe that these delays have led lenders and borrowers to use alternatives to legal mortgages, such as unregistered assignments of property deeds to lenders and long-term leases that convert to ownership upon payment of the purchase price in the form of rent. Another significant disincentive to the use of legal mortgages for home purchase transactions is that the mortgage consent procedure requires review of the applicant’s most recent income tax returns, and there is evidence that authorities may reassess recent tax payments solely on the basis of the value of the home purchased.

Conversion of pre-1978 customary rights in non-urban areas into statutory certificates of occupancy might induce more market activity by creating reliable titles, but holders of such rights have little incentive to enter the formal system. The procedure for obtaining a certificate of occupancy from local governments in non-urban areas can involve up to 20 separate steps and, in the worst cases, can take upwards of 2 years to complete as applicants face the hurdle of proving complex chains of title. Once they formalize their rights, landholders still face the same administrative burdens for subsequent transactions, and there is presently little downside to not formalizing. Some researchers estimate that an unregistered customary land right can change hands a dozen times before someone seeks official consent and registration, usually because they want a legal mortgage or other benefit available only to formal rights.

Though the negative effects of widespread land market informality can be debated, in the Nigerian market the effects may include fraud and unreliability of titles and transactions, which can reduce market liquidity. Since the informal market in beneficial rights continues, fraud can be a significant problem as rights must be proven on the basis of a chain of title evidenced by a wide variety of official, non-official and legal documents, making forgery and disputed titles more likely. It has become common in and around urban areas to mark the walls of properties with the legend “This Property is Not for Sale” in an effort to prevent fraudulent sales. Moreover, as time goes by and documents are lost or destroyed it becomes harder to prove title, making conversion of pre-1978 rights to statutory rights more difficult.

The increasing informality of land markets may lead to other problems such as: 1) precluding development of modern land cadastre and registration systems; 2) undermining state collection of recurring land charges and transaction fees; 3) preventing implementation of good land use planning and subdivision practices; and 4) creating an uneven playing field for businesses. A particular concern of local authorities in non-urban and peri-urban areas is that informal transactions in pre-1978 rights are leading to poorly documented and planned subdivision of land, as landholders sell off portions of their land with little attention to the physical needs of access, public amenities and services. In one state, the planning authorities have been addressing this problem by offering to prepare land subdivision plans for customary right holders for a nominal fee and without requiring that the landholder immediately convert the right to a statutory certificate of occupancy.

In addition to the complex procedures, there may be reasons for inefficient land administration. For example, the procedures can be poorly managed for lack of needed human resources and management information systems, or for failure to instill a sense of customer service in managers. Most steps and requirements of the Nigerian land administration procedures might be insignificant if there were more highly developed electronic systems and databases that would allow rapid title and land use verifications. And, as in other emerging markets, the land transaction procedures are used to assure compliance with other regulatory requirements, such as building codes and payment of a wide variety of taxes (the land procedures are convenient checkpoints at which compliance with other rules can be assessed). If separate procedures are created to address these other concerns, the time and costs of the land registration procedures may diminish.

**LAND TRANSACTION FEES**

Land transaction fees may be more of an issue than administrative procedures. While high transaction fees are not necessarily related to the content of the Land Law, they may be related to the sense of the law that land is a national and not a personal asset. Fees typically include registration fees and stamp duties each equaling 2-3 percent of the asset value, capital gains of 2-3 percent of net land sale proceeds, and a transfer fee that can range from 8-30 percent of the value of the property, depending on the state. Total fees for a sale of rights can range from 15 percent to over 30 percent of the land value. By international standards, most of these fees are high, and there are indications that they contribute to a high level of land market informality as Nigerian citizens and businesses seek to avoid payment.

In 2005, Lagos lowered the consent fee for a transfer of land rights held for more than 10 years from 16 percent of property value to the current level of 8 percent. While this is a significant reduction, this fee is still among the highest land transfer fees in the world. At the same time, some professional land developers and investors say that for them the transaction fees are a minor consideration in the context of Nigeria’s market. In the years running up to the international financial crisis in 2007-2008, annual price appreciation of land in major Nigerian markets at times exceeded 30 percent. Given the current annual inflation rate of 13 percent, it is likely that even after payment of state fees, real property is producing better yields than other investments. Many middle-class Nigerians still see land as a reliable store of value and their best hedge against inflation.

High transaction fees may reflect that recurring
ALLOCATION OF LAND

Another outcome of the Land Law is that while the state frequently expropriated land to support significant investment projects prior to 1978, the Land Law emphasized allocation of land to the common man to meet subsistence needs and address social issues, and induced significant expropriation and re-distribution of land by the state that continues to some extent today. The size of the primary market for state land grants differs among the Nigerian states depending on many factors, including the amount of vacant and uncommitted land controlled by the state and its willingness to continue to expropriate new land. Figures on Nigerian land transactions are difficult to find, but some estimates suggest that today direct government land allocations based on expropriation may account for less than 1 percent of transactions in and around the larger cities.

A significant component of the state land grant system is the state land “schemes” or land development projects carried out by state development agencies and which are a form of land allocation separate from direct grants to citizens. Land schemes can be for residential, commercial/industrial, and mixed use. State development agencies plan and install infrastructure and then directly allocate the land on to final users through a variety of mechanisms, but primarily by application to the governor or local government. Auctions and other competitive allocation procedures have been used by some states for residential land schemes, but they are uncommon. The main constraint on applications is that no person should receive more than one land plot from the state, but there is no limit on the number of plots that family members can acquire and waivers of the restriction are common.

The Land Law called for creation of State Land Committees comprised of leaders and stakeholders that would govern land allocation. Few committees were established, and in some states where they were established, they have been allowed to languish. Most
informal occupation may increase in the new area and compound site delivery problems. Delivery problems are sometimes due to failure to complete subdivision and installation of infrastructure. This in turn is attributed to the failure of grantees to pay their required land price or infrastructure contributions. Grantees don’t pay contributions in the expectation that the site may not be delivered to them for years, creating a circular problem. Low returns from land programs make governments reluctant to speculatively fund infrastructure in new land schemes, some of which are almost entirely dependent on payments from grantees who avoid payment and against whom there are few collection actions.

Since many older government land development schemes are fully allocated or are beyond government control because of informal settlement, governments of some states may have to increase the pace of land expropriation to provide significant further direct land grants. But recent years have seen an increasing number of protests from holders of land confiscated for government land schemes. Compensation for confiscated land is widely considered to be too low, resulting in transfer of wealth from small holders to investors, although some states have been increasing compensation levels. Legal objections have also mounted, including the argument that expropriation of land for the purpose of delivering it to a private party is not a “public purpose” under the applicable laws.

States also grant “wholesale” land concessions or enter into public-private partnerships for speculative developments. Under these arrangements, private partners often fund and install infrastructure, addressing the inability of state development agencies to do so. In recent years, Lagos state allocated the Lekki Free Trade Zone, a mixed use area of over 150 square kilometers south of Lagos City that will ultimately absorb several billion dollars of investment.

Similarly, the Eko Atlantic “new community” adjoining Victoria Island in Lagos City is a public-private partnership that will accommodate 250,000 residents on state land reclaimed from the sea. Most government efforts of this sort focus on the middle class and significant investors, but smaller enterprises get some attention in business parks designed for them. Truly small “cottage” and start-up businesses usually fend for themselves and are relegated to the secondary markets and mixed-use residential property.

State land prices are believed to be significantly lower than market prices, which may encourage speculation and under-utilization. Prices are typically a combination of an infrastructure charge and a price for the land itself. The infrastructure charge, based on cost recapture, is the main component of the price and may be the only price in the case of residential schemes for lower income people. Some land administration officials in Nigeria estimate that prices for state land grants are 40 percent below prices for equivalent parcels in the private secondary market. Few distinctions are made among land recipients, and the subsidy attached to state lands is generously spread over wealthy and poor alike. Hard data on how much state land programs cost in terms of unrepaid infrastructure expenses and price subsidies is lacking.

All state land grants are subject to a “development covenant” that requires the recipient to invest in land improvements within two years of the grant. While in theory it is not permitted to transfer land rights prior to satisfaction of the development covenant, the rule is not strictly enforced. Statistics are not available on the typical holding period for state land grants and particularly the number of transfers prior to satisfaction of the development covenant, but anecdotally this practice is believed to be widespread. In effect, failure to enforce this aspect of the law, coupled with failure to enforce restrictions on the number of land grants allowed to any individual, is widely believed to allow significant speculation in state land, something that the Land Law was intended to prevent.

The development covenant attached to the grant requires the grantee to invest in land improvements, but does require that the land be used continuously once development is complete. Because of business failures and other market forces, many serviced, well-located commercial and industrial sites allocated by the state may sit unused and deteriorating for years while remaining under the control of the original grantee. Reuse of allocated but unused or underutilized state lands could be a source of new lands available for investment, but, in practice, this remains difficult for several reasons. The initial prices and recurring costs (e.g., property taxes) of holding the land are typically too low to push current holders to reuse it, and the state has not reserved for itself a legal means of recapturing underutilized land. This situation has also led to a form of speculation in state land grants, though the extent of the problem is not known as there is little data on the scope of the government land programs since 1978.

LESSONS LEARNED

The question occasionally arises whether Nigerian states should continue to pursue a policy of land expropriation and development in the face of increasing conflict with current landholders and diminishing rationales for a state land program. When the Land Law was adopted, one of its main objectives was to exercise control over land allocation and use in such a way as to prevent excessive speculation and accumulation of landed wealth in a few hands, and to assure access to some land for a large part of the population. From the evidence presented above, it seems fair to suggest that these objectives have in fact not been achieved. Speculation is
widespread, including in state lands; restrictions on accumulation of multiple state land grants are haphazardly enforced; many land grants benefit the wealthy and well-connected; and the secondary markets, both formal and informal, are strong alternatives to a broad state land program.

In retrospect, the main barriers to achieving the objectives of the 1978 Land Law may have been the lack of modern land inventory, registration, and administration systems necessary to facilitate the law’s complex transaction procedures and failure to strictly and transparently enforce its provisions or anticipate the ease with which its provisions could be avoided by landholders. Incentives were insufficient to induce citizens to enter the formal market in statutory rights of occupancy envisioned by the law, and the disincentives in terms of transactions costs were considerable. Until relatively recently, insufficient time and resources were invested in devising simple and transparent administrative procedures to support the system envisioned by the law. Excessive reliance was placed on secondary transactions with land rights as a source of revenue, rather than less market-distorting recurring property taxes.

**Sources**


SOURCES (CONTINUED)


