

The Cost of Registering Property: Does Legal Origin Matter?

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Abstract: There is a large literature that finds that common law countries perform better than civil law countries in various aspects of the institutional environment. The present paper extends these findings to the cost of registering property. In a sample of 121 countries, we find that the cost of registering property is lower by 22% of the world average in common law compared with civil law countries, a result largely driven by differences in non-notary costs of registering property. We also find that GDP per capita and presidential as opposed to parliamentary political system are highly correlated with lower registration costs. We provide plausible explanations for these findings.

Keywords: Legal origin, Institutions, Property registration

JEL classification: D23, H1, H82, K00, K4, K11, P11, P14, P51

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1. Introduction

A large literature finds that common law countries perform better than civil law countries in various aspects of the institutional environment. Specifically, studies show differences across the two legal traditions in the quality of property rights protection and contract enforcement (Djankov et al. 2003), entry regulation (Djankov et al. 2002), labor laws (Botero et al. 2004) and financial development (La Porta et al. 1997, Djankov et al. 2008). For a literature survey of these findings, see for example, La Porta et al. (2008).

The present paper extends this literature by providing evidence on how the cost of registering property to firms (henceforth, registration cost) varies between civil and common law countries. If greater emphasis on private freedom vis-à-vis state control and greater judicial oversight that prevail in the common law compared with civil law countries results in better overall governance as suggested in the literature¹, one can expect the registration cost to be lower in common law vs. civil law countries. Our empirical results strongly confirm this hypothesis.

The relationship between registration cost and the legal origin of a country is important for a variety of reasons. First, La Porta et al. (2008) note that the most striking aspect of legal origin is the *pervasive* effect it has on economic outcomes. This raises the all important question whether there is more to legal origin than what existing studies (discussed above) have unearthed. The present paper answers in the affirmative. Second, high registration costs may prevent businesses and households from registering their property. Consequently, protection of property rights, a key ingredient of a well functioning market economy, can be seriously impaired depressing investment and

¹ See, for example, La Porta et al. (2008) and Treisman (2000).

business activity in general. Hence, it is crucial to understand what sorts of countries face higher registration costs and why so. The present paper attempts to take one step in this direction by profiling countries by their registration costs. There is substantial variation in such costs across countries. For example, according to the World Bank's Doing Business project, it takes entrepreneurs in Belgium 7 procedures (interactions with government officials), 132 days, and 12.7% of a property value to transfer a property from one domestic company to another domestic company while entrepreneurs in Georgia can transfer property at almost no cost (0.14% of property value) within five days requiring only 5 procedures.

The remainder of the paper is as follows. In section 2 we describe the data and the main variables. Estimation results are provided in section 3 and the concluding section contains a summary of the main findings.

2. Data and Main variables

The dependent variable, *Property Registration Cost*, is the cost of transferring a property from one domestic company to another and expressed as a percentage of the property value. Data source for the variable is the World Bank's Doing Business project. In the regressions, we use (log of) average value of the (property registration) cost over all years for which data are available (2004-2008). The mean value of the dependant variable equals 1.78 and the standard deviation is 0.962. Summary statistics for all the main variables are provided in Table 1.

Registration processes vary substantially across countries. For example, while some countries such as Algeria make extensive use of notaries for verification of property

documents, in other countries such as Australia, it is the standardized sale-purchase agreements and updated registries that play the verification role. Understanding which sub-components of the registration cost vary more (or less) across the legal traditions is beyond the scope of this paper. However, we do provide some evidence in this direction by analyzing the two broad sub-components: notary vs. non-notary cost.

Our main explanatory variable, *English*, is a dummy equal to 1 if a country's legal structure is based on the English common law (47 countries) and 0 otherwise (French civil law, 74 countries). Data source for the variable is La Porta et al. (1999).

La Porta et al. (2008) note that omitted religious, cultural and political factors constitute the most serious threat to the findings on legal origin. As a remedy, we use dummy indicators for the main religion in the country (Catholic, Muslim, Protestant and others), and an index of ethno-linguistic fractionalization (*ELF*). Data for the main religion and *ELF* are from La Porta et al. (1999). For political institutions, we use a dummy variable equal to 1 if the executive head is directly elected and 0 otherwise (*Presidential system*) taken from the Database for Political Institutions, World Bank. Consistent with the broader literature, the prediction is that presidential systems perform better than parliamentary systems (see, for example, Persson 2002). Lastly, we control for (log of) GDP per capita in 2000 (PPP adjusted and in constant 2000 USD) and country-size measured by the (log of) total population of the country in 2000. Both these variables are taken from the World Development Indicators, World Bank.

For additional robustness, we control for the level of human capital measured by (log of) gross primary enrollment rate in 2000 (World Development Indicators, World Bank) and the level of corruption in 2000 (International Country Risk Guide). Lastly, we

put our main results through a stringent test by controlling for the level of business regulation. The motivation here is to check if elements of legal origin that affect property registration costs are same or different from the ones that affect the broader business environment. Business regulation measures include the cost of starting a business and the cost of enforcing contracts taken from the World Bank's Doing Business project (log of the average value over all years for which data are available), and the Business Freedom index. The Business Freedom index is based on ten different indicators taken from the Doing Business project that capture various dimensions (other than registration cost) of the regulatory environment. Broadly, the dimensions covered include the difficulty in starting and closing a business and obtaining licenses and permits.²

3. Estimation

Regression results using the ordinary least squares method (OLS) and Huber-White robust standard errors are provided in columns 1-7 of Table 2. These results clearly show that the cost of registering property is lower in common law compared with civil law countries. The difference is statistically significant (at less than 5% level) and economically large. For example, without any other controls, the cost is lower by 0.391 percentage points (column 1, Table 2) or 22% of the mean value of the dependent variable in the common law countries. This difference remains relatively unchanged at 0.407 when we add all the controls discussed above (column 5, Table 2). However, it

² The Business Freedom index varies on a 0-100 scale with higher values implying less regulation or more freedom to firms. In the regressions, we use the average value of the index over 2000 to 2008 for which data are available.

does increase to 0.582 due to the controls for the main religion (column 3, Table 2) and falls due to the controls for business regulation (column 4 vs. column 5, Table 2).

Results for the remaining variables are along expected lines. Higher GDP per capita, presidential as opposed to parliamentary system and lower ethno-linguistic fractionalization are associated with a significantly lower cost of registering property. There is also some evidence that larger countries (measured by total population) have lower registration cost, perhaps due to fixed costs in the provision of registration services.

Columns 6 and 7 of Table 1 provide estimation results for the two sub-components of the registration cost: notary and non-notary. These results show that the non-notary cost, which includes property transfer taxes, registration fees, valuation fees, stamp duty, and other legal fees, is significantly higher in the civil law countries compared with the common law countries (column 7, Table 2). For notary cost, which includes issuing a copy of the deed to each party, notarizing the sale and purchase contract, and filing the original deed at the registry, there is no significant difference between the two legal traditions (column 6, Table 2). We note that these results do not depend on the various controls in the two columns. Future work may benefit from focusing on non-notary costs and its sub-components to better understand the relationship between legal origin and the cost of registering a property.

4. Conclusion

The paper extends the theory of legal origins to another dimension of institutional environment by showing that property registration cost is much lower in common law compared with civil law countries. We also found that much of this difference is due to

differences in non-notary costs. Precisely which aspects of legal origin matter for the property registration cost and why so are fruitful areas for future work.

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Table 1: Summary statistics for the main variables

	Mean	Standard deviation	Range (minimum, maximum)
<i>Property Registration Cost</i> (log values)	1.78	0.962	-2.30, 3.37
Notary cost	0.378	0.613	0, 2.6
Non-notary cost	1.88	0.820	-1.61, 3.32
<i>English</i> (dummy)	0.388	0.489	0, 1
GDP per capita (log values)	8.33	1.30	5.53, 11.1
Ethno-linguistic fractionalization (<i>ELF</i>)	0.391	0.306	0, 0.89

Table 2: Regression results (OLS)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	<i>Property Registration Cost</i>					Notary cost	Non-notary cost
<i>English</i>	-0.391** (0.042)	-0.416** (0.018)	-0.582*** (0.001)	-0.584*** (0.001)	-0.407** (0.030)	-0.154 (0.347)	-0.372** (0.020)
<i>GDP per capita</i> (log values)		-0.262*** (0.000)	-0.232*** (0.001)	-0.188** (0.017)	-0.149** (0.206)	0.127 (0.188)	-0.303** (0.042)
<i>Population</i> (log values)		-0.033 (0.543)	-0.083** (0.042)	-0.08* (0.051)	-0.1035* (0.085)	-0.033 (0.352)	-0.075 (0.104)
<i>ELF</i>			0.724*** (0.006)	0.715** (0.012)	0.684** (0.013)	0.306 (0.318)	0.477 (0.182)
<i>Catholic</i>			-0.047 (0.528)	-0.092 (0.687)	-0.361** (0.021)	-0.003 (0.979)	-0.427** (0.015)
<i>Protestant</i>			-0.211 (0.564)	-0.226 (0.527)	-0.593** (0.025)	0.080 (0.651)	-0.405* (0.080)
<i>Muslim</i>			0.276 (0.281)	0.327 (0.204)	0.0603 (0.772)	0.259 (0.274)	0.251* (0.249)
<i>Presidential system</i>			-0.485** (0.031)	-0.575** (0.014)	-0.473** (0.028)	-0.057 (0.768)	-0.597*** (0.002)
<i>Human Capital</i> (log values)				0.459 (0.102)	0.425 (0.158)	0.709** (0.032)	0.239 (0.510)
<i>Corruption</i> (International Country Risk Guide)				-0.331 (0.292)	-0.08 (0.796)	-0.236 (0.357)	0.427 (0.245)
<i>Business Freedom index</i> (Heritage Foundation)					-0.001 (0.934)	0.019 (0.052)	-0.011 (0.346)
<i>Cost of enforcing a contract</i> (log values)					0.199 (0.115)	-0.034 (0.732)	0.189 (0.171)
<i>Cost of starting a business</i> (log values)					0.062 (0.723)	-0.089 (0.234)	0.064 (0.582)
R ²	0.040	0.181	0.349	0.369	0.418	0.161	0.391
Number of countries	121	119	104	101	97	97	94

1. p-values in brackets. The dependent variable in columns 1-5 is the (log of) total registration cost as a percentage of property value. Total cost consists of notary cost which is the dependent variable in column 6, and the rest which is the dependent variable in column 7.

2. All regressions use Huber-White robust standard errors. Significance level is denoted by *** (1% or less), ** (5% or less) and * (10% or less). Sample size varies due to missing observations.

3. *ELF*: Ethno-linguistic fractionalization.