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## Governance structures for real estate transactions: Markets, networks and hierarchies in Windhoek's urban low-income settlements

*Peer reviewed*

### **Abstract**

This article examines the relative prevalence of markets, hierarchies and networks in the governance of real-estate transactions under three property rights regimes in Windhoek's low-income settlements. These governance structures are related to respective property rights regimes and to conjectures made about the implications for capital accumulation for the urban poor. It is found that network governance structures are the predominant modes of organising transactions under conditions of informal property rights, while hierarchical mechanisms predominate in the freehold and group categories. It is found that there is very little secondary market activity in all three rights categories. The article posits that, while networks provide access to real estate for the poor under conditions of informal rights, these are associated with tenure insecurity, and lock households in clusters based on ethnicity and kinship. Hierarchical structures, on the other hand, make freehold ownerships possible for the poor, but suffer from insufficient scale and create market distortions. It is concluded that a lack of secondary market activity in all the three rights categories severely limits the potential for capital accumulation.

**Keywords:** Property rights, real-estate transactions, governance structures, Windhoek

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## Abstrak

Hierdie artikel ondersoek die relatiewe voorkoms van markte, hiërargieë en netwerke in die (staats)bestuur van eiendomstransaksies in drie eiendomsregstelsels in die lae-inkomste nedersettings in Windhoek. Hierdie bestuurstrukture is verwant aan die onderskeie eiendomsregstrukture, en daar word bespiegel oor die implikasies vir die opbou van rykdom deur arm stedelinge. Daar word bevind dat bestuurstrukture in die vorm van netwerke die oorheersende wyse is waarop informele transaksies ge-organiseer word, terwyl hiërargiese meganismes grootliks in die vrypag- en groeps-kategorieë voorkom. Daar is ook bevind dat baie min sekondêre markaktiwiteit in enige van die drie kategorieë plaasvind. Die artikel betoog dat alhoewel netwerke toegang tot informele eiendomsreg aan armes verleen, dit gepaardgaan met onsekerheid oor verblyf en die verbintenis van huishoudings tot groepe gebaseer op verwantskap en etnisiteit. Hiërargiese strukture, daarenteen, maak vrypageienaarskap moontlik vir arm persone. Hierdie struktuur vind egter op 'n beperkte skaal plaas en veroorsaak ook distorsies in die mark. Die gevolgtrekking word gemaak dat 'n gebrek aan sekondêre markaktiwiteit in al drie die kategorieë van regte die potensiaal vir die opbou van kapitaal baie beperk.

**Sleutelwoorde:** Eiendomsregte, eiendomstransaksies, bestuurstrukture, Windhoek

## 1. Introduction

The 2015 target date for halving poverty under the Millennium Development Goals has provided fresh impetus for innovative ways in which to address urban poverty. One such approach, the 'making markets work for the poor' ('MMWP'), has in recent times, at least until the 2008 financial crisis, been dominant in the global anti-poverty discourse. This approach to fighting poverty seeks to leverage the power of various markets such as land markets, labour markets, commodity markets, financial markets, and so on to meet the needs of the poor. The underlying theory is that well-functioning markets that support competition and lower the cost of doing business provide incentives for trade and investment, thereby promoting growth and poverty reduction (DfID, 2005). In the context of urban land, the approach does dovetail with a central tenet of property rights theory, which holds that secure property rights in real estate makes commerce between strangers easier, expanding opportunities and thereby increasing gains from trade.

For reason of brevity, the article does not repeat the extensive literature linking real estate, property rights and poverty alleviation. Readers are referred to comprehensive reviews in the following articles: Mooya (2011: 238-244) and Mooya & Cloete (2010: 436-445) and papers: Durand-Lasserve & Selod (2007) and Payne, Durand-Lasserve & Rakodi (2007). A survey of this literature reveals that the application of the 'MMWP' approach to urban real-estate markets has not been well studied. In particular, the discussion about how

markets in urban real-estate markets may be made to work for the poor has not been framed in terms of what alternatives to the market mechanism exist, and how these compare as poverty alleviation instruments. Markets are, of course, one of the alternatives whereby transactions in real property may be organised. In addition, while there is considerable literature on the effects of property rights on demand for credit and investment, there has not been as much discussion about how different property rights regimes affect land transactions.

This article aims to address this lacuna in the literature, and has two principal objectives. First, the article reviews conventional theory relating to the governance of transactions, with a view of locating markets in their appropriate comparative context. Discussions about markets are rarely framed in terms of what alternatives to markets exist, and how these alternatives compare. Secondly, partial empirical results of case study research exploring the relationship between property rights and real-estate transactions in Windhoek's urban informal settlements are presented. The article examines the relative prevalence of alternative 'governance structures' for transactions in real estate, namely markets, networks and hierarchies. The article aims to relate these governance structures to one of three property rights regimes of varying quality (see section on Methodology), and to make deductions about the implications for capital accumulation for the urban poor. It is argued that systems of property rights embed transactions in specific institutional environments (Menard, 2005: 218-318), giving them epistemological precedence over markets, hierarchies and networks. That is to say, systems of property rights determine whether markets, networks or hierarchies will be the predominant mode for organising transactions in specific settings.

In the context of real-estate transactions in urban informal settlements, this article addresses two research questions: First, given specific types of property rights, what 'governance structures' are adopted or observed? Secondly, what consequences arise, deductively, for the poor from organising transactions in that fashion? The article employs the conceptual framework developed by Mooya & Cloete (2007: 147-165). This conceptual framework brings together institutional arrangements, property rights and transaction costs as determinants of real-estate market liquidity. Market liquidity is argued as being important in the realisation of the latent value of real estate which, in turn, helps in the accumulation of capital for the poor.

## 2. Conceptual framework and literature review

As with other economic goods, transactions in real estate involve at least six basic activities, namely search, inspection, contracting, execution, control, and enforcement (Furubotn & Richter, 1998). There are various ways of organising these transactions. Thus real-estate transactions may be 'administered', 'organised', or 'governed' by alternative structures.

The conventional approach is to view governance structures in terms of two extremes, with transactions organised within markets, at one end, and with transactions organised within hierarchical organisations, at the other (Furubotn & Richter, 1998). In between are a variety of hybrid forms, of which network structures are the most salient.

In this article, markets are narrowly defined to mean a mode of organising voluntary arm's-length exchanges between independent actors. 'Spot markets' are archetypical of this definition (Menard, 2005: 218-318). The defining characteristic of such markets is the pre-eminent role played by 'prices' in the allocation of resources. From a purely efficiency point of view, markets are generally perceived to be superior to other modes of resource allocation.

In contrast to the role of prices in markets, hierarchical governance structures emphasise the exercise of 'command' in resource allocation. This implies the existence of decision-makers with the necessary authority to impose their will or give effect to their wishes. Networks forms of organisation, for their part, rely on neither prices nor command as principal modes for coordination.

Rather, transactions are structured by 'relationships' between agents based on notions of solidarity, altruism, loyalty, reciprocity and trust (Thompson, 2003; Meagher, 2005: 217-238). Smith-Doer & Powell (2005) emphasise that network governance structures are most salient in a domain between the flexibility of markets and the visible hand of organisational authority. Network governance structures provide scope for human agency, which may be narrow in hierarchical structures, while emphasising structure and constraint, which may be weak in 'atomised' markets (Smith-Doerr & Powell, 2005).

Table 1: Types of socio-economic order

<i>Basic attributes</i>	<i>Market order</i>	<i>Network order</i>	<i>Hierarchical order</i>
Type of order envisaged	Spontaneously generated outcomes	Designed outcomes, or spontaneously generated outcomes	Designed and consciously organised outcomes
Behaviour of agents	Private competitive decisions	Cooperation and consensus-seeking	Rule-driven and active authoritative inputs
Mechanisms of operation	Price mechanism, competition, self-interest, self-regulation	Loyalty, reciprocity, and trust	Hierarchically organised/ bureaucratic administration/ monitoring, scrutiny, interventions
Type of overall coordination or governance offered	Unseen 'guiding hand', 'non-governance', but <i>ex post</i> coordination	Formally organised coordination and governance; or 'self-organised' informal 'non-governance'	Overt, purposeful guidance and 'active governance', <i>ex ante</i> coordination

Source: Thompson, 2003: 48

Table 1 is a comparative summary of the characteristics of the three governance structures or 'socio-economic orders'

Given that specific transactions may alternatively be coordinated by markets, hierarchies and networks, the problem is to determine which governance structure is economically preferable under which detailed circumstances (Menard, 2005). It is suggested, in this instance, that the preferable one in the context of low-income settlements would be the one that maximises opportunities for capital accumulation.

Transaction-cost theory provides an explanation for the existence of alternative modes of organisation as well as the characteristics of these arrangements (Menard, 2005). Transaction costs are postulated to arise, due to both the complexity of the decision environment and the propensity on the part of human beings for opportunism, described in memorable fashion by Oliver Williamson (1985: 30) as 'self-interest seeking with guile'. It is postulated that calculative agents will adopt the mode of organisation that economises on transaction costs, while safeguarding transactions against opportunism (Menard, 2005: 218-318).

Markets are conventionally viewed as the default governance structure ('... in the beginning there were markets', Thompson,

2003: 67, citing Williamson, 1985). This is perhaps mainly due to their superior efficiency in solving the coordination problem via the price mechanism. In addition, compared to hierarchical organisations, markets appear on the surface to function with relative ease, requiring very little by way of visible supporting infrastructure and allowing for buyers and sellers to consummate transactions quickly, democratically and in an egalitarian fashion. For this reason, the existence of alternative governance structures has been explained in terms of market failure arising from high transaction costs. The existence of hierarchy, for instance, has been explained in term of this logic. As Menard (2005: 218-318) puts it, when the cost of using the price system becomes too high, the organisation of activities under a central command may become advantageous.

Eggertsson (1990: 15) lists the costs associated with using the price system and arising in the course of the six types of transactions identified above as follows:

- 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.
- The bargaining that is needed to find the true position of buyers and sellers.
- The making of contracts.
- The monitoring of contractual partners to establish whether they abide by the terms of the contract.
- The enforcement of a contract and the collection of damages when partners fail to observe their contractual obligations.
- The protection of property rights against third-party encroachment.

Hierarchical structures may, in certain circumstances, be better placed to mediate these costs. For example, they may take advantages of economies of scale in information-gathering and -processing as well as access to financial resources and technical expertise to reduce search and information costs, and bargaining and decision costs. In addition, as Menard (2005: 218-318) argues, the capacity of decision-makers in hierarchical organisations to allocate resources without negotiation reduces bargaining and decision costs and provides a powerful tool for dealing with uncertainty. Finally, hierarchical organisations tend to be vested with administrative and/or statutory authority, backed with both internal and enforcement capability of the state, thus giving them

a comparative advantage when dealing with supervision and enforcement costs.

The costs associated with using hierarchical structures are well documented in the literature. These include inflexibility and inefficiencies typical of bureaucratic forms of governance. Other costs arise from the activities of decision-makers in these organisations who may have incentives to pursue socially undesirable activities. Given the power, for instance, to administratively allocate a valuable commodity such as land and housing to the poor, decision-makers may engage in corruption and other forms of 'rent-seeking' behaviour, benefiting existing elites at the expense of the poor who lack the wherewithal to successfully navigate officialdom.

Networks provide appropriate governance structures for those for whom the market system is too costly as an option and for those for whom official hierarchy is inaccessible or unavailable. According to Smith-Doerr & Powell (2005), networks provide three broad categories of benefits, namely access, timeliness and referrals. Social ties inherent in networks can facilitate access to parties that provide information or resources in an expeditious manner. Referrals by members of networks offer the opportunity to bypass formal, impersonal channels, again expediting access to information and resources (Smith-Doerr & Powell, 2005). North (1990, cited in Meagher 2005: 217-238) views networks as mechanisms for reducing transaction costs by filling gaps in formal institutional arrangements, particularly in contexts of underdevelopment or institutional collapse, such as is found in informal settlements. In these contexts, networks are thus appropriately conceived as providing a framework for 'order without law' (Ellickson, 1991, cited in Meagher 2005) or 'order for free' (Sturgess, 1997, cited in Meagher, 2005). Perhaps more significantly for this article, it is argued in the literature that dense network ties may enhance economic efficiency, by reducing the cost of economic organisation.

Against these advantages are ranged a number of disadvantages. For instance, networks based on kinship or ethnic ties, by emphasising group solidarity and loyalty, may stifle innovation, thereby locking members in 'low-level' equilibrium traps. In addition, transactions based on altruism and reciprocity may stand in the way of greater economic efficiency. Network forms of co-ordination may, for example, lead to free-rider problems and situations where some individuals reap disproportional benefits or costs from the collaboration (Entwistle, Bristow, Hines, Donaldson & Martin, 2007: 63-79). Meagher (2005: 217-238) refers to studies which show that

African social networks have not been conducive to economic development, allowing a redistributive logic to overwhelm efforts at accumulation. Meagher (2005: 217-238) goes so far as to associate the expansion of social networks in African societies with 'parochialism, criminality and communal violence' rather than with economic development. Under these circumstances, network forms of co-ordination are a source of 'social liability' rather than 'social capital' (Entwistle *et al.*, 2007: 63-79).

It is argued, in this instance, that systems of property rights determine or affect the governance structures adopted in practice, because of the intimate relationship between property rights and transaction costs. Transaction costs, for example, have been defined as the costs associated with the transfer, capture and protection of property rights (Barzel, 1989). The key relationships, therefore, are that property rights determine transaction costs which, in turn, are associated with respective optimal governance structures. Markets, hierarchies and networks for their part ultimately determine the extent and manner in which real estate may be used as a tool for capital accumulation and, therefore, poverty alleviation.

### **3. Methodology**

#### **3.1 Methodological approach**

The results discussed in this article come from a larger case study which used the Institutional Analysis and Development (IAD) framework (Ostrom, 2008) as a basis for the comparative analysis of the effects of three types of property rights regimes in settlements located on Windhoek's periphery, namely freehold rights, informal rights and group rights. These property rights are conceived as the key institutional variable differentially affecting their respective markets. Freehold property rights are clearly defined, in terms of both content and spatial extent. This means rights are held with regard to specific demarcated plots. In addition, holders of these rights can sell, lease, bequeath and exercise all the normal rights of property ownership. Very significantly, these rights are enforceable by the state. They are, therefore, very secure.

The informal market, on the other hand, is, as the name implies, structured by informal, often illegal property rights. By informal rights is meant those rights held by economic agents that fail to adhere to the established institutional rules or are denied their protection (Portes & Haller, 2005: 425). As 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, therefore, 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 regarded as crucial to the leveraging of, among other things, real-estate markets for poverty alleviation.

Finally, in the context of this study, the group market 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 to 100 individuals may occupy the block of land, on specific plots surveyed to a lower standard. Significantly, holders of group rights have more restricted powers to deal with their property than holders of freehold rights. For example, 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 instances, 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. Crucially, local groups, rather than the state, are the primary enforcement mechanism for these rights.

The case study settlements were selected on the basis that in each was present in close physical proximity the three types of property regimes. The intention was to control, up to a point, for the influence of physical and material conditions and attributes of community, thus leaving the institution of property rights as the independent or causal variable.

Therefore, the comparative institutional approach adopted in this study attempts to evaluate the effects of the three property rights

regimes on real-estate transactions. 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 (2008) 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 instance where policy interventions have in the main sought to transform informal property rights into individual freehold rights.

### **3.2 Research design**

The main empirical data for the study was collected from two settlements in the north-western and northern fringes of Windhoek, called Goreangab and Okahandja Park, respectively. A total of 440 out of the intended 600 households were successfully interviewed. Of these, only 17 (or approximately 4%) stated that they were renters. This relatively low number resulted from the methodological approach of sampling households, and reflects the low incidence of outright renting of entire dwellings, as opposed to renting of rooms or outbuildings. The rental market, as the discussion in the findings section will show, is significantly higher than is suggested by the above statistic.

It is estimated that the sample represented approximately 10% of the relevant population, although this is difficult to confirm, due to the lack of suitably disaggregated data. The interviews themselves were carried out with the aid of detailed questionnaires (available on request from the corresponding author).

In addition to the standard interviews described above, a total of 14 respondents were selected for detailed unstructured interviews in order to gain 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. To obtain a range of contextual information, these interviews were supplemented with semi-structured interviews held with key officials from the Windhoek City Council (WCC), the Namibian Housing Action Group (NHAG), and the Namibian Housing Enterprises (NHE).

The Windhoek City Council is responsible for the control and regulation of informal settlements. In addition, most of these settlements are on land that legally belongs to the municipality. The Namibian Housing Action Group (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 mobilise collective savings for the purchase and group settlement of land for their members. 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.

The study employed a qualitative methodology. The data was analysed mostly descriptively. In order to test for significance of any differences between the three samples and to attribute these differences to respective property rights categories, three types of statistical tests were done for a few critical variables, namely:

- One-way analysis of variance (ANOVA) to test for the significance of differences for continuous variables between the three samples.
- *Chi-square* tests to test for significance of differences between categorical variables between the three samples.
- Analysis of covariance (ANCOVA) to control for the income differences between the samples.

### **3.3 Study area**

Empirical data was collected from two low-income/informal settlements in the Katutura area of the Namibian capital, Windhoek, namely Goreangab and Okahandja Park. Goreangab, also known as Greenwell Matongo, is approximately 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 approximately 8 kilometres from the city centre. The population in this settlement consists of almost exclusively resettled residents and squatters.

The broader Katutura area has expanded considerably, mainly as a result of immigration. Between 1970 and 1987, the Katutura population doubled from 25.464 to approximately 55.000. It almost doubled again in the five years between 1987 and 1991 (Pendleton, 1996; Pendleton, 1991). The 2001 census data put the

population of Katutura at approximately 142.000 (NPC, 2005), 61% of Windhoek's total. The most recent (2011) census saw Windhoek's population rise to approximately 322.500 (NPC, 2012). Though this census data is not disaggregated to indicate the population of Katutura *per se*, the evidence reaffirms the primacy of Katutura in Windhoek's demographics.

Poverty levels in Katutura are high, mainly 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, n.d.). Those in formal employment are usually unskilled workers, with a sizable number working for the Government or parastatals. Others work as domestics in the more affluent parts of Windhoek. The lack of sufficient employment opportunities in the formal sector has resulted in most people resorting to informal means of income generation. Peyroux & Graefe (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 metalworking.
- Taxi enterprises.
- 'Shebeens' (illegal bars) and *cuca* (grocery) shops at private houses.
- Other home-based activities such as tailoring and child-minding, and so on.

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 municipality's response to the problem of informal settlements is encapsulated in the Development and Upgrading Strategy (DUS) adopted in 1999. In terms of implementation, the DUS has four strategic thrusts: The in-situ upgrading of informal settlements; the development of areas for resettlement; 'Greenfield' development, and the promotion of self-help group development (City of Windhoek, 2005). Of these, upgrading and self-help group development have been the preferred options.

#### 4. Analysis and discussion

Table 2: Numbers of households interviewed, by property rights type and settlement

Type of property rights		Name of settlement		Total
		Goreangab	Okahandja Park	
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
	% within type	60.9	39.1	100

Source: Authors' survey data

Table 2 shows the overall characteristics of the survey sample, whereas Tables 3 and 4 show the characteristics of the respondents in terms of employment status and average income, respectively. 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 nearly 46% holding 'white collar' jobs.

Table 3: Employment status

Type of property rights		Type of employment				Total
		Not employed	Self-employed	Blue collar job	White collar job	
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

Source: Authors' survey data

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, and so on. '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 4: Monthly income 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

Source: Authors' survey data

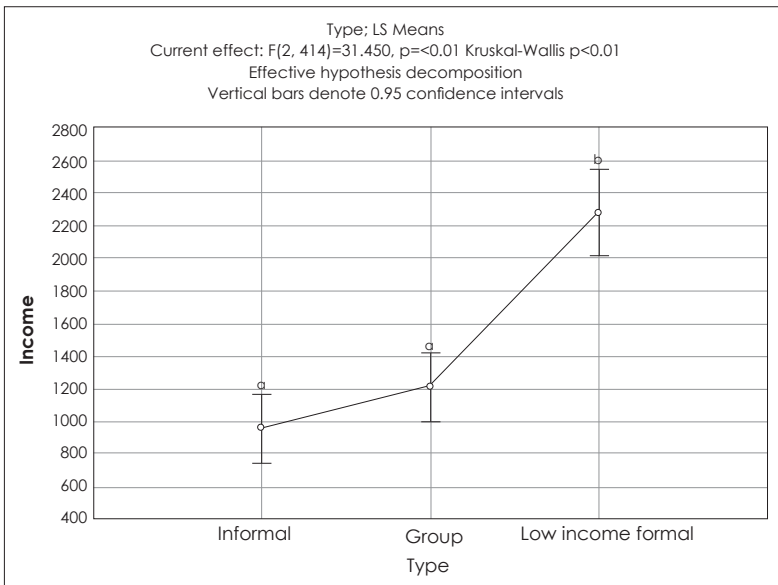


Figure 1: Test for significance of differences in mean monthly income

Though the data shows that those in the informal category have the lowest average income, the differences between this and the group category is not statistically significant (see Figure 1). There is however

a clear difference between these two groups and those in the freehold category. The latter have definitely higher average monthly income, on account of less unemployment, higher education levels and better quality jobs. Note however the relatively high standard deviations of income 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.

In terms of the conceptual framework developed by Mooya and Cloete (Mooya & Cloete, 2007: 154), an increase in the size of real estate markets in both trading frequency (churn) and spatial extent is considered desirable because of economies of scale and scope that this can bring about (Furubotn & Richter, 1998), thereby increasing opportunities for capital gains.

A sense of the state of market activity in the 2 years immediately prior to the study was built by combining responses from a number of questions, namely, period since acquisition of property, knowledge of local sales and knowledge of rental activities. The study has shown that there is very little secondary market activity for all three rights categories in the study area (see Mooya & Cloete, 2010: 436-445).

Table 5: Knowledge of local sale activity

Type of propertyrights		Knowledge of local sale activity				Total
		None	1 person	2 persons	3 persons	
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

Source: Authors' survey data

The data shows that over 90% of respondents in the informal category have no knowledge of any sale transaction (see Table 5). The respective figures for group and informal categories are 97.5% and 77.8%. The finding of limited transaction activity is consistent with results obtained elsewhere (see for instance Gilbert, 2002: 1-19; Home & Lim, 2004; Ward, de Souza & Giusti, 2004: 2621-2646). It

would appear therefore that opportunities to derive benefits from trade and expanded markets are limited in the case of Windhoek's settlements. The obvious question is why this is the case.

High transaction costs cannot be the sole or main explanation, as there is no evidence of high propensities to trade being frustrated by such costs. 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, with hardly any respondents contemplating selling (see Mooya & Cloete, 2010: 436-445), and even then only as a consequence of major life decisions, such as emigration from the area.

Whatever the reasons are for the state of affairs, it is clear that real estate markets in Windhoek's low-income settlements at present cannot be leveraged for capital accumulation in any significant manner, and that this will remain so unless interventions are made to 'prime' these markets (Mooya, 2011: 238-244).

This means deliberate interventions aimed at bringing about increased trading activity. This raises the often overlooked point that markets do not just come about, a point which the conceptualisation of markets as 'spontaneous order' tends to obscure. This conceptualisation rests in part on the ubiquity of markets in society and the apparent ease with which they appear to function. On the contrary, formal markets depend not only on an elaborate legal and administrative infrastructure, but also on cultural repertoires favourably disposed to, or facilitative of impersonal exchange systems.

While the lack of market activity affects all property rights categories the chi-square test shows that there are statistically significant differences between the rights categories. The hypothesis that knowledge of local sale activity is the same is rejected with a p value of 0.0000. The data shows that there is more sale activity in the freehold category (Table 5 shows that almost 20% respondents know of at least one sale).

There is a sense of a nascent market struggling to emerge in the freehold category, one that is closest in character to conventional middle class real estate markets. It appears 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 N\$4,000 per month (1US\$ = approx. N\$7) 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<sup>2</sup> core house at N\$65, 000.

A conventional 2 bedroom 63 m<sup>2</sup> house is priced at between N\$163, 000 and N\$175, 000. In comparison, the minimum normal price for a 2 bedroom house with full finishes in Windhoek is over N\$250, 000 (Tekie, 2008: personal communication).

This makes the NHE houses a very attractive proposition and explains on one hand the long waiting list and need to allocate 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 apparent pressures for movement in that direction. 'Normal' here refers to open transactions between private individuals unhindered by bureaucracy.

Table 6: Knowledge of local rental activity

Type of property rights		Knowledge of local rental activity							Total
		None	1 person	2 persons	3 persons	4 persons	5 persons	Over 5 persons	
Informal	Count	136	6	2	6	2	0	14	166
	% within type	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
	% within type	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
	% within type	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
	% within type	64.3	8.8	6.2	5.5	1.4	2.8	11.1	100

Source: Authors' survey data

If sale markets are weak, the picture regarding rental markets is better. Table 6 shows awareness about outright rent of entire properties as opposed to letting parts of dwellings. 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.

As pointed out before, there appears to be a very limited market for outright rentals of entire dwellings. Only 17 out of the 440 respondents (i.e. approximately 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 backyard 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 backyard 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.

Table 7: 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

Source: Authors' survey data

Bearing in mind the small sample size for rental of entire dwellings, Table 7 shows the average rents paid. 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. But perhaps what is of more importance is that the rentals, while little in absolute terms, represent a significant proportion of average household income. Thus average rents paid in the informal area amount to approximately 26% of reported average household income.

Table 8 shows that approximately 72% of respondents in the freehold category obtained their houses from the NHE. The data confirms on one hand the lack of secondary market activity across the rights categories (evidenced by the lack of transactions between 'private persons') and the relatively better performance of the freehold sector in this regard. 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 income 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.

Table 8: Source of property acquisition

Type of property rights		Source of property acquisition							Total
		Relative/ Friend	Private person	Munici- pality	SDFN	Informal	NHE	Other	
Informal	Count	32	6	52	12	66	0	0	168
	% within type	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
	% within type	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
	% within type	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
	% within type	10.5	7.7	11.8	11.8	15.0	17.8	0.7	100

Source: Authors' survey data

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. It is evident that without this type of arrangement, the majority of residents in the freehold category would be occupying informal property. 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.

Table 9: Method of property acquisition

Type of property rights		Method of property acquisition					Total
		Acquired plot and developed it	Acquired incomplete structure and finished it	Acquired fully developed house	Inherited property	Received property as gift	
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

Source: Authors' survey data

An attempt was made to measure the types of transactions and the spatial extent of markets, with the intention of gauging the ability of the various property rights systems to support activity beyond immediate neighbourhoods. Theory holds that expanded markets result from clear property rights and are positively associated with capital accumulation. Table 9 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. 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. Vacant plots in informal areas were in the main acquired without monetary consideration, 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 approximately N\$4,500 and a median of N\$5,400. The vast majority of those with freeholds on the other hand are most likely to have purchased a fully developed house. The mean purchase price in this category is approximately 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.

Table 10: Prior residence

Type of property rights		Prior residence					Total
		New in Windhoek	From this settlement	From other informal settlement	From formal settlement	Other	
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	38	260	440
	% within type	0.0	5.5	26.8	8.6	59.1	100

Source: Authors' survey data

Table 10 measures the spatial extent of transaction activity, based on the respondents' place of residence immediately prior to their current acquisitions. Overall across the three categories there is both very little intra-settlement movement and very few recent arrivals. The data, therefore, suggest that acquisitions take place over relatively long distances. The acquisition of property over long distances in a context of unclear or illegal property rights, on the one hand, and a complex urban landscape, on the other, does *a priori* pose considerable challenges to those involved. The process entails a number of distinct activities which may usefully be viewed as beginning with the search for potential properties and ending with physical occupation. In between a range of activities must take place, such as finding a suitable property and rightful person with whom to transact, the evaluation of *bona fides*, comparing prices, and so on. These activities, in turn, generate transaction costs which, as was noted earlier, can be categorised as search and information costs, bargaining and decision costs, and supervision and enforcement costs (Furubotn & Richter, 1998). Theory predicts that the presence of these costs will require institutions to facilitate transactions.

For conventional or formal real-estate markets, this means systems of property advertising, legal contracts, system of title registration, and so on, 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. Findings from both survey data and the in-depth unstructured interviews with the six respondents in the informal category show that transaction activity in the informal category is to a large extent, facilitated by social networks, whereas hierarchical organisations predominate in the group and freehold categories. The survey data reveals that, in the informal category, property is mostly acquired either 'informally' (39.3%) or from the municipality (31%) (see Table 9 above). The 31% in the informal category who report acquiring land from the municipality were in fact resettled there by the City from other informal settlements, but have never been issued with formal title. The figure is almost certainly higher than it should be in practice, because of the reluctance by respondents to admit to their informal/illegal status. 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' (discussion to follow) or by invitation from relatives or friends. The study thus finds that the informal areas are characterised by small homogeneous 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, thus lowering transaction costs for those seeking to access land in the city (see Fawaz, 2008 for similar findings in the case of Beirut). 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 found 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 requires more authoritarian structures, a role played by '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 are not fully accountable to either

the municipality or the local residents. For example, by allocating plots of land to private individuals, these committees are in direct contravention of official policy. Behind the chaotic façade of informal settlements these committees 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.

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 noted earlier, these committees provide an important role; they not only provide information and access to land, but also have control and enforcement functions. They are particularly important in this regard for those who might not have access to social networks.

The key question for this article, 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. Of specific 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 mainly restricted to ethnic or kinship clusters. 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 to 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 costs 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 housing 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 approximately 86% (Muller, 2008: Personal communication) compared to the 35%-50% recorded for NHE loans (Tekie, 2008: Personal communication). From the point of view of capital accumulation, 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, particularly of the right to sell.

## **5. Concluding summary**

This article attempted to determine whether specific types of property rights were associated with particular 'governance structures' and whether there were implications for poverty alleviation or capital accumulation arising from alternative modes of organising real-estate transactions. Property rights theory associates enhanced transaction activity in real-estate markets with poverty alleviation via enhanced opportunities for capital gains and trading-up. Property rights theory predicts that regimes of informal property rights are least able to support impersonal decentralised exchange systems. The findings in this study lend support to this view. The study has shown that network governance structures are the predominant modes of organising transactions under conditions of informal property rights. These networks, based on kinship and ethnicity, provide appropriate low-cost mechanisms for transaction activity under the specific conditions of informality and illegality obtaining in these settlements. These networks enable the very poor to have access to real estate and, therefore, a toe-hold in Windhoek, despite

numerous obstacles, including from officialdom. These accessibility advantages are, however, tempered by the insecurities associated with informal property rights and the fact that networks appear to lock households in clusters based on ethnicity and kinship.

Freehold property rights, being the most secure, are regarded as most facilitative of impersonal markets, but they come at a cost. Thus, the study shows that hierarchical structures predominate in the freehold and group categories. With regard to the former category, a combination of poverty, costs associated with freehold rights, high demand and limited stock creates conditions where administrative allocation becomes the optimal coordination mechanism. To put it simply, individual freehold ownership, without some sort of subsidy, remains unaffordable to the poor, even if they are in formal employment, preventing the emergence of normal markets. Limited land and financial resources mean that 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.

Overall the study concludes that a lack of secondary market activity in all the three rights categories 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. This movement would, of course, be the means whereby capital accumulation would be effected.

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