

# The Mystery of Capital, by Hernando de Soto.

## CAPITALIZATION PROCESS ( fig 6.1) - MOVING FROM DEAD TO LIVE CAPITAL

### A. THE DISCOVERY STRATEGY

#### A.1 Identify, locate and classify extralegal assets (dead capital)

- A.1.1 Develop local recruitment specification to penetrate extralegal sector
- A.1.2 Determine causes for the accumulations of extralegal assets so as to develop workable typologies
- A.1.3 Locate economic sectors and geographic areas where extralegal activities are most prevalent

#### A.2 Quantify the actual potential value of extralegal assets (dead capital)

- A.2.1 Develop appropriate methodologies to estimate the value of extralegal assets using existing information and data gathered in the field
- A.2.2 Customize criteria to gather and process information and to confirm results
- A.2.3 Establish the importance of the value of extralegal assets

#### A.3 Analyse the interaction of the extralegal sector with the rest of society

- A.3.1 Research the relevant links between government and extralegal assets
- A.3.2 Research the relevant links between legal businesses and extralegal assets
- A.3.3 Identify processes where government has already successfully dealt with extralegal assets

#### A.4 Identify the extralegal norms that govern extralegal property

- A.4.1 Detect and decode the extralegal norms that define the manner in which property rights are held and exercised by different extralegal communities in the country

#### A.5 Determine the costs of extra legality to the country

- A.5.1 The costs of the extralegal sector
- A.5.2 The costs of the legal business sector
- A.5.3 The costs to government

### B. THE POLITICAL AND LEGAL STRATEGY

#### B.1 Ensure that the highest political level assumes responsibility for capitalization of the poor

#### B.2 Put into operation agencies that will permit rapid change

- B2.1 Identify and connect with the capitalization process the different institutions that presently govern property rights or impinge upon their ability to generate surplus value
- B2.2 Design, obtain approval for, and put into operation agencies that will permit the rapid introduction of changes in the diverse processes required for capitalization. If possible, create a single organization having the sole mandate of capitalizing assets and decentralize offices to provide services throughout the country.
- B2.3 Ensure that the capitalization process both incorporates the political priorities of the government and reflects a consensus within society that makes the process easily enforceable

#### B.3 Remove administrative and legal bottlenecks

- B.3.1 Calculate the costs of capitalizing extralegal assets, including:
  - B3.1.1 Requirements for permits at all levels of government
  - B3.1.2 Requirements for and the amount of payments for these permits
  - B3.1.3 The number of forms and other documents required
  - B3.1.4 Requirements that cannot be met in practice
  - B3.1.5 All other transaction costs, including time delays
- B3.2 Remove administrative and legal bottlenecks by identifying and modifying the institutions, statutes and practices that create unnecessary red tape

#### B.4 Build consensus between legal and extralegal sectors

- B4.1 Determine the points where extralegal norms coincide with the law so as to be able to draft statutes that recognize acceptable extralegal proofs of ownership with the support of extralegal communities
- B4.2 Ensure that the draft legal norms that incorporate extralegal property do so without compromising the level of security that the existing legal order now provides property that is duly recorded and effectively controlled so to obtain acquiescence of the legal sector

**B.5 Draft statutes and procedures that lower the costs of holding assets legally below those of holding them extralegally**

- B5.1 Enact the statutes required for all property in a country to be governed by one consistent body of law and set of procedures
- B5.2 Broaden the definition of proofs of ownership to suit the new process, and consolidate into administratively manageable packages the statutes and procedures that will govern capitalization process
- B5.3 Consolidate dispersed legislation into a single law
- B5.4 Develop institutions and procedures that permit economies of scale for all the activities which constitute the process of capitalization
- B5.5 Create an expedient and low-cost alternative to squatting and other forms of extralegal appropriation. Consolidate process and respect for the law by establishing incentives and disincentives aimed at encouraging legal and discouraging illegal ( extralegal) conveyance

**B.6 Create mechanisms that will reduce risks associated with private investment, including credibility of titles and non-payment for public**

**C. THE OPERATIONAL STRATEGY**

- C.1 Design and implement field operation strategy, procedures, personnel, equipment, offices, training and manuals that enable government to recognize and process individual property rights in the extralegal sector**
- C.2 Implement communications strategies using appropriate media to encourage participation of the extralegal sector, support in the business community and the government sector, and acquiescence among those with vested interests in the status quo**
- C.3 Re-engineer the record keeping organizations and registration processes so that they can pull together all the economically useful descriptions about country's extralegal assets and integrate them into one data/knowledge based computer system**

**D. THE COMMERCIAL STRATEGY**

**D.1 Implement the information and enforcement mechanisms that will enable the provision of:**

- D1.1 Banking/Mortgages/Credit
- D1.2 Public utilities ( energy, sanitation, telcom)
- D1.3 Collection Systems ( credit, rates, taxes)
- D1.4 Databases/Information Services
- D1.5 Insurance products (property damage, life insurance, credit insurance, liens, title insurance)
- D1.6 National Identification Systems
- D1.7 Housing and Infrastructure
- D1.8 National Security