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1996

LATIN AMERICAN AND  
CARIBBEAN COMMISSION ON  
HUMAN SETTLEMENTS

HABITAT II

A CITY  
FOR ALL

THE FUTURE OF HUMAN  
SETTLEMENTS IN LATIN  
AMERICA AND THE  
CARIBBEAN

MAY 23, 1996

**A C I T Y  
F O R A L L**

THE FUTURE OF HUMAN  
SETTLEMENTS IN LATIN  
AMERICA AND  
THE CARIBBEAN

L A T I N A M E R I C A N A N D  
C A R I B B E A N C O M M I S S I O N  
O N H U M A N S E T T L E M E N T S

HABITAT II

## ACKNOWLEDGEMENTS

The Latin American and Caribbean Commission for Human Settlements was created in 1995, under the auspices of the Inter-American Development Bank (IDB) and the United Nations Development Programme (UNDP), in order to develop an independent regional outlook on the issue of cities and urban management, and present this point of view at the 1996 World Conference on Human Settlements in Istanbul, Turkey.

By invitation of Enrique V. Iglesias, President of the IDB, and Fernando Zumbado, Director of the Regional Program for Latin America and Caribbean of the UNDP, the following persons accepted to participate as members of the Commission (see biography data in Annex):

Jaime Lerner, Brazil (President)  
Hernando de Soto, Peru  
Gloria Knight, Jamaica  
Mirna Lievano de Marques, El Salvador  
Enrique Ortiz  
Enrique Peñalosa, Colombia  
Eugenio Velasco Morande

The Commission members were selected with a view not only to representing the region geographically, but also to bring into the picture a broad spectrum of civil society, particularly the private sector, the non governmental organizations and the local governments.

Other than the deliberative meetings held in New York and Curitiba, the Commission consulted with institutions, authorities and experts, inside and outside their own countries, obtaining important opinions and comments for this Report. The Commission assumes full responsibility for the conclusions and recommendations contained in this report. However, appreciation and recognition go to all the following individual experts and organizations consulted:

Alberto Maldonado (Colombia), Alejandro Florian (Colombia), Angelo Bottagio Suárez (Honduras), Cecilia Martinez (México), Claudia Laud (Argentina), Danilo Midence Monroy (Guatemala), Edin Martínez (El Salvador), Fabio Giraldo (Colombia), Fernando Rojas (Costa Rica), Fernando Viviescas (Colombia), Francisco Beltrán Galindo (El Salvador),

Padre Gregory Ramkisoorn (Jamaica), Hans Bodewig (El Salvador), Hiram Quiroga (Ecuador), Jacqueline Da Costa (Jamaica), Jaime Ravinet (Chile), Jaime Valenzuela (ICLEI/ Ecuador), Jeb Brugmann (ICLEI), Jorge Price Masalías (Perú), José Selenszki (Panamá), Lucelena Betancur (Colombia), Mariano Arana (Uruguay), Mario Montenegro (Nicaragua), Mario Saéñz (El Salvador), Mario Valiente (El Salvador), Milverton Reynolds (Jamaica), Moren Seymour (Jamaica), Paul Buchanam (Jamaica), Pauline Knight (Jamaica), Saúl Pineda (Colombia), Sergio Magalhães (Brazil), Teolinda Bolivar (Venezuela), Ximena de la Barra (UNICEF, Nueva York).

In addition the following institutions were also consulted: the Ministry of Housing and Urban Development, Chile; Habitat International Coalition - HIC; the national Building Associations (Cámaras de Construcción) of: Argentina, Bolivia, Brazil, Colombia, Ecuador, Guatemala, Guayaquil, Mexico, Paraguay, and Peru.

In addition, it should be noted that the Instituto Libertad y Democracia (Peru) maintains ongoing consultations with a large network of organizations, involving 41 agrarian cooperatives, 7 farmer associations and 78 different kinds of community organizations. Several reports and documents presented in the Habitat II preparatory events in Latin America and the Caribbean were also consulted by the Commission.

Coordination of the Commission's activities, including the editing of the report, was under the direction of Marlene Fernandes, with the collaboration of Mario Calderón. In addition, Juan Manuel Salazar (UNDP) and Robert D. Daughters (IDB) provided important supervisory support and overall coordination, particularly in the editing and revision of the report.

We wish to express our special appreciation to the different offices in the United Nations Organization, the Inter-American Development Bank, and the State Government of Paraná which provided important technical, administrative and editorial support to the Commission and its technical team. In particular, the preparation of this report would not have been possible without the help and support of the regional offices of the UNDP and the IDB in Brazil, as well as that of the Instituto Brasileiro de Administração Municipal (IBAM) in Rio de Janeiro.

May 28, 1996

**H**uman settlements are where the living conditions of the population take shape. It is in the daily life of our towns, cities and metropolitan areas that the full array of development problems are experienced. Here the demographic crisis, the degradation of the environment, the scourge of poverty and the inequality of women are most clearly revealed. In short, it is in the spatial dimension that mankind's problems converge. Accordingly, HABITAT II will bring together the full spectrum of issues addressed by the previous world conferences organized by the United Nations in Rio de Janeiro, Cairo, Copenhagen and Beijing.

The United Nations Development Programme (UNDP) and the Inter-American Development Bank (IDB) have taken this opportunity to bring additional elements of discussion to the Conference. Under the designation of the Latin American and Caribbean Commission on Human Settlements, a group of distinguished thinkers and practitioners in the

urban field was brought together and charged with the preparation of the current Report, presenting a regional view of the urban agenda.

The Commission approaches the urban theme with an independent perspective and a positive vision. Without denying the seriousness of the problems that cripple our cities, the Commission encourages us to emphasize their enormous potentials. With a common strategic vision, we are capable of achieving surprising improvements in the quality of life of our urban areas. The proof of this lies in the multitude of creative urban management practices being implemented today in our region.

We endorse, therefore, the central message of the Commission, i.e., the joint principles of our right to full access to the city - "the city for all", and our shared responsibility in its development - "the city of all"

The IDB and UNDP wish to thank the Commissioners for this effort.



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ENRIQUE V. IGLESIAS  
President  
Inter-American Development Bank

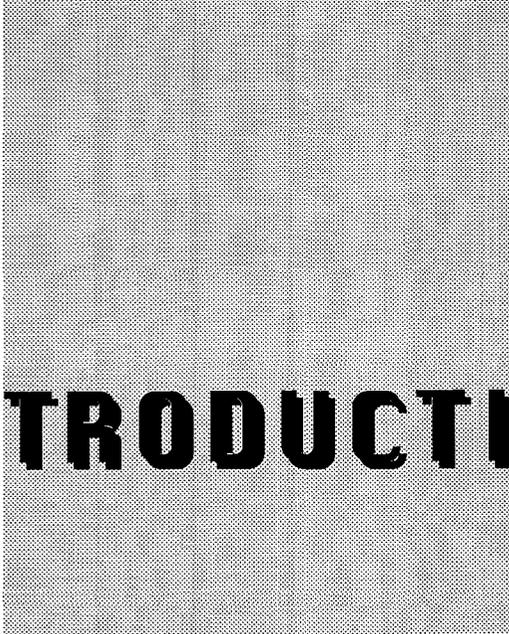


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FERNANDO ZUMBADO  
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# INTRODUCTION

**O**ver the past four decades the Latin American and Caribbean region has been profoundly transformed from a community with predominantly rural and traditional features to one with a decidedly urban geography and personality. Today, our region stands out as one of the most urbanized regions in the developing world. In 1995, the urban population represented 73.4 percent of the region's total population. Moreover, it has more than 40 cities with populations above one million inhabitants - that number having doubled during the last two decades - and five of the world's twenty megacities.

As might have been expected, this transformation was neither simple nor smooth. Especially during the first stage, that is during the 1950s and 1960s, when the population of many of our cities was doubling every 10 years, the urban outlook in the region seemed particularly disturbing. Predictions at the time, coincidental with the first HABITAT Conference (Vancouver, 1976), were gloomy and pessimistic. How could the large migratory waves from country to city be absorbed? How could a new stock of housing infrastructure and basic services be provided over a 15 to 20 year period, equivalent to the entire urban capital stock accumulated over the region's previous 400 years?. What type of social, political, and economic crises would develop as a result of the inevitable shortages in employment and urban services?

Twenty years after the Vancouver Conference, the urban outlook for the region remains difficult, but less grim and alarming. On the other hand, demographic trends have improved considerably. Due largely to an urbanization process that modified our society's reproductive patterns, both urban and rural demographic growth have declined sharply since 1970. There has been an equally steep reduction in urban growth rates, from an average of 3.6 percent in the 1970s to 2.5 percent at the beginning of the 1990s. At the same time, the trend of urban growth to concentrate in a few large cities, a characteristic of the region in the 1950s and 1960s, also began to reverse in the 1970s and 1980s. At present, small and medium-sized cities are growing more rapidly than large population centers, creating a significant escape valve for urban growth in the future.

On the other hand, basic advances in the economic and political framework of the region have resulted in significant improvements in the economic productivity of our cities, as well as in their institutional and management capacity. The economic development of the region in recent decades has been associated more than ever with urbanization. In the present context of economic globalization, cities are playing a decisive role in the exchange of information,

goods and services with the international economy. At the same time, the steep increase in urban population has contributed more than expected to the dynamic growth of urban economies, increasing the number of consumers and producers and also increasing the flow of economic information.

At the political and governmental level, most Latin American and Caribbean countries have initiated deep structural reforms by way of democratization and decentralization of the State, resulting in a major strengthening of local governments and civil society in city management. Added to that is the equally profound transformation of the role of the State vis-à-vis private initiative, allowing the private business sector to be fully incorporated into the delivery of public urban services. As a result of such reforms, there has been a proliferation of actors in the urban management scene. Today, local governments are increasingly the principal promoters of economic and social development in our cities, in partnership with the private business sector or with community organizations. That, in turn, has stimulated the development of initiatives that have transformed the region into a laboratory of useful and creative urban management experiments.

This structural transformation has resulted in the emergence of segmented and complex urban societies with distinct social and consumption demands, making Latin America and the Caribbean one of the emerging markets with the highest growth rate in the world.

Notwithstanding such positive signs, the present situation of our cities continues to indicate serious flaws and challenges. Their urban growth rate is still incompatible with the social, economic, and institutional capacity existing in many localities. Particularly in the large cities, this situation continues to produce greater environmental and social degradation, contributing to a widespread perception that the quality of life is deteriorating in a number of our cities.

Central to the problems is the phenomenon of urban poverty, the most visible expression of a marginalizing process of urbanization. Indeed, urban poverty may well be the most explosive political and economic problem faced by the region in the next century. The urban population living in poverty is now on the order of 40 percent, with half in indigent conditions. Between 1970 and 1990, the proportion of urban inhabitants in absolute poverty grew from 29 percent to 39 percent, which in absolute terms corresponds to an increase from 44 to 115 million people.

A critical illustration of urban poverty is reflected in the indicators of basic needs. One in every three families in Latin America either lacks housing or lives in substandard housing. The housing shortage, both quantitatively and qualitatively, is currently estimated at 40 million units. Of a total of 90 million homes, 25 million do not have access to drinking water, and more than 30 million do not have access to sewer systems and basic sanitary infrastructure.

Low-income sectors, though in the majority, have suffered the consequences of urban marginalization in most cities in Latin America and the Caribbean. The weakness of urban institutions and policies, together with the absence of clear laws on urban land-tenure and a non-discriminatory legal and financial system, have prevented the poor from gaining access to urban land and housing, leading to the proliferation of illegal settlements and informal urbanization.

Nevertheless, in recent decades, and in spite of their apparent economic handicaps, the poor have managed to generate important economic assets, through their inexhaustible desire and capacity to produce their own habitat. A large informal market in land, materials and services, including credit, has been created.

in every city on the margins of the formal legal and regulatory framework. This has occurred in response to the demands of the vast majority of the population, who lack access to the formal housing markets or to government assistance.

Housing production by the poor has generated, and continues to generate, a significant real estate stock in the region. The value of investments in untitled and unregistered informal housing in Latin America and the Caribbean is estimated at US\$350 billion. That figure indicates that in the region — as in the majority of developing countries — investments in informal housing are the most powerful and perhaps the only source of savings for the majority of the poor.

In order to build on this situation, and improve living conditions, each country must critically review its macroeconomic and social policy framework, eliminating possible negative impacts of some of these policies on the informal urban economy.

It is also clear that actions inspired and implemented by central governments as the sole provider of housing and social and urban services have not been very successful in the region. Reforms undertaken in the region as regards the political, economic and social framework of human settlements, have strengthened and consolidated public

awareness regarding the important role that civil society and local governments should play in identifying and implementing new urban development strategies.

The world is experiencing a process of globalization, forming new alliances and economic blocs, and restructuring political processes at the regional and world level. The Latin American and the Caribbean region is also subject to the effects of these global changes, as well as to the specific demographic, economic, and political processes, occurring in its own countries.

The region is pushing to become integrated into this globalization process. But care should be taken not to intensify the problems of economic marginalization, social exclusion and loss of cultural identity. The transition into a new century should offer all our countries an opportunity to create a better future for everyone based on the lessons of the past.

Throughout the world, but especially in our region, the twenty-first century will be shaped by the dynamics of our cities. Sustainable social, economic and environmental development for all humanity — the commitment adopted by signatory countries of Agenda 21 (Rio de Janeiro, 1992) — will depend increasingly on the leading role that cities assume as centers of production, wealth, culture and social welfare.

The Latin American and Caribbean Commission on Human Settlements shares the positive vision of Habitat II's City Agenda. The development of the potential of our urban centers in the coming century will enable men and women to have housing, productive employment, a healthy and secure environment to live in, and full access to basic social and urban services.

The countries of our region that have accepted the challenge extended by Habitat II for global and local action to

reestablish the levels of governance and urban quality of life, must now mobilize their resources—economic, technical and human—and promote more efficient, effective and responsible management.

Reversing negative trends in the quality of urban life, and strengthening the outlook for better management of urban problems, will depend on concrete proposals for action at the global, regional, national and local levels, with the fundamental support of civil society in each country.

# FACING UP TO OUR URBAN CHALLENGES:

HOW TO MOVE AHEAD

**G**iven the urban challenges that Latin American and Caribbean countries face, we must adopt adequate strategies for generating, before the end of this century, measurable, visible and concrete changes in the quality of urban life in the region. However, even the most far-reaching and daring strategies need to be implemented step by step. Given the urgency for concrete responses, boldness will be required in talking the first steps toward a better future for cities.

A set of proposals and principles for improving the governance of cities, expanding access of the poor to the benefits of urbanization, and increasing their saving and urban investment capacity follows. Taken together, these strategies are designed to overcome the main obstacles to sustainable development of human settlements. They are offered as alternatives for solving the problems of Latin American and Caribbean cities. It must be noted that all the proposals are based on actual programs that have been successfully implemented in the region.

## THE CITY FOR ALL: CONCRETE EXPRESSION OF OUR RIGHT TO THE CITY

The concept of "Our Right to the City" is used in the sense of the right of all men and women to live in safe, healthy, democratic, productive and sustainable cities, based on each person's options and possibilities and without restrictions or discrimination based on sex, nationality, race, language, creed or economic status.

This same concept expands to include the right to fair access to housing, including land and infrastructure, as well as access to social, environmental and cultural services, and adequate opportunities for productive employment and education.

Beyond the simple provision of services and infrastructure, a policy to humanize cities could considerably reduce the violence of contemporary urban life that besets so many cities in Latin America and the Caribbean. To humanize the city is to open spaces for harmonious living and the full exercise of liberty, ensuring that all segments of society take ownership of their

city — living in it, enjoying it and transforming it.

A new perspective of citizenship resulting from this humanistic vision would be developed by implementing the rights and obligations of city dwellers and making it possible for them to exercise their responsibilities. Participatory democracy in modern societies forces us to incorporate collective decision-making processes into urban management. Respect for the citizenry should guide all plans and actions of local government, seeking above all to ensure the quality of urban spaces, facilities and services.

The concept of "Our Right to the City" must form an integral part of political practice and good governance in the region. This would be achieved progressively and formalized through appropriate judicial and regulatory bases.

The experience of Curitiba (see box) demonstrates that the right to the city is not mere rhetoric. Rather, it depends on the political will of local government and civil

society to guarantee the physical, social and economic conditions that ensure the universality and effectiveness of that right.

To respect, as a principle, the political, social, economic and cultural pluralism of our

urban societies, and to recognize them not as obstacles but as resources for development, will lead gradually to the creation of a city for all, one which effectively expresses our right to the city.

## STRATEGIC VISION OF THE CITY: REVERSING THE VIEW OF URBAN CHAOS

It is of utmost importance that we transcend the tragic view of the city, in which urban problems seem so complex as to be insurmountable. There are many examples of how to face urban challenges successfully, confirming that it is possible to find innovative solutions to difficult problems. Reversing the view of urban chaos, and replacing it with a unified strategic vision of the city, is just as important as addressing other problems such as the scarcity of resources.

A strategic vision, based on a commitment to change and action, is indispensable if we are to exploit the potential of urbanization and harness the competitive advantages of the city. Strategic planning increasingly is being adopted by local authorities as cities take the leading roles in the economic and social development process of our countries.

Transforming a city, based on a vision of its future, requires a balanced definition of priorities that clearly distinguish between

needs and potential and realistically combine the desirable with the possible. If the strategic vision is the result of a collective effort by all social actors, conceptualizing the desired city, a sense of ownership and co-responsibility will strengthen the commitment of civil society to the changes undertaken by local government leadership.

As noted, strategic planning methods are being increasingly disseminated in the region's cities, complementing traditional urban planning methods that relied on regulatory land-use plans. Based on a process of consultation and broad-based commitments from the main sectors of civil society—including the business sector, trade union groups and neighborhood associations — strategic planning makes it possible to more effectively handle the concept of the city as a complex, open and dynamic system that is interacting in a changing world.

## **CURITIBA: A STRATEGIC VISION FOR PROMOTING CHANGE**

The urban planning experience of Curitiba during the last three decades has been one of noteworthy success, projecting itself into world renown. The key to understanding the urban transformation that took place in the city, over a relatively short period, lies in the strategic, future oriented vision it has continually relied on to guide the changing city administrations, with the support of its citizenry.

Curitiba succeeded in overcoming its urban challenges with simple and creative solutions, in spite of the typical handicaps of cities in developing countries, such as high rural-urban migration and an annual demographic growth rate of 2.3 percent.

The current urban planning model was established in 1965 after a broad public debate, resulting in the first Curitiba Master Plan and the creation of the Instituto de Pesquisa e Planejamento Urbano de Curitiba (IPPUC). This was the starting point for the transformation of the city, when the city still had about 600.000 inhabitants. The planning of Curitiba's growth and urban development was based on an integrated framework of land use, transport and road network plans. The hierarchical road network plan defines the physical structure of the city and the land use plan assures adequate densities along structural roads, which are better served by urban infrastructure than other parts of the city, and where the bus system provides rapid access to public transportation all around the city.

The development of the Curitiba Industrial Estate in 1975, transformed the economic base of the city, generating jobs, increased investments in physical and social infrastructure and improved living conditions. The concrete results of the city's integrated planning system can be seen in the achievements of its public transport system.

The transport system, which is operated by the private sector and managed by the municipality, serves 1,805,000 passengers a day, and functions without subsidies, through a

network of 20 bus terminals, four different types of bus routes and a system of integrated intermodal hubs. Once embarked in the bus system, the passenger can travel throughout the city using different routes but paying for only one ticket, with a fare low enough to provide the city's poor access to all the city's districts.

The Integrated Transport Network of Curitiba is an example of shared responsibility between the public and private sectors, a practice repeated in other joint venture activities including urban historical preservation and the construction of cultural and social facilities. In the social arena this has resulted in day-care centers financed by the private sector, as well as projects of solid waste collection and recycling in which 75 percent of the population is actively involved, particularly in low income neighborhoods.

The city's strategic vision also enabled it to successfully deal with the urban environment, combining environmental sanitation with the provision of open spaces for recreational use. The creation of urban environmental preserves in the city has been linked to recovering of watershed areas, flood control and drainage. Once recovered, the river valleys are transformed into public parks and woods extending all over the city. By way of this environmental strategy, Curitiba today has achieved a remarkable indicator of 50 sqm of green area per person, thus deserving its title of ecological capital.

In conclusion, the strategic option of Curitiba is to permanently re-invent the city in order to sustain and, in some cases, to recover a sense of urban quality by way of greater comfort, security, productivity and well-being. Curitiba has strived to ensure the right to the city for all, seeking to balance the immediate needs of its people with the imperatives of a strategic vision of its future, strengthening at the same time, the social pact of corresponsibility between local government and civil society.

## **CO-RESPONSIBILITY: A NEW APPROACH TO CITIZENS' PARTICIPATION**

**T**o achieve our two preceding objectives — a city accessible to each citizen, and a strategic vision able to unite different sectors of the urban community — requires one additional ingredient: a pact of co-responsibility. Co-responsibility refers to the implicit (or explicit) contract of shared responsibilities that must be established among the various sectors of the urban community in order to lead to successful and sustainable development. Co-responsibility is an approach to citizen participation that gives equal respect to the importance, capacity and skills of each stakeholder interested in finding a solution to a common problem. Each stakeholder must conscientiously and diligently assume his or her share of responsibility, so that the collective project may be successfully implemented

Conscientious co-responsibility, within a framework of participatory democracy, is the key to improving the governance of cities. Co-responsibility, however, imposes a different approach to

public management. In addition to the exercise of official government functions, the State must be innovative in promoting, facilitating, and strengthening interaction among various urban groups.

Experience shows the importance of correctly defining, on a case - by - case basis, the equation of co-responsibility as a prerequisite for successful public intervention, operating by means of alliances between the State and civil society. The combination of the interests of every agent, group or social sector must be weighed against the criteria of efficiency, effectiveness and transparency that may be recommended in each case.

The co-responsibility equation defines the model for the articulation and institutional coordination which, once formalized, will allow each interested party to carry out its tasks based on its interests and specific skills — planning, regulations, promotion, production, operation, consumption or social control — in implementing a common project. In

addition, the consensus that should guide the definition and adoption of this social pact will mean that all the participants agree in principle to submit to the social control that they themselves have established.

In summary, co-responsibility as a practice of citizenship strengthens democratic management of the city and helps to make commitment to urban development a shared cause.

However, as a principle of good urban management practice, any new

proposal for the city must be expressed clearly and simply and must be widely disseminated so that it may be understood and assimilated by all citizens. This will facilitate their participation in a pact of co-responsibility, enabling citizens to effectively control and supervise public project execution. This democratic practice in turn will lead to greater civic education, ultimately ensuring the political and practical viability of the proposals and their required continuity.

## **COUNCIL FOR THE INTEGRATION OF GRASSROOTS IMPROVEMENT PROGRAMS**

The Council was formally established in 1993, by a decree of the governor of the state of Ceará. The work of the Council, has been inspired by a process based on community effort at the grassroots level, supported with international cooperation, especially within the framework of a bilateral agreement between Brazil and Germany.

The groups and entities involved in the Council are the state of Ceará, the Federal Technical School of Ceará; the municipalities of Eusebio, Maracanaú, Pacatuba, and Maranguape (all in the metropolitan area of Fortaleza); an association of residents of each of these municipalities; and a group of NGOs; including the Research and Technological Exchange Group (GRET), the Center for Studies, Coordination and Reference on Human Settlements (CEARAH - PERIFERIA), and the Communities Network comprised of 25 institutions including universities and private consultants.

Because of its composition and operating framework, the Council operates at the horizontal cooperation level, fully aware of its co-responsibility and operational transparency. This way, every interested party has the same rights and opportunities to contribute ideas and actions in the collective interest. Monthly meetings allow wide participation in the decision-making process. These meetings, which are widely publicized to the community, permit permanent discussion on the situation of the communities.

The Council, as an efficient interinstitutional management model, continues to operate on the basis of small-scale projects selected by consensus. By means of specific agreements, actors and responsibilities are defined, not only within each community but also in the context of the city and the metropolitan area of Fortaleza. This way it is possible to reach consensus on sectoral strategies for the participation of grassroots groups in the search for new urban possibilities, not only with regard to shelter, but also to education, information, employment and technology. More than 1,000 shelter solutions, 500 employment priorities, and a renewed community identity, constitute only a part of the initial accomplishments of this successful program.

## **LOCAL POWER: THE COMBINED ROLES OF CIVIL SOCIETY AND LOCAL GOVERNMENT**

**T**he democratization and decentralization processes that were strengthened in the region during the past decade as a result of the crisis in governance of central governments led to the emergence of local power, a new alliance between local governments and civil society.

The gradual development of local power corresponds to the growing political and economic role of cities on the national and international scenes. Cities are seeking to use their potential and comparative advantages in order to attract capital investment required to stimulate the urban economy, generate employment, and provide social welfare. The alliances between civil society and local governments in search of common interests have been strengthened in order to face heavy competition for investment in economic and social infrastructure that has been intensified by globalization of the economy. In this way, the legitimacy of local power is being strengthened throughout the world.

Strengthening local power as the engine for social and economic progress of the city and its environs is conducive to the mobilization of new financial and technological resources needed for development. Many successful examples are to be found in Latin American cities.

Nevertheless, this phenomenon can succeed only if democratization and State decentralization are consolidated and greater participation of the private sector is achieved in solving housing and other urban problems.

Political reform in Latin America should continue to strengthen the decentralization process, not only in terms of responsibilities but also in terms of financing, budgeting and decision-making authority.

Local governments have been demonstrating their political and institutional capacity to find creative and innovative solutions that are less economically and socially costly to the problems of urbanization. It is here, at the

local level, where the simplest and most effective solutions may be found to address problems that otherwise tend to become more complex when viewed from the national level.

In turn, democratization and the increasing participation of social actors in all aspects of urban life require decentralization even at the local level, that is, from the State toward civil society. The region's experience shows that local

coalitions between the public sector, the private business sector and community organizations are the best instrument for promoting local development with equity and social welfare.

In summary, State reform and decentralization should lead to political and institutional conditions that promote local power and strengthen the leadership alliance of civil society and local governments.

## LOCAL POWER AND ITS RESULTS

### THE CASE OF THE MUNICIPALITY OF PENSILVANIA, COLOMBIA

To go in five years from position 530 to position 233 on the index of satisfied basic needs, out of a total of 1,050 municipalities, can only be the result of a continuous alliance between civil society and local government, within the framework of the current decentralization process in Colombia.

Pensilvania is a municipality with a population of about 30,000 inhabitants, 58 percent of whom live in the rural area. It is located to the east of Colombia's central coffee area. Its traditional economy is based on coffee and other agricultural activities. Like most municipalities in Colombia, its social and productive structure as well as its local leadership declined persistently as a result of migration to larger urban communities.

In 1988, the year that marked the beginning of popular elections of mayors in Colombia, a significant movement led by the forces of civil society and by a new local political leadership created a shake-up that has continued to date. It also created a suitable climate for entrepreneurs in the central coffee region, originally from *Pensilvania*, to take the decision to return to their native soil and to make considerable investments in the reforestation of several thousand hectares where there were formerly native Andean forests that had been replaced by coffee and livestock. The new popularly elected local government gave its full support to that reconversion process in the form of various incentives. Economic reactivation generated by the new climate of cooperation between local government and private investors opened the way for community consciousness that extended to training programs,

construction of service infrastructure, catchment basins, microprojects on ecotourism, generation of employment through artisanal, lumber and poultry microenterprises and, generally, the recovery of the conditions of the habitat. A center for the productive development of lumber, an industrial plant for lumber, and an intermediate training program in forestry techniques, are all part of the objectives that were realized. Japanese cooperation (JICA) is also involved in this process.

The combination of all those activities has improved not only the collective well-being but also the quality of municipal administration and its very fiscal health, which had been declining for many years. According to a World Bank study, in a little over five years, the number of professionals working for the municipality grew from one to eight, and tax receipts rose more than 60 percent. In addition, 15 rural aqueducts were constructed, in a joint effort of the local government and the peasant communities. This increased the supply of water to 75 percent of the rural population of the municipality. Similarly, 52 community welfare homes were established with public and private contributions.

According to the very proponents, the main elements that combined to produce those results include: participation, strategic planning, administrative strengthening of the municipality, cofinancing, interinstitutional agreements, technical support, a sense of belonging, political awareness, continuity, and support of groups of people or families originally from *Pensilvania*, now residing in other areas of the country.

## IMPROVING ACCESS OF THE POOR TO THE BENEFITS OF URBANIZATION

**U**rban poverty will be reduced as the State and civil society increase the opportunities of the poor to gain access to the benefits of urbanization. Access to physical, social and economic infrastructure may resolve a large number of the problems affecting the poor. Similarly, improving that accessibility is a vital condition for extending governance in the cities of the region and promoting the sustainability of their social, economic and environmental development.

Basic sanitary infrastructure and public utilities, housing that meets the minimum living conditions, access to public health and educational services, and economic, safe, and comfortable public transportation all serve to settle the city's accumulated debt with its poor population and to provide a safer, more healthy and productive environment for all.

Nevertheless, the struggle against urban poverty requires that more effective actions be undertaken. Creating conditions that enable the poor to participate in solving

their own problems gives greater value to their life experience and facilitates social investments that are more in touch with their constituencies.

Local governments as well as nongovernmental and community based organizations in the region have accumulated a vast and diversified experience of effective service delivery to the poor. Drawing on these experiences should be promoted, provided that there are adequate legal, financial, administrative and developmental instruments. This makes the best use of the organizational and multiple-resource-mobilization capacity of grassroots organizations to manage and build shelter.

The majority of low-income families in Latin American and Caribbean countries participate directly in building their own shelter, and are thus not limited to merely consuming the production of government or private developers. The poor have established a low-cost housing and infrastructure system that is quite different from traditional mechanisms.

Considering the positive results of these self-help production methods, as well as the persistence of shortages of shelter and infrastructure in the region, it seems clear that all the different modalities for providing shelter, public, business or community, are equally valid and should therefore be promoted. Public policies on housing and services provision should promote plurality of options and make it possible for each citizen—whether a producer or a consumer—to choose the solution best suited to his or her interest and capacity to pay.

It is incumbent upon the State, therefore, to take concrete measures to (a) expand the offer of legal land at low cost to poor families; (b) remove the legal and administrative obstacles to low-cost housing construction; and (c) create the legal, financial, administrative and developmental instruments appropriate for supporting popular initiatives, improving their quality, productivity and competitiveness.

In order to expand low-cost housing construction, financial systems that recognize popular organizations as credit

recipients (qualified borrowers) must be developed and implemented. This calls for the creation of specific procedures for the allocation of credit and subsidies, definition of guarantees, and provision of adequate mechanisms for cost recovery.

It also requires the establishment of clear rules for financing that recognize the characteristics of low-income sectors, in relation to income, real capacity to save and pay, conditions of the most vulnerable sectors, and the role of women in the family structure and economy.

The experience with housing in the region makes it imperative to provide initial subsidies to widen the supply of shelter to the poor. Nevertheless, that same experience shows that subsidies must be transparent and better focused. In addition there must be sustainable financing sources without prejudice to the credit systems' financial stability or to the country's macroeconomic equilibria.

It is clear that these same promotion instruments can stimulate the private supply of goods and services to the poor, creating alternatives for this large emerging market.

## **FONHAPO: PUBLIC FUND TO SUPPORT LOW-COST HOUSING PRODUCTION IN MEXICO**

The National Affordable Housing Fund (FONHAPO) was established by the Mexican government in 1981 to provide credit to non-wage earning sectors. Since then, it has been providing active support to

low-income urban and rural groups for the production of affordable housing.

In addition to working with the premises that housing is a basic right, supported and promoted by the State, FONHAPO recognized housing as an economic growth factor, resulting in the promotion of the active and coordinated participation of public, private and social sectors.

FONHAPO designed an open, flexible system to support a variety of needs and social initiatives relating to land acquisition, project development, the services provisions and the construction of houses, using self-help construction, private sector contracts, or a combination of both.

In six years FONHAPO contributed 250,000 houses to the National Housing Program, equivalent to 17.5 percent of the total number of beneficiary families, with only 4.2 percent of total resources invested.

FONHAPO's experience demonstrates that granting credit and transparent subsidies directly to community organizations strengthens the informal economy and generates growth, thus mobilizing other social resources that contribute to the production of better goods, higher users satisfaction, and a greater sense of responsibility in consolidating and maintaining the housing produced.

## **MAINTAINING MACROECONOMIC STABILITY: A PREREQUISITE FOR FIGHTING POVERTY IN THE LONG TERM**

**T**he possibility of decent urban living conditions for the majority of the population is directly related to countries' macroeconomic equilibria, their financial soundness, the existence of clear laws and regulations, and the appropriate and transparent allocation of resources. Without macroeconomic equilibria it is not possible to combat poverty in the long term.

To adequately respond to the demands for housing and services, in general, and to provide housing for the neediest, in particular, countries require economic resources in quantities that are clearly beyond the capacity of public finances.

Countries will achieve growth when adequate incentives to productivity and investment are created and investment can only be realized with savings. Savings, in turn, is only possible when the economic system inspires confidence in those who save. Each government must therefore create the macroeconomic conditions that will make the virtuous circle, savings-investment, possible.

Only the creation of wealth allows for sustainable growth in the number of jobs and the income of citizens. Similarly, economic plans must include effective mechanisms for increasing the income of the poor.

## THE CHILEAN EXPERIENCE

In 1977, Chile initiated a process of modernization of its housing policy. The State assumed a subsidiary role and created various programs to promote savings for housing and provide incentives to investments in the sector. In addition to interest payments, savings were adjusted for inflation to recover the loss in purchasing power caused by inflation.

Public resources are channeled directly through demand-side subsidies, in publicly announced amounts, to families of relatively low-income. This system of subsidies has served as a catalyst for private family savings.

The positive effects of the policy changes in Chile are the following:

With a population of 14 million, 1.1 million savings accounts for housing were opened in banks; these accounts have already generated US\$574 million in savings, and are projected to eventually reach, through installment savings plans, a final aggregate savings level of US\$1.4 billion.

Between 1990 and 1995, investment in housing multiplied 14 times, from US\$157 million to US\$2.197 billion, and public sector investment fell from US\$725 million to US\$473 million. The number of houses constructed annually climbed from 38,000 in 1973 to 125,000 in 1995, reducing the housing deficit by 40,000 units each year.

Between 1990 and 1995, 634,000 houses were built. In 1995, investment in housing reached US\$2.67 billion, 82.3 percent being supplied by private sector.

## **THE PROPER USE OF DOMESTIC SAVINGS TO SOLVE HOUSING PROBLEMS: THE CASE OF PENSION FUNDS**

**L**arge amounts of resources are required to finance human settlements. Those resources must be financed from savings, whether public or private. The safest and most permanent savings are the domestic savings of each country, since foreign savings, also necessary at times, only last as long as more favorable conditions are not found in other countries.

Private sector savings will only exist where there is confidence in the economic system. It must be guaranteed that savings do not lose value through the effects of inflation, and that those who save have access to market interest rates and are repaid in the agreed periods.

A significant source of savings continues to be pension funds. Deposits are compulsory, and the funds must make

long-term investments. For them to have popular confidence, those funds must be held in clear, registered accounts that reflect the individual and permanent situation of each contributor. Programs must be instituted to reform those pension funds that are still operating on a distribution basis to convert to individual capitalization and to establish clear rules for investing those resources.

Those rules must be strict, well-regulated and supervised. That should also be done in the case of capital markets in general, so that the resources invested may be backed by adequately rigid laws. Those laws should contain special rules to guarantee mortgage loans, especially regarding rules on the settlement of guarantees.

## **INSTITUTIONAL INVESTORS AND HOUSING FINANCE**

The presence of institutional investors in the Chilean capital market has had a major structural and functional impact. More and better projects have been financed, facilitating links between the productive sector and the financial sector. Housing finance is one of the areas benefitting from the reform of the social security system and the creation of the private system of Pension Fund Administrators (AFP). Since early 1981, pension funds have played a vital role in the development of Chile's housing policy, permitting the accumulation of a growing volume of resources for mortgage financing.

These resources are generated by means of the purchase of mortgage bonds generated by housing demand. These bonds are fully compatible with the risk, term and return features required by social security funds. Prior to the appearance of the AFPs, the purchase of mortgage bonds was limited to US\$70 million per year, depending solely on the Central Bank. At present, the AFPs have cumulative resources of US\$25 billion (40 percent of GDP) and total investments of almost US\$4 billion in mortgage bonds, representing almost 60 percent of all bonds issued by the financial system. Added to that, as an indirect contribution of the social security system, is another 20 percent by way of investment stock of the life insurance companies that manage the annuities of pensioners.

Moreover, the AFPs invest in several investment funds, real estate company stocks, and mortgage backed securities linked to investments in the real estate and housing markets.

Notwithstanding the very large volume of resources contributed by the pension system to housing finance, it represents only 20 percent of all pension fund resources. Although there are limits on investments in securities, there is still vast potential for channeling more resources into housing finance and for creating new security instruments.

## FORMALIZATION OF REAL PROPERTY AND OTHER ASSETS OF THE POOR: LIBERATING THEIR ECONOMIC POTENTIAL

To tap the significant capacity of the poor to save, as reflected in the initiative they have shown in building their own shelter, calls for raising the value of their assets — mainly their houses, work places, firms and tools — by converting them into tradable assets.

Property rights to informal dwellings must be formalized so that the savings represented by these investments may contribute to economic growth. That involves transforming them from illiquid assets into working or equity capital.

Such a process requires a revision of the legal procedures in most countries in the region. Generally, the systems for titling and registration of real estate are not appropriate for processing most of the informal assets of the poor. In addition, traditional systems have not allowed the issue of titles for those assets so that they can be traded within the domestic market, much less within the global economy.

It is crucial to promote reforms necessary for formalizing all procedures —

for identification, regularization, registration, and issue of titles — so that the assets of the majority of the poor may be incorporated into the urban economy within a nondiscriminatory legal and financial framework. That would make it possible to identify the properties and represent them on (universally accepted) tradable instruments, thus liberating their economic potential. The necessary security and economic value could thus be enhanced as well. The poor would also gain greater access to credit and markets.

Efficient property formalization should incorporate mechanisms that allow for the increase of assets as a real guarantee to obtain credit. To attract more financial resources to low-income sectors requires efficient debt-collection mechanisms, provision of credit reporting, and the introduction of new modalities for risk reduction. In that way loans guaranteed against formalized properties may be organized and accumulated for trade in the secondary market. Those mechanisms will

assist credit providers to attract additional credit, ensuring the availability of sufficient funds for allocating credit to most of the poorest sectors of the population.

Property formalization should integrate the poorest sectors within a trade system that allows public and private investors to provide urban services to lower-income groups. The formalization system should reduce investor risks, eliminating the anonymity with which informality covers the poorest sectors, linking them to their assets, and consequently giving them their own identity with a system of rights and responsibilities that will allow providers and users of public services to become productively involved with them.

Formalization should be extended to effective administrative, judicial and quasi-judicial processes that include preventive measures and penalties. Those procedures

will allow investors in infrastructure projects to provide services to the majority at considerably less risk.

Formalization should include a regime for legal access to land and real estate so that the poor will not have to resort to squatting, the only means available to the poor for accessing property. Those encroachments are merely an inefficient substitute for a real estate market and a property allocation system. Adequate formalization grants the State and the market the instruments needed to replace squatting. The experience of Latin American and Caribbean cities is that squatting impedes the supply of water, electricity and other services. Similarly, it thwarts everyone's opportunity to convert unliquidated capital into liquid capital and puts at risk the few who have registered their property in traditional titling and registration systems.

## FORMALIZATION OF PROPERTY IN PERU

Formalization is not merely an isolated exercise in defining the ownership of tangible assets. Ownership is only a part of the long formalization process linking the assets of the informal sector to the legal and economic system of modern society.

Formalization creates rights and obligations that permit the owner to become involved with government and private companies. It provides mechanisms by which the most significant assets of the informal sector, its real estate and its enterprises, may be used to ensure the delivery of goods and services, especially credit and infrastructure. Formalization changes the beneficiaries into clients or consumers who are held individually responsible.

The benefits of adequate formalization have been demonstrated in two pilot projects in Peru, carried out since 1990 with a budget of less than US\$10 million. Those projects are:

A formalization system that transforms informal property into duly registered property, very often more rapidly and at less than 1 percent of the cost of any other system. From 1990 to 1993, Peru formalized 300,000 properties. A significant increase in productivity (40 percent), in income (100 percent), in value (200 percent), and in access to credit (340 percent) followed the pilot project.

A system that allows mass formalization of enterprises that operate on the margin of legality and the creation of new enterprises that would otherwise not have been created or would have been created in the informal sector. From 1991 to 1994, 275,000 informal enterprises were formalized and 100,000 new enterprises were created, implying 550,000 new jobs, savings in administrative costs of US\$700 million, and an increase in tax receipts of approximately US\$1.2 billion.

## BRIDGING THE DISTANCE BETWEEN THE FORMAL AND INFORMAL ECONOMIES: STRENGTHENING THE PRODUCTIVITY OF LOW-INCOME SECTORS

**T**he Latin American and Caribbean experience demonstrates the vast potential of low-income sectors for dynamic interaction in the production and trade of goods, products and services, as well as for deciding freely on the investment of their economic surpluses.

Legitimization of the different forms that the popular economy takes can serve to activate urban markets, generating employment and income for those who are excluded from the activities of the formal economy. The capacity and the potential of the economy to absorb a significant proportion of the recently unemployed, and the outlook for the deterioration of the urban unemployment situation, are changing the policies of local authorities with respect to the economic activities of low-income sectors.

It is therefore indispensable to identify the contributions of that popular output to the urban economy and design adequate developmental policies to stimulate the potential of the poor while

respecting their own productive logic. Facilitating the access of the poor to productive credit is likely to boost their productive activities rapidly. Public policies that support the creation of new firms and the formalization of those that operate in the informal sector may be useful for stimulating the urban economy, boosting employment, and increasing tax receipts.

Supporting popular economies also requires urban development and tax laws that foster rather than restrict proper land use in low-income settlements. Similarly, financing of construction or preparation of sites to be used for productive activities — individual or collective — in low-income houses and neighborhoods will provide the poor with the appropriate conditions for discharging their functions, while preserving and promoting low-cost production.

The major challenge is to attract demand toward popular production and to bring popular producers to urban markets. This will require creativity on the part of local governments, as has been demonstrated by

the successful experiences of various cities in the region. Acting as agents of development is one of the new challenges to local governments in the framework of the present economic and social situation.

In recognition of the vital importance of supporting the productive activities of poor families, most illegal settlement improvement programs include a component for income generation and growth of popular economies.

Integration of the poor into the urban economy also requires improving their access to quality education, since lack of education is one of the aspects that

contributes most to intensifying economic and social discrimination in the region. Access to education is basic to expanding training, employment and productive opportunities to the urban poor.

New information technology and the dissemination of knowledge are making possible a strategic change in education processes at relatively low cost. The challenge is to find efficient and effective ways to take the benefits of the technological revolution to the poor, expanding and democratizing their access to information that they need for their integration into the urban economy.



# FINAL COMMENTS

**F**rom the perspective of civil society, the Latin American and Caribbean Commission on Human Settlements is coming to the City Summit fully aware of the dimension of the problem of urbanization in the region. But we are also fully convinced of the possibilities for changing direction and entering the coming millennium with better living conditions for the majority of the population in safer, healthier, more just, productive and sustainable cities.

Urban governance should spread in the region as new institutional spaces, generated by the consolidation of democracy and growing decentralization, permit the exercise of co-responsibility and strengthening of local power.

The strategic vision of the city should make it possible to use its natural, economic, human and cultural resources, and should also permit rapid responses to the most pressing needs of the population.

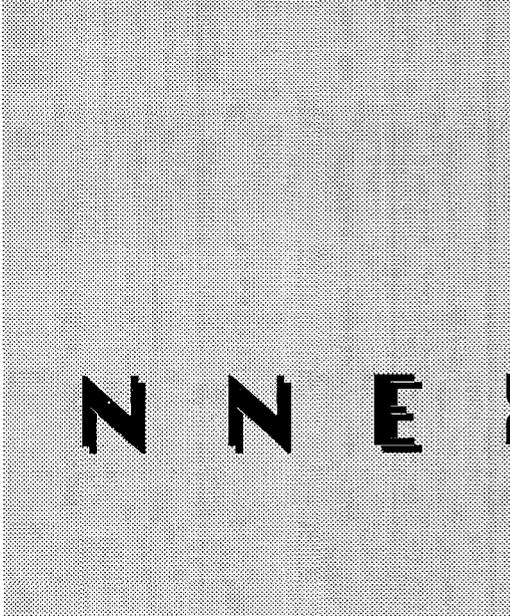
The saving and investment capacity for urban financing should grow as economic stability, fiscal austerity and sound financial policies restore the confidence of those who save and invest. Nevertheless, the main condition for achieving adequate standards of living is the elimination of urban poverty. The fight against poverty must be a daily struggle and should include the contributions of every sector of the State and civil society, oriented toward improving the access of the poor to the benefits of urbanization.

As long as urban policies are not priorities on the political agenda of the region's countries, cities will continue to depend on their own efforts and resources — insufficient in most instances — to overcome economic, social, environmental and territorial problems often generated by other political and institutional frameworks. The restoration of urban institutions in the region is the most important task in guiding the economic and social changes required by cities.

Bearing in mind the significant investment effort required for human settlements in the region, it is urgent that

developed countries and multilateral and bilateral international cooperation agencies revise their policies and practices to make them consistent with the countries' commitments. In this respect, international cooperation must play a prime role and assume its rightful responsibility for the future of Latin American and Caribbean cities.

The Latin American and Caribbean Commission on Human Settlements reaffirms, in the scope of HABITAT II, its objective to promote a collective commitment by civil society and States to develop a city for everyone, the concrete expression of a right to the city.



# A N N E X

## MEMBERS OF THE COMMISSION

JAIME LERNER  
*(Chairman)*

Well known architect and urban planner from Brazil, Mr. Lerner was mayor of Curitiba during the periods 1971-75, 1979-83 and 1988-91. Since 1995 he has been Governor of the state of Paraná, Brazil. He has also served as town planning consultant to the United Nations and as a special advisor to the Secretary General of the United Nations, Mr. Boutros-Boutros Ghali, for the Second United Nations Conference on Human Settlements - Habitat II. Governor Lerner who holds an honorary doctorate from the Technical University of Nova Scotia, has been invited to give lectures by universities, prestigious institutions and the governments of several countries.

He has received the following awards: Highest Award on the Environment of the United Nations (United Nations Environment Programme); Annual Award of the International Institute for Energy Conservation (IIEC), Washington D.C.; Habitat Award: "Scroll of Honour"; "Tree of Learning" Prize of the Union Internacional para la Conservación de la Naturaleza; "Colar de Ouro", highest award of the Instituto de Arquitetos do Brasil.

#### HERNANDO DE SOTO

Mr. de Soto is President of the Instituto Libertad y Democracia (ILD), as well as President and Director of several companies in Peru. He has variously served as: Economist with the General Agreement on Tariffs and Trade (GATT); Chairman of the Executive Board of the Intergovernmental Council of Copper-Exporting Countries (CIPEC); Managing Director of Universal Engineering Corporation (UEC), Basel, Switzerland; Managing Director of Universal Engineering and Finance Corporation (UNEFICO), Geneva, Switzerland; Titular Member of Swiss Bank Corporation Consultant Group, Switzerland; Member of the Board of the Executive Committee of the Banco Central de Reserva del Perù; Member of the United Nations Planning and Development Committee; and Principal Advisor and personal representative of President Alberto Fujimori, having initiated the economic reforms and reintegration Perù into the international financial system.

#### GLORIA KNIGHT

Ms. Knight is the President and Managing Director of Jamaica Mutual Association Society and a Board member of Jamaica Mutual Inc. (USA). A graduate of the University of the West Indies, with a

M.Sc. in Applied Behavioral Sciences from Johns Hopkins University and Public Administration studies at Oxford University and Sociology at Mc Gill University, Mrs. Knight was the first General Manager of the Urban Development Corporation of Jamaica. She has received an Honorary Doctorate in Law from the University of the West Indies (1989) and is a member of the Privy Council (1992). She is a member of the University and Campus Council of the University of the West Indies, as well as the Environmental Committee of the Private Sector of Jamaica.

#### MIRNA LIEVANO DE MARQUES

Economist and Director of the Escuela Superior de Economía y Negocios: President of the Fondo de Inversiones Sociales (FIS) (1994-95); Minister of Planning and Coordination of Economic and Social Development, El Salvador, during the period 1989-1994; Governor to the World Bank and the Inter-American Development Bank (1989-94); Deputy Director of the Economic and Social Research Department of FUSADES (1984-88); Executive Director, Technical Secretariat of Foreign Financing, Ministry of Planning (1982-1984); Director of Export and Imports Department, Ministry of Economy (1981-1982); Director of the International

Economy Department, Ministry of Economy (1980-1981); Director of the Project Evaluation Department, Ministry of Economy (1980).

#### ENRIQUE ORTIZ

Mr. Ortiz, architect from Mexico, is the Executive Secretary of Habitat International Coalition, which brings together 300 social and non-governmental organizations dealing with the habitat, in 80 countries. He is a member of the Governing Board of the Universidad Autónoma Metropolitana and NGO representative to the Consejo del Instituto de Vivienda del Distrito Federal.

He was director of the Mexican NGO, COPEVI (1965-76), and responsible for the development and execution of the first Mexican National Housing Program (1977-82); President of the Action Committee on Low-cost Housing and Construction of the Latin American Economic System (SELA) (1979-82); and Operations Manager and subsequently Director General of the Fondo Nacional de Habitaciones Populares (FONHAPO) (1983-87).

#### ENRIQUE PEÑALOSA

Mr. Peñalosa, an economist from

the Universidad de los Andes (1951), was the Ambassador of Colombia to the United Nations in New York (1987-90), and Secretary General of HABITAT I—the first United Nations Conference on Human Settlements (1974-76). He served as Executive Director and then as Administrative Manager of the Inter-American Development Bank (1971-74). Prior to that, he was the General Manager of the Instituto Colombiana de la Reforma Agraria (1961-68), and, between 1958 and 1960, was popularly elected to the Municipal Council of Bogota.

#### EUGENIO VELASCO MORANDÉ

President of the Cámara Chilena de la Construcción, trained as an engineer at the Pontificia Universidad Católica in Chile. Mr. Velasco, a well known businessman in the Chilean construction industry, is currently partner and Director of an important building firm in his country, Moller y Pérez-Cotapos S.A., where he has been involved in international projects in several countries in Latin America and the Caribbean. He is the director of various companies linked to the financial and construction sectors.

impresso nas oficinas  
da Imprinta Gráfica e Editora Ltda.,  
à Rua João Romariz, 285 - Rio de Janeiro.



**Banco Interamericano de Desarrollo**  
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