Fernanda Magalhães, *Editor*

SLUM UPGRADING AND HOUSING IN LATIN AMERICA

IDB Inter-American Development Bank
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Foreword

The extensive research for this publication reviews global experiences with national slum upgrading policies and enables the documentation of the genesis of flagship programs in countries of Africa, Asia, and Latin America, which were subject to peer reviews by selected experts and in workshops held in Nairobi and Washington, D.C., as well as during sessions of the World Urban Forum in Medellin and Naples. Experts were commissioned to prepare preliminary reports on selected cases of housing and slum upgrading policies and engage local officials and professionals in Brazil, Chile, Colombia, and nine other countries across the world: Bangladesh, Ethiopia, India, Indonesia, Morocco, Thailand, Tunisia, South Africa, and Vietnam. The results of this collaborative research will be published in a forthcoming publication by the World Bank and Cities Alliance.

This book focuses on the specific experiences in Brazil, Chile, and Colombia. The manuscripts of the studies in these countries served as the basis for depicting specific Latin American experiences, enabling the sharing among a broader public of lessons learned from how governments in the region have responded—or failed to respond—to the housing challenge. By offering insights of how the region has approached the problem, the chapters herein have been designed to stimulate learning, reflection, and dialogue among the region and other areas of the developing world that may be experiencing similar situations.

About the Authors

Fernanda Magalhães has worked as a planning practitioner for 20 years. In 2006, she joined the Inter-American Development Bank (IDB) as a senior urban specialist. Fernanda has over 25 years of academic experience and has authored many papers and books, including *Regiões Metopolitanas no Brasil* and *Urbanização de Favelas no Brasil*, published in English, Spanish, and Portuguese; "Changing Favelas in Neighbourhoods: the Favela-Bairro program in Rio de Janeiro," edited by Vicente Del Rio and William Siembieda in Brazil; and "Housing the Poor in Brazil: The Slum Upgrading Experience," edited by Brian C. Aldrich and Ravinder S. Sandu. Fernanda holds a degree in architecture and planning from the Federal Fluminense University in Rio de Janeiro, Brazil, and a Ph.D. from the Bartlett School of the University College of London. In 2006, she was a postdoctoral/visiting scholar at the Massachusetts Institute of Technology (MIT).

Patricia Acosta Restrepo is a professor of urban studies and planning at Universidad del Rosario in Bogota, Colombia. Patricia has held key policymaking positions at the Bogota Planning Office, such as head of the City Master Plan task team and manager of the Strategic Operations office. Internationally, she has been a consultant in project formulation and policy analysis at the World Bank, the IDB, and the Lincoln Institute of Land Policy. Patricia holds a master's degree in urban studies and planning from MIT and a degree in architecture from the Universidad de Los Andes. Her current research focuses on policy linkages in current habitat policy areas such as neighborhood upgrading, land management, and affordable housing.

Fernanda Lonardoni has a background in research and practice in international development, urban informality, and low-income housing. As a housing practitioner and policy adviser, Fernanda has spent the last several years working for the Housing and Slum Upgrading Branch at UN-Habitat's offices in Nairobi, the SECTOR Department at the International Labour Organization in Geneva and World Bank Institute as a consultant. Her recent work focuses mainly on subjects related to low-income housing policies and urban livelihood. Fernanda holds a bachelor's degree in architecture and urban planning, a master's degree in housing and city planning from the Federal University of Santa Catarina in Brazil, and a Ph.D. from the Swiss Federal Institute of Technology in Lausanne.

Roberto Moris is an architect and expert in urban planning and management, with professional experience in both the public and private sectors. Roberto's research focuses on regeneration, social cohesion, climate change, sustainability, risk reduction, and resilience. Currently, he is an associate professor in the School of Architecture and the Institute of Urban and Territorial Studies (IEUT PUC) in Chile. He was deputy director of the IEUT PUC and is currently a researcher at the National Research Center for Integrated Natural Disaster Management (CIGIDEN). Roberto holds a master's degree in city design and social science from the London School of Economics.

List of Abbreviations

BCH	Central Mortgage Bank (Banco Central Hipotecario), Colombia
BNH	National Housing Bank (Banco Nacional da Habitação), Brazil
CEF	Federal Savings Bank (Caixa Econômica Federal), Brazil
CITIGEN	National Research Center for Integrated National Disaster Management (Centro Nacional de Investigación para la Gestión Integrada de Desastres Naturales), Chile
CORVI	Housing Corporation (Corporación de la Vivienda), Chile
ECLAC	Economic Commission for Latin America and the Caribbean
EDU	Urban Development Company (Empresa de Desarrollo Urbano), Colombia
EIUT PUC	Institute of Urban and Territorial Studies (Instituto de Estudios Urbanos y Territoriales), Chile
FGTS	Workers Severence Fund (Fundo de Garantia do Tempo de Serviço), Brazil
FNHIS	National Social Housing Fund (Fundo Nacional de Habitação de Interesse Social), Brazil
FOSIS	Solidarity and Social Investment Fund (Fondo de Solideridad e Inversión Social), Chile
FUNAPS	Social Housing Funds for Irregular Settlements (Fundo de Atendimento a População Moradora em Habitação Subnormal), Brazil
GDP	Gross national product
HBB-BID	Habitar Brasil BID
IBGE	Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatistica), Brazil
ICT	Credit Institute of the Province (Instituto de Crédito Territorial), Colombia
IDB	Inter-American Development Bank
LAC	Latin America and the Caribbean
MCMV	My House My Life (Minha Casa Minha Vida), Brazil
MINVU	Ministry of Housing and Urban Development (Ministerio de Vivienda y Urbanismo), Chile
MV	MetroVivienda, Colombia
OGI	Federal Budget (Orçamento Geral da União), Brazil

PAC	Growth Acceleration Program (Programa de Aceleração do Crescimento), Brazil
PAR	Residential Leasing Program (Programa de Arrendamento Residencial), Brazil
PEMAS	Strategic Municipal for Strategic Municipal Plan for Slum Upgrading Slum Upgrading (Plano Estratégico Municipal para Assentamentos Subnormais), Brazil
PLHIS	Local Plan for Social Interest Housing (Plano Local de Habitação de Interesse Social), Brazil
PND	National Development Plan (Plan Nacional de Desarrollo), Colombia
PNH	National Housing Policy (Política Nacional de Habitação), Brazil
POT	Territorial Development Plan (Plan de Ordenamiento Territorial), Colombia
PREZEIS	Plan for Regularization and Urbanization of Special Social Interest Zones (Plano de Regularização das Zonas Especiales de Interesse Social), Brazil
PUI	Integrated Urban Project (Proyecto Urbano Integral), Colombia
SEREMI	Regional Ministerial Secretaries (Secretarios Regionales Ministeriales), Chile
SERVIU	Housing and Urban Development Service (Servicio de la Vivienda y Urbanismo), Chile
SFH	Housing Finance System (Sistema Financeiro da Habitação), Brazil
SNHIS	National Social Housing System (Sistema Nacional da Habitação de Interesse Social), Brazil
USD	United States dollars
VIP	Priority Interest Housing (Vivienda de Interés Social Prioritaria), Colombia
VIPA	Priority Homes for Savers (Vivienda de Interés Prioritoria para Ahorradores), Colombia
VIS	Social Interest Housing (Vivienda de Interés Social), Colombia
ZEIS	Special Social Interest Zone (Zonas de Especial Interesse Social), Brazil

CHAPTER 1

Critical Policy Choices in Slum Upgrading

Fernanda Magalhães

Introduction

Since the 1950s, urbanization rates in the Latin American and Caribbean (LAC) region have continued to grow more rapidly than the capacity of the state apparatus and the market to respond to the demand for urban services, infrastructure, urban land, and housing. This rapid growth has given rise to an increasing urban deficit that has divided citizens between those living in the formal city with access to adequate housing and quality services and those living in crowded slums or informal areas without access. The governments in the region have used different approaches to tackle the problem.

This chapter briefly reviews some of the book's main topics, anticipating the challenges and critical aspects involved in the formulation and implementation of housing and slum upgrading policies in the LAC region, and looking at their broader consequences for the quality of life of the population. With emphasis on the three countries under study—Brazil, Chile, and Colombia—it discusses the most common policy choices and reviews some of their unintended consequences, preparing the groundwork for a more detailed description of policy choices and analyses presented in subsequent chapters.

On one hand, for example, policies that boost the market supply of housing frequently rely on inexpensive land and tight control over housing costs, consequently generating urban sprawls that often produce low-quality housing with high-maintenance costs. On the other hand, policies focused on in-situ slum upgrading might be overly focused on territory, contributing to slum growth without properly addressing issues such as land titling and urban planning. These are hard choices. A review of the historical evolution of public policy and the most important programs and projects in Brazil, Chile, and Colombia, revealed through their design and implementation, can shed light

on the shortcomings and effects of the options selected and offer clues to possible policy changes.

The Inability to Cope with Urbanization

The LAC region is the world's most urbanized region with almost 80 percent of its population living in cities. The urban population in the region is greater than that of the most developed regions and is almost twice that of Asia and Africa.

Urbanization in the region was particularly prevalent between 1950 and 1990, when the urban population grew from 40 to 70 percent. Since the 1990s, it has slowed to an annual growth rate of less than 2 percent, a figure that corresponds to the rate of natural population growth. Forecasts indicate that this trend will continue with urbanization approaching 85 percent by 2030 and then remaining stable. The LAC region now represents 8.5 percent of the world's total population, a proportion that is projected to decline slightly through 2030 (UN-Habitat, 2012a).

The inability of governments and the formal market to cope with this rate of urbanization has left the region with high levels of informality and the burgeoning of slums. The demand for serviced land has surpassed the capacity to supply it (Gilbert, 2000), and governments have not been able to develop mechanisms to provide financing for affordable housing or serviced land to lower-income groups.

Moreover, the lack of land policy and planning has limited the supply of low-cost housing. Housing prices have risen to levels that make housing unaffordable for the poor. The impact of land prices on housing affordability in LAC has been well documented (Brain and Sabatini, 2006; Celhay and Sanhueza, 2011; Smolka, 2003; Trivelli, 2010). More recently, the Inter-American Development Bank (IDB) explored the interconnection between land prices and housing affordability in the region in detail (Bouillon, 2012).

The LAC region is also considered to be the most unequal in the world. This is evident not only in income distribution, but also in the poor housing conditions and lack of access to goods and services, among other factors that determine general well-being. Cities in the region remain strongly segregated, demonstrating flagrant inequality, the persistence of poverty, and longstanding slums that, in absolute terms, are more prevalent than they were 20 years ago. In the region, the average per capita income of the richest 20 percent of the population is nearly 20 times that of the poorest 20 percent (Andrews, Caldera, and Johansson, 2011). One in five people—or 130 million—have been chronically poor since 2004, which

is another physical and spatial sign of the region's poverty and inequality. Despite economic growth between 2000 and 2012, LAC countries have been unable to share this prosperity with the poorest segments of the population, and it has had little impact on the lives of the chronic poor (Vakis, Rigolini, and Lucchetti, 2015).

Although a longstanding phenomenon, economic informality also intensified in the 1980s and 1990s. Statistics available for 12 LAC countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Paraguay, Peru, and Uruguay) show that even in Chile, the most developed country in the region, 30 percent of the employed population works in the informal sector. In Colombia, this figure rises to 60 percent (Andrews, Caldera, and Johansson, 2011). Job informality is also a key factor that prevents the poor from accessing formal housing.

Another stark aspect of informality is the presence of slums in cities. According to the UN-Habitat (2012a), 32.6 percent of the world's urban population in developing regions were living in slums in 2012, with the highest concentration in Sub-Saharan Africa at 61.7 percent. In the LAC region, 23.5 percent—or 113 million people—were living in slums in 2012. Based on the rate of slum growth, the United Nations projects that over 160 million households in the LAC region will be living in slums in 2020 (UN-Habitat, 2012b).

With the exception of Chile, housing supply in LAC countries has not kept pace with the demand for new housing. As a result, the informal market has supplied a large proportion of homes in the region—for example, 37 percent of the homes in Argentina and 56 percent in Colombia (Rojas et al., 2010). This situation persists today, with two-thirds of all housing supplied annually in the region that are considered informal dwellings in slums (Bouillon, 2012).

Faced with this challenge, the region's governments have tried a number of policy approaches, gathering considerable experience in housing policies and slum upgrading schemes. The numerous ways in which governments have responded—or failed to respond—to the housing deficit in the context of rapid urbanization can offer lessons on how to—or how not to—approach the problem in other areas of the developing world that may be experiencing similar issues. Roughly, policies in the region have resulted from a combination of three forms of intervention: direct provision of government-led and subsidized social housing programs; market-based, demand-side subsidies often coupled with slum clearance; and slum upgrading.[1]

[1] For an analysis of the characteristics and the advantages and disadvantages of direct public versus pro-market interventions, see Bouillon (2012) and UN-Habitat (2011).

Facing the Slum Challenge: A Snapshot of Policy Choices in Brazil, Chile, and Colombia

There is broad consensus that housing is central to social and economic development. The housing sector contributes significantly to GDP growth. A well-functioning housing finance system is vital to the expansion of homeownership and has known spillover effects in the broader economy. Above all, housing is a major determinant of people's quality of life, well-being, and welfare.

Since the 1980s, market-led housing policies have been strongly favored in the region as part of the liberal reforms that governments have enacted to increase efficiency and boost economic growth. During this period, governments have gradually moved from intervening directly in housing provision to the adoption of mechanisms and instruments so that the market can increase the supply of housing, in line with the enabling policy approach (World Bank, 1993).

In the late 1970s, Chile pioneered the adoption of market-oriented social housing policies and the use of demand-side subsidies (i.e., state grants or cash supplements to enable low-income households to afford housing) designed to provide greater access to housing finance and formal housing. In the 1980s, a number of other countries in the region, including Bolivia, Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Mexico, Panama, and Peru, followed suit, progressively adopting liberal, market-led housing policies.

The LAC region was not the only one to adopt market-oriented housing policies. In the early 1980s, many governments throughout the world withdrew from the role of providing housing, instead providing legal, policy, and regulatory frameworks to facilitate the private sector's efforts to supply affordable housing. Traces of this approach are still present today in many public housing policies.

Despite the spread of enabling markets and liberal policies, serious housing deficits remain to the extent that few countries can aspire to universal housing in the short or medium term. Bouillon (2012) estimates that the region's housing deficit is above 30 percent; that is, 32 percent in terms of quality of housing (expressed as the number of households with qualitative deficiencies) and 37 percent in terms of number of units (expressed as the number of families that lack housing), with most people unable to afford the least expensive dwelling supplied by the market. In addition, faced with budgetary constraints, governments in the region (with the exception of Brazil

and Chile) have not managed to scale up housing policies. The persistence of slums is a visible sign of how poorly cities have been planned and managed and, specifically, how badly the housing sector has performed.

Brazil has taken a slightly different path from that of Chile. Until the 1980s, Brazil's housing policies consisted of the direct government provision of social housing combined with slum clearance. However, centralized social housing has continued to be unaffordable for the poor and has required increasingly higher subsidies, leading ultimately to the collapse of the real estate credit system in the mid-1980s. With the intensification of urbanization, combined with the incapacity of the state and the market to meet the demand for urban services, urbanized land, and housing, Brazilian cities have become increasingly segregated into exclusive neighborhoods and vast areas of irregular settlements and slums on vacant or hazardous land.

The crash of the housing market, coupled with decentralization brought about by the return to democracy in the mid-1980s shifted the responsibility of delivering housing to the municipalities. Constrained by the economic crisis and limited fiscal and investment capacity, governments have been quick to adopt a cost-recovery strategy and to implement pro-market approaches in social programs. However, by the turn of the millennium, signs of the failure of such policies were clear: at least one in three Brazilians were living in underserved urban slums with no security of tenure and often at the mercy of parastatal or criminal organizations. It became clear that without the leverage of national frameworks, policies, and resources, most municipalities have not had the necessary financial, institutional, and technical capacity to face the challenge of urban slums.

Sound fiscal and economic foundations in the mid-2000s allowed the federal government in Brazil to launch flagship programs designed to redistribute wealth and empower the consumer market. One of these has been the Accelerated Growth Program (Programa de Aceleração do Crescimento, or PAC), which injected huge resources into large infrastructure programs. These programs, known as "Minha Casa Minha Vida" (My House My Life) and PAC-Favela, have vastly increased the resources and the scope of interventions in social housing and slum upgrading, in turn leveraging local capacity to invest in housing and enabling slum upgrading policies to be implemented in an unprecedented scale.

PAC-Favela, based on over half a century of local, national, and multilateral expertise in slum upgrading, coupled with initiatives promoted by social movements and civil society, has adopted a twin-track approach. This

approach, used for the first time in the LAC region, simultaneously has tackled the qualitative and quantitative dimensions of the housing deficit and has engaged the private sector in the development of new housing to a large scale. However, affordability for the lowest-income groups remains a challenge, and the lack of land, coupled with the absence of territorial and spatial considerations within the design of the programs have hampered their impact in terms of improving cities.

The lack of large parcels of land in centrally located neighborhoods has pushed development to the periphery, forcing the poor to move further away from the urban center with no access to jobs and high transportation costs, thus perpetuating segregation and sprawl. The absence of mixed-use development has also limited the employment and social opportunities for households. Brazil's experience suggests that as quantitative deficits are reduced, the focus of policy should shift to other dimensions of housing beyond that of the provision of shelter, such as socio-spatial vulnerability and exclusion.

For 25 years, Colombia, the third country analyzed in this book, has taken the path pursued earlier by Brazil and Chile. It has adopted an enabling approach to national housing policy to improve the efficiency of the housing market by providing incentives to the construction and financial sectors and transferring the responsibility of supplying affordable housing to the private sector. With eligibility criteria that exclude the poor, such market-led policies have had no impact on increasing access to affordable housing and reducing slum formation. By 2006, the shortcomings of this policy were clear: a mounting housing deficit, growing expansion of slums in key secondary centers, and a system of national housing grants in collapse.

Despite this negative scenario, municipal decentralization and the enactment of urban reform in 1997 offered Colombia a window of opportunity to diversify its housing policy portfolio. The legal framework allowed municipalities to step in and use land and planning instruments to facilitate housing and serviced land supply, as well as implement slum upgrading programs. Although Bogota and Medellin have the resources and capacity to use this framework successfully to promote housing and slum upgrading, these experiences are unique and inspiring, offering valuable lessons for the design of future housing policies in the region and elsewhere.

The extensive variety of housing policies in the LAC region, specifically in Brazil, Chile, and Colombia, contain a number of critical elements for the design of an effective housing policy. The next three chapters describe

these elements and provide recommendations for moving forward in this sector.

Critical Factors Beyond Housing

The analysis of the LAC experience in housing and slum upgrading reveals that policies have often been limited by the ability of governments to implement the structural reforms needed to address the critical factors that constrain the housing sector. These reforms include, among others, decentralization, strengthening local governance and planning—particularly the capacity to promote an integrated urban policy—as well as fiscal and urban land reforms.

Access to serviced land is critical for the provision of affordable housing. From 1994 to 2004, the contribution of the cost of land to overall housing costs increased from 7 to 20 percent in the LAC region. In that same period, the cost of serviced land in Chile rose threefold, corresponding to 67 percent of total housing cost (Brain and Sabatini, 2006).

Strict land and building regulations are structural factors that also affect housing affordability (Bouillon, 2012). In most LAC countries, however, these issues have been left outside of housing policies. In Colombia, Bogota, and Medellin have addressed some of those structural aspects that transcend housing per se. By promoting access to land, services, mobility, and good public spaces, these cities have implemented policies with a citywide urban dimension, oriented toward solving problems such as inter-urban connectivity and the integration of neighborhoods into the wider urban fabric.

The Colombian experience also shows that it is possible to provide affordable serviced land. Yet, to be effective from the urban development point of view, it needs to be combined with the provision of a good transportation network, amenities, and public spaces. Medellin's social urbanism model is a good example of how the enhancement of public services and spaces and increased mobility can be used as key instruments to promote integration and social cohesion. Public spaces as places, par excellence, where urban residents socialize have played a central role in Medellin in the fostering of civic pride and social cohesion. They were built as the backbone of the city with services designed to serve social, institutional, environmental, mobility, and recreational functions.

Decentralization in the region has created opportunities for local democracy and significant progress in governance by transforming municipalities in some countries, such as Brazil and Colombia, into key players. However,

this has not included the necessary devolution of resources and capabilities. Consequently, only the most populated municipalities have managed to be self-financing, while most continue to depend heavily on central government transfers. Given the reduction of institutional capacity and insufficient financial resources at the municipal level, coupled with an increasing demand for infrastructure, housing, public facilities, and services that largely exceed the capacity of local governments, the region's cities are becoming even more divided.

This urban divide is one of the most recognizable features in terms of LAC cities. It highlights the contrasts between formal and informal neighborhoods, legal and illegal construction, rich and poor communities, and private and public institutions, as well as the sacrifice of public goods such as mobility, public space, and environmental sustainability.

Housing policy in the region has often missed a strategic urban dimension that could address the spatial divide. The lack of this dimension is expressed by the absence of an overall spatial framework for city development linked to the region, which could inspire, guide, and coordinate individual housing development initiatives at the city level and improve overall urban connectivity, mobility, and integration.

National and regional governments have a fundamental role to play in enabling such a strategic approach and in allowing urban planning and land management policies to be generalized on citywide and regional scales that would promote socio-spatial cohesion. Such policies should combine economic growth with measures that address inequalities, and they should support measures to improve social and spatial integration in cities.

Finally, the cases reviewed demonstrate that the quality of space matters in housing policy. Housing environments and neighborhood characteristics impact family life and opportunities (Sampson and Raudenbush, 1999). Insecure and deteriorating housing developments that lack services, green or public areas, and opportunities for sports, cultural, and recreational activities can be breeding grounds for health and social problems. People living in isolated, segregated, violent, and run-down neighborhoods are more likely to become marginalized. Children who grow up in such spaces are more exposed to social risks and have fewer chances to receive an education that would afford them access to jobs.

Unfortunately, most housing policies in the region have not yet prioritized such qualitative, holistic considerations and they have failed to consider this crucial socio–spatial dimension. Instead, a quantitative vision has dominated

urban growth and expansion in the region. Consequently, cities have become increasingly segregated and are denigrating the poor.

A final critical factor in housing policies that have been implemented in the region is their inability to provide access to quality housing for all. The IDB estimates that to close the existing housing deficit (quantitative and qualitative), governments need to increase investment by sevenfold. This remains a challenge for the three countries under analysis, as well as for the LAC region as a whole (Bouillon, 2012).

Challenges of Scaling up Policies and Providing Universal Access to Quality Housing

Only a few LAC countries have managed to scale up policies and provide universal access to housing, and not one has managed to provide universal access to quality housing. Chile has been able to provide universal housing, but at the price of creating segregation and poor quality housing. The challenge for Chile is to find ways to reverse this situation in order to improve urban integration and transportation services, raise the quality of the existing housing stock, and increase access to affordable and appropriately located and serviced land.

Brazil has also managed to scale up its housing policies. The adoption of a twin-track approach that combines upgraded services and improved living conditions in slums with the provision of new, subsidized, market-based housing has allowed the country to benefit three million families. Yet, failure to address key structural and urban planning issues, such as the lack of affordable land in more central locations and the need to approach the problem of slums beyond the neighborhood scale, has led to increased urban sprawl. As a result, Brazil's cities remain highly segregated and fragmented. It is important to incorporate a more strategic dimension into housing policy that improves connectivity, mobility, and urban integration, while at the same time promoting social cohesion and increasing access to affordable serviced land.

Colombia, on the other hand, has developed innovative and promising policies at the local level but it has been unable to scale them up and transform them into national policies. These positive experiences are limited to two cities—Bogota and Medellin. Based on the lessons learned from these two cities, Colombia's challenge is to design an appropriate national policy that simultaneously will increase scale and address the key structural problems that are beyond housing.

As the historical evolution of public policy design and implementation show—as do the most important programs and projects in the three countries that have been analyzed in this chapter—there are no simple choices. Policies that boost the supply of housing frequently rely on the least expensive land and tight control over housing costs, leading to urban sprawl and low-quality housing with high maintenance costs. Policies focused on in-situ slum upgrading may contribute to slum expansion. However, there are valuable lessons that can be taken from these experiences to inform the design of future policies in the region and beyond.

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CHAPTER 2

From Government-Led to Market-Based Housing Programs

Roberto Moris

Introduction

Market-based, low-income housing projects implemented in the Latin American and Caribbean (LAC) region since the 1970s have fostered urban sprawl and segregation, creating new pockets of poverty and exclusion and relegating the poor to social housing projects on the periphery. Poor design and construction, coupled with lack of maintenance, have caused rapid decay of buildings and entire neighborhoods and have significantly worsened living conditions for residents.

Chile has achieved the most impressive results in the region in reducing the housing and basic infrastructure deficit. Only 1 percent of Chilean households now live in slums. Chile has shifted the orientation of its housing policy from government-led programs to a market-based model featuring an array of programs that combined demand subsidies and incentives for the private sector to offer affordable housing products, direct provision of houses to low-income households not covered by the private sector, and direct government investment to improve conditions in informal settlements.

Nevertheless, the Chilean market-based housing model has fallen short of addressing the multifaceted aspects of urban poverty. While people in need received homes, they remained at quite a distance from job markets and were socio-spatially excluded. In the mid-2000s, housing policy shifted to a comprehensive plan to promote an integrated and participatory approach that combined housing solutions, social development, and social inclusion opportunities beyond the provision of housing alone. This comprehensive plan moved from a general focus on housing as the unit of public policy intervention to the promotion of inclusive and livable cities.

Country Profile and Urban Context

Since the 1970s, the free-market economic model has been expanding in the LAC region. Chile is widely recognized for its radical and pioneering implementation of this economic model, having signed more free trade agreements than any other country in the world. Commodity production—mainly mining—has underpinned national development. Chile is the largest single producer of copper in the world. In recent years, however, non-mineral exports have grown faster than mineral exports, with the rapid development and expansion of the retail market in South America. In 1989, Chile was the first country in the region to democratically elect a socialist government, successfully implementing a peaceful process of democratic consolidation following 17 years of military dictatorship.

With over 17.2 million people living in the country, Chile's population density is 21.7 inhabitants per square meter. An estimated 87 percent of the urban population, or 35.7 percent of the total population, lives in the capital, Santiago. Steady economic growth over the past 20 years has improved urban living standards and dramatically reduced poverty (Central Bank of Chile, 2012). Between 2010 and 2015, Chile's GDP averaged 6 percent (INE, 2004) and economic growth averaged 0.88 percent. While in 1987, 59.9 percent of the population lived below the poverty line of US$4 a day, by 2013 this figure had dropped to 6.8 percent (CEDLAC and World Bank, 2015). However, income inequality and segregation remain a significant challenge, with high concentrations in the three metropolitan areas where 40 percent of the population reside. According to the Organisation for Economic Co-operation and Development (OECD) (2011), based on 2006 data, Chile's Gini coefficient was 0.50, with the richest 10 percent holding 75 percent of the national wealth. Chile's income inequality is the highest of all 20 OECD countries and Chile is the 17th most unequal country in the world. In 2009, the income gap between the richest 20 percent and the poorest 20 percent was more than 14 times. Large segments of society live in conditions of economic insecurity. According to official figures, in 2009, 15.1 percent of the population lived in poverty and another 3.7 percent lived in extreme poverty (UNDP, 2009).

Although Chile's deregulated economic model has increased private investment and business expansion, the organization and location of investments have impacted the spatial structure of cities, worsening inequality and segregation. The construction industry has also grown strong with greater availability

of public funding mechanisms and tax benefits to construction companies for social housing (65 percent exemption of the value added tax to a maximum value of 4,500 UF or US$200,000). Private investment risk, in turn, has decreased. The expansion of the real estate sector, supported by significant public investment (direct or indirect) has promoted urban sprawl, increasing the value of land and the demand for expanded service infrastructure and transportation. This has also generated a split spatial pattern, characterized by exclusive pockets of higher-income populations (Arditi et al., 2003).

Spatial segregation is not a new phenomenon in Chile. Since colonial times, the main Chilean cities, especially Santiago, have had segregated areas where the poor have resided. This is a consequence of Spanish sovereignty and its model of social stratification. However, the rural–urban migration that occurred between 1940 and 1970 caused informal settlements in major cities to flourish. Over the last 30 years, public policies have dealt with informal settlements in different ways, but the persistence of slums in cities, coupled with the emergence of new informal microsettlements—with a maximum of 25 families—has prompted the government to develop increasingly sophisticated tools and models.

Chile has undoubtedly achieved the most impressive results from a market-led housing policy compared to any country in the LAC region, having managed to reduce the deficit to residual figures—only 1 percent of households now live in slums—and it has influenced other countries in the region to follow suit. This has been possible through a policy shift from government-led programs to a market-based model, offering an array of solutions that combine demand subsidies and incentives for the private sector to offer affordable housing products, direct provision of housing to low-income households that are not covered by the private sector, and direct government investment to improve conditions in informal settlements.

Despite its economic achievements, Chile's market-based low-income urban and housing policies, as in other LAC countries, have fostered urban sprawl and segregation, creating new pockets of poverty and exclusion and relegating the poor to social housing projects on the periphery. Santiago, for example, grew by 14,635 hectares between 1982 and 2000, 40 percent of which was designated for social housing, located mostly in the southern and southeastern neighborhoods (Jimenez-Cavieres, 2006). This dysfunctional urban development has been also fueled, as in other LAC countries, by early decay of public social housing, due to a combination of poor design, inadequate construction, and a lack of maintenance (Magalhães and Villarosa, 2012).

Market-based housing policy has fallen short in addressing the multifaceted aspects of urban poverty. Beneficiaries have received homes, but they have remained far from job markets and have become socio-spatially excluded. Policymakers have ignored the importance of location, which determines social and economic opportunities and can modify the innate socioeconomic characteristics of people and their ability to plan for their future. According to Galster and Killen, "our options are limited both by the very real social and economic conditions of our existence and by the limitations we perceive regardless of the accuracy of those perceptions" (1995: 28).

Critics of the market-based model also point to its limitations in terms of making real improvements in living conditions for the less advantaged and they underscore the urgency of revising financing and allocation systems (Ducci, 1997). It is possible to summarize the main complaints of this policy approach in Chile as: (i) user dissatisfaction, (ii) neglect of lower-income groups, (iii) socio-spatial segregation, (iv) inability to cover informal microsettlements, and (v) lack of affordable credit.

In recognition of these negative effects, Chilean housing policy has recently shifted toward a more integrated and comprehensive approach, combining housing solutions, social development, and social inclusion. The current framework goes beyond providing housing units by emphasizing the development of inclusive and livable cities (Arditi et al., 2003; Rodríguez and Surgranyes, 2012).

Slum Eradication Efforts Since the 1960s: Lessons from the Chilean Experience

Prior to the 1960s, attempts by the Chilean government to improve housing conditions have consisted mainly of sporadic responses to collective community struggles and pressures. In 1959, the DFL2 Act greatly increased housing construction through tax benefits. In those early years, the government began to build residential complexes through the Housing Corporation (Corporación de la Vivienda, or CORVI).

Starting in the 1960s, the government put in place a more consistent policy to deal with slums, broadly summarized into three categories: (i) between the 1960s and early 1990s, policy was aimed at improving and upgrading informal settlements, focusing on legal aspects and infrastructure; (ii) since the late 1970s, policy shifted toward the elimination of informal settlements and relocation of the evicted population in newly built public housing; and (iii) in the

Table 2.1 Types of Policy Responses to Slums in Chile Since 1965

Focus	Period	Policies and programs	Settlement conditions
In situ slum upgrading and incremental housing	1965–70	Operación Sitio	Slums
	1970–73	Planes Anuales de Vivienda	
	1983–94	Programa de Vivienda Progresiva	
	1979–84	Programa de Erradicación de Campamentos	
	1997–2005	Chile Barrio	
Slum eviction and housing provision	2006–09	Operación Campamentos	Slums
	2010–	Campamentos	
	2010–	Aldeas	
	1995–2007 2002–	Barrio en Paz[a]	
	1995–2007 2002– 2006–	Barrio en Paz[a] Recuperación de Barrios[b]	
	1995–2007 2002– 2006–	Barrio en Paz[a] Recuperación de Barrios[b]	Resettlement due to natural disasters
Slum upgrading focused on environmental quality	1995–2007 2002– 2006–	Barrio en Paz[a] Recuperación de Barrios[b]	Slums
			Private and public housing developments

Source: Author's elaboration.
[a] Barrio en Paz was known as Barrio Seguro between 2002 and 2009.
[b] Recuperación de Barrios was known as Quiero Mi Barrio between 2006 and 2009.

mid-1980s and early 1990s, policies have sporadically targeted neighborhood upgrading. Table 2.1 summarizes the different policy approaches and programs, as well as their implementation periods.

Operación Sitio, launched in 1965, was the first attempt to urbanize and upgrade informal settlements and provide widespread access to housing through a combination of self-help services and the delivery of urbanized plots with minimal infrastructure (Hidalgo, 2004). The program, originally conceived to assist victims of the winter storms of 1965, proved to be very effective, delivering 71,000 housing units between 1965 and 1970. It enjoyed the active participation of community members who built their houses on small

plots of 9 by 18 meters. One of the most important results of this program was an increase in social capital. Various types of formal community organizations and informal neighborhood organizations emerged with the support of the Catholic Church and nongovernment organizations, which helped community members achieve economies of scale by meeting their most basic needs.

During those years, informal settlements, or *pobladores*, were the only housing accessible to a significant fraction of the working class (Castells, 1973). In this context, residents of these settlements emerged as key social actors and formed a social movement. The occupation in 1957 of La Victoria, the largest land appropriation in Santiago, escalated in impact and the movement gained supporters demanding housing and other social changes at the national level (Castillo, 2012). Throughout the 1960s, land occupation intensified and became politicized. The country was in turmoil, and all the unrest resulted in a military coup in September 1973.

In 1965, the government created the Ministry of Housing and Urban Development (Ministerio de la Vivienda y Urbanismo, or MINVU) to bring various relevant institutions under one roof and strengthen public action. The ministry broadly implemented informal settlement eradication, with new public housing to be built on the periphery to accommodate the evicted population. By providing housing with no social amenities and reduced access to goods and services, and locating the settlements further away from jobs, such programs increased poverty. Over the years, the relocated families have suffered from a weakened social fabric and human capital, narrower opportunities for social and economic improvement, and diminished potential.

In response to demands in the early 1970s from residents of informal settlements to increase employment and economic opportunities, the government created Operación Campamentos. This program differs from Operación Sitio, as it modifies the system of household participation, focusing on teamwork to increase specialization and wages (Rubilar, 1999).

In the 1970s, there was a major policy shift, with the state ceasing to promote social housing directly, favoring instead a market-led policy that provided subsidies to the private sector to supply housing. Meanwhile, public policy promoted radical market reforms to comply with International Monetary Fund agreements (1975–76). Construction companies had to compete to produce what consumers wanted and what the public sector could subsidize. The government, through financial institutions, provided special credits to make up the difference between savings and the discounted cost of the housing subsidy. In theory, low-income families could choose the homes that best suited their needs.

This model of housing policy, based on providing private sector demand subsidies, was considered a benchmark for similar programs in the LAC region. Its implementation led to a significant reduction in the housing deficit, but limitations remained with respect to the poorest groups. From 1980 to 2000, the country built about 2 million new homes for these groups, representing 43 percent of the total housing stock. However, the characteristics of the buildings and neighborhoods in terms of location, configuration, and quality created social and spatial problems (Rodríguez and Sugranyes, 2012).

Regardless of the efforts to eradicate the slums, the first survey of informal settlements conducted by Un Techo para Chile, a nongovernmental organization, revealed that slums persisted in Chilean cities in the late 1990s (CIS and Un Techo para Chile, 2007). MINVU (2011b) estimated that there were still 972 informal settlements housing 104,943 families. The government recognized that although the country had made significant progress, lifting more than 2.3 million people out of poverty between 1987 and 1996, there were still pockets of extreme poverty that appeared impervious to eradication efforts as a result of economic growth or traditional social policies. In 1996, 23.2 percent of Chileans (3.3 million people) were still living below the poverty line, including more than 800,000 people (nearly 6 percent) in extreme poverty (Ruggiero, 2003).

Between 1996 and 2005, the government implemented Chile Barrio, a program aimed at eliminating all informal settlements identified in the National Registry and providing housing for the families living in them (Box 2.1). Chile Barrio adopted an intersectoral approach aimed at (i) improving housing and neighborhoods by helping families access housing, water, health, and community services; (ii) promoting social empowerment by strengthening institutions and social networks to assist families in increasing their social capital; and (iii) providing vocational training and productive support so that informal settlement dwellers can increase their incomes. The program's mission was to improve the quality of life of families living in informal settlements through participatory projects. The focus was on resolving the precarious housing situation of these families, improving the quality of the environment, and providing employment opportunities to elevate families out of poverty (Ruggiero, 2003).

The 2007 National Survey of Informal Settlements provides more information on slums, and estimates that 50.8 percent of the settlements occupied public land, 26.5 percent private land, and 13.4 percent shared land. Furthermore,

Box 2.1. Chile Barrio Program

The Chile Barrio program provided 93,560 housing units, with 20,246 units yet to be delivered. The investment per dwelling unit ranges from US$13,000 to US$30,000, depending on the type of unit. Total direct spending was around US$1 billion. The program has been initially structured with three main components: (i) improvement of housing and neighborhoods: to help families gain access to housing, water, electricity, health, and community facilities; (ii) social empowerment: to improve families' social capital by strengthening institutions and social networks; and (iii) enabling productive labor: to improve human capital through formal education and job training. Between 1997 and 2001, a fourth component was included: (iv) support to institutional strengthening programs to overcome poverty. In 2001, the fourth component was eliminated and maintenance was added to the first component. The institutional structure for implementation, led by the MINVU, was ad hoc with a special task force working in parallel to the traditional structure of the Ministry. The task force was composed of a national board and a national executive directorate within the regional government, a regional technical committee, and a regional technical secretary. At the local level, it consisted of the municipal and community technical teams and a field coordinator working directly with families and their leaders and involving a variety of professionals, technicians, and unskilled political activists. The program functioned as a multisectoral-funding model. Most of the resources were allocated through a special budget at the MINVU. The budget included complementary resources from other public institutions, with resources allocated to the social, educational, and urban aspects of the projects.

73 percent of the settlements were located within urban areas, 47 percent had drinking water provided irregularly, and only 1.3 percent of households had a connection to public sewers (CIS and Un Techo para Chile, 2007).

Between 2006 and 2009, Operación Campamentos embodied another policy shift, abandoning the multisectoral approach and dismantling the ad hoc structures created for Chile Barrio (Box 2.2). The program was designed to eliminate informal settlements, but it served only 12,500 families, or fewer than 10 percent of slum dwellers (Ministerio de Desarrollo Social, 2009).

In 2011, the government created the Social Map of Informal Settlements, which updated the number of informal settlements and families occupying them

Box 2.2. Campamentos Program

The objective of the Campamentos program is to increase the number of public and private sector institutions working directly with informal settlements. The main activities are: (i) the programs, "I Take Action" and "I Work", to increase family income; (ii) competitive grants to finance collective initiatives; (iii) a legal induction program for leaders; (iv) the program, "I Realize", to encourage youth participation; (v) a domestic violence prevention program; and (vi) a women's leadership support program. The program is led by an executive secretariat that serves under the MINVU and which is nominated directly by the president. There are regional directorates and a technical team located at the Housing and Urban Development Service (Servicio de la Vivienda y Urbanismo, or SERVIU), which is responsible for the management of each informal settlement.

to 30,000 and 706, respectively (Table 2.2). These informal settlements had existed for an average of 21 years, and 57 percent of them were over 15 years old (only 4 percent had been established after 2007). Many had already been settled more than once (MINVU, 2011b).

In view of the increase in informal settlements and changes of government administrations, in 2010 Operación Campamentos was replaced with a comprehensive plan, called the Integrated Informal Settlements Plan 2012–13 (Plan Integral de Campamentos 2012–13). Based on the Social Map of Informal

Table 2.2 Main Findings from the 2011 Catastro de Campamentos

Condition	Figures
Families in informal settlements	30,000
Informal settlements	706
Informal settlements older than 15 years	403
Informal settlements older than 30 years	168
Average age (years)	21
Informal settlements with fewer than 50 families	77%
Informal settlements on public lands	50%
Informal settlements with irregular access to water	87.3%
Informal settlements without legal electricity connection	67%
Informal settlements without proper sanitation systems	85.6%

Source: MINVU (2011b).

Settlements, it aimed to improve the lives of families living in extreme poverty. This new approach focused on the informal settlement as a whole and included some families that had been left behind in prior programs, centering on the neighborhood rather than the family.

Additionally, there were 4,172 families living in 98 villages (*aldeas*) as a result of the 2010 earthquake and tsunami. The disaster caused the destruction and/or condemnation of 370,000 homes. About 70,000 affected families received emergency housing, mainly on their existing land, while 6 percent of families lost their homes. Each family was relocated to one of 107 emergency settlements. One of the most important characteristics of this group at the time was that 88.9 percent belonged to the most vulnerable 40 percent of the population.

Generally, as Table 2.3 reveals, the main focus of the housing policy between 1965 and 2010 was the elimination of informal settlements and the relocation of the evicted population to newly built public housing on the periphery. Occasionally it shifted to slum upgrading, as in the case of the Neighborhood Improvement Program (Programa de Mejoramiento de Barrios) (1985–93), financed by the Inter-American Development Bank (IDB) and the Chile Barrio program (1996–2005).

In the early 2000s, housing policy shifted resources to the poorest sectors, providing better socio-spatial balance and improving housing and urban quality. The government, led by the Ministry of the Interior, launched the Programa de Barrio Seguro (Safe Neighborhood Program), later renamed Barrio en Paz (Neighborhood in Peace), which was designed to reduce violence and fear in affected communities. The program concentrated its efforts on the control of drug-trafficking gangs and organized crime in the most marginal neighborhoods (Lunecke, Munizaga, and Ruiz, 2009).

In 2006, Quiero Mi Barrio, a neighborhood slum upgrading program now called Recuperación de Barrios, signaled the need for major policy changes in slum eradication (Claro Fuensalida, Larenas Salas, and Herrera Ponce, 2010; DIPRES, 2011; MINVU, 2013; SUR, 2009). Aiming to improve 200 neighborhoods with a total of 550,000 inhabitants in critical and vulnerable sectors, the program was a priority of the Bachelet administration to improve citizen safety, create conditions to accelerate development, improve quality of life, and combat discrimination and exclusion. It included 19 neighborhoods classified as critical or of high complexity, given their structural and social urban problems that demanded larger-scale urban renewal, and 181 neighborhoods classified as vulnerable or of medium complexity, with fewer problems of physical deterioration

Table 2.3 Main Focus and Instruments Applied according to Program, 1965–2010

Programs	Main focus	Instruments applied
Aldeas	Housing provision program to resettle families affected by the 2010 earthquake and tsunami.	Urban design, infrastructure, social facilities, and social development.
Barrio en Paz	Upgrading program focused on reducing violence in informal settlements characterized by control of drug gangs and organized crime.	Police actions, social prevention, and prosecution.
Chile Barrio	Housing provision program focused on the elimination of informal settlements through voluntary eradication.	Urban design, infrastructure and basic services, housing finance, social development, and income generation.
Operación Campamentos	Housing provision program focused on the elimination of informal settlements through voluntary resettlement.	Urban design, infrastructure, and social facilities.
Operación Sitio	Infrastructured plots of 9 x 18 meters.	Land regularization, infrastructure, and self-help housing.
Programa de Erradicacion de Campamentos	Eviction and resettlement on the periphery.	Social housing
Programa de Mejoramiento de Barrios	In situ upgrading program.	Land regularization, urbanization, and infrastructure
Programa de Vivienda Progresiva	Sites and services and incremental housing with kitchens and baths provided.	Land regularization, infrastructure, and incremental housing.
Quiero mi Barrio	In situ upgrading program of 200 deteriorated neighborhoods.	Urban planning, urban design, land regularization, infrastructure, social facilities, social development, and income generation.

and social vulnerability (Claro Fuensalida, Larenas Salas, and Herrera Ponce, 2010; DIPRES, 2011; MINVU, 2013; SUR, 2009).

Lessons Learned from Forty Years of Implementing Market-Based Policies to Reduce the Housing Deficit

The greatest changes in housing and urban policies in Chile occurred in the late 1970s. Demand subsidies were provided in 1979 and, inspired by the free-market

model, urban development policy ceased to consider land a scarce resource and eliminated city-limit regulations for the purpose of opening up the market and reducing land prices. This policy, in place until 1986, never achieved the expected decline in land prices.

The government created housing subsidies to increase demand, providing supply subsidies (via interest rate and/or sales price) directly to improve the purchasing power of poorer families. This involved supplementing bank loans with household savings. These basic fundamental policies are still in place today, having undergone minor adjustments and shifts in emphasis.

Low-income housing produced by the private sector under this model, however, resulted in substandard and poorly located houses with obvious deficiencies in services and social infrastructure. Its results were heavily criticized due to the lack of jobs and other socioeconomic opportunities in the area, with obvious implications for the residents' quality of life. Based on household surveys, two-thirds of residents wanted to move away but had no alternatives and were left with houses whose value had not increased.

As this 45-year overview of the main Chilean housing policies shows, despite all the achievements of the market-based approach in reducing the quantitative housing deficit, it did not tackle the real issue: if in the past the problem was people "without a roof" (slums), the new problem became people "with a roof." In other words, the problem is much more complex than merely supplying housing. Above all, it was the results of the physical, economic, and social deterioration of public projects at the turn of the millennium that clearly signals the need to shift gears and adopt a more holistic approach.

Recognizing the negative socioeconomic impacts of the policy—socio-spatial segregation, neighborhood deterioration, family vulnerability, and poor quality of housing stock—in 2002, the Neighborhood Recovery Program (Programa de Recuperación de Barrios, formerly known as Quiero Mi Barrio), was established as an alternative approach (MINVU, 2011a) (Box 2.3). Based on international recommendations and local experience from previous programs, such as Chile Barrio, the government designed this program to correct some of the key deficiencies of the previous policy. These deficiencies, including the design of houses in a way that did not accommodate the changing needs of families over the life cycle, were modified and expanded by residents in ways that violated legal or safety standards.

Recuperación de Barrios also integrated the various aspects (e.g., dwelling unit, immediate environment, residential group, neighborhood, and the community) and social actors (e.g., public and private sectors, nonprofit

Box 2.3. Recuperación de Barrios Program

Recuperación de Barrios (originally called Quiero mi Barrio), a neighborhood upgrading program, was created to address the physical deterioration and social vulnerability of 200 districts located in cities with over 70,000 inhabitants. The target population, estimated at 550,000, represents 3 percent of the national population and 10 percent of the poor and indigenous population of these districts. The aim is to improve neighborhood living conditions in terms of the physical environment and strengthening social and community life. The program originally operated in 19 districts considered critical, given the degree of their complexity, the urban and social structural problems, and the scale of urban regeneration required. Investment in these districts ranged between US$800 to US$11,000 per unit, averaging US$4,500 per unit. The number of dwellings in each district ranged from 192 to 4,700. Additionally, there were 181 districts classified as having medium levels of complexity with physical deterioration and social vulnerability. These districts were managed directly by municipal or district consultant teams, and their investments ranged from US$365 to US$8,800 per unit, averaging US$1,770 per unit. The number of dwellings ranged from 101 to 3,463.

The program budget included resources for labor, overhead, housing, and urban infrastructure for 200 neighborhoods between 2006 and 2010. Modifications introduced in 2011 reduced investments in urban infrastructure, with those in housing and other social services redirected to other programs. A neighborhood development executive secretariat, directly responsible for implementing the program, acts as advisor to the MINVU and governs the program. This structure consists of regional implementation teams allocated to the Regional Ministerial Secretaries (Secretarios Regionales Ministeriales, or SEREMIs) who are hired on a temporary basis according to project needs. Project management varies according to specific characteristics and degrees of complexity. A key element of the program is the neighborhood development council, a community-based representative body responsible for implementation logistics. In 2010, modifications introduced into the program's design eliminated the implementation component.

organizations, professionals, and residents), as well as the diverse processes that influenced and interacted with them (e.g., revitalization of life, capital, and political power). The guidelines of the program included a review of the

impact of past policies and their approach going forward. In some cases, partial or total demolition of existing failed social housing projects was necessary. This program became a benchmark, redirecting policy to strengthen the organization and planning capacity of beneficiary families (Ruggiero, 2003; Sugranyes, 2006). The emphasis on quality over quantity, by moving away from the approach of merely delivering houses, marked a new era in housing policy (MINVU, 2004). This change in the political agenda from reducing the housing deficit to improving family welfare also included modifications to the subsidy structure and an increase in public funding. The new policies symbolized a step forward in a more comprehensive approach to public policy, focused on promoting social integration, creating a sense of belonging in the neighborhood, and encouraging public participation in the design and implementation of housing projects. The policies adopted a holistic approach by linking physical aspects of neighborhoods to social initiatives (Aravena and Sandoval 2008; Castillo, 2010).

Conclusions

Housing policies in Chile since 2000 have raised the standard of housing quality and have encouraged continuous government support to households subsequent to house delivery. This has translated into social policies that can effectively support community participation, promoting a more fluid and efficient dialogue between local and sectoral institutions. Slowly but steadily, new policies based on multiscale, multisectoral partnerships that provide a wider range of financing mechanisms and improved governance have replaced those within a centralized public housing sector and a sectoral institutional culture. With this new approach, programs can create a horizontal network of actors with clearly defined roles in an effort to empower communities and municipalities.

Neighborhoods are the very center of policy, shifting from universal, individual-coverage social programs (AUGE Plan) to programs that cover the entire family, such as the Chile Solidario Program (for more information on this program, see Box 2.4). These policy changes have led to a more comprehensive approach to public governance, with a greater focus on the urban development process and a broadened understanding that interventions in neighborhoods and cities require more effective and consistent coordination among various institutions operating at the national, regional, and local levels.

Box 2.4. Chile Solidario Program

Chile Solidario, a program for the poorest families in Chile, is provided at the municipal level through the Programa Puente, created to bridge the gap between families and their rights. Funding comes from the Solidarity and Social Investment Fund (Fondo de Solidaridad e Inversión Social, or FOSIS), which was created in 1990 to finance social development plans, programs, and projects to reduce poverty.

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CHAPTER 3

From Mass Public Housing to a Twin-Track Approach

Fernanda Lonardoni

Introduction

Brazil exemplifies the trajectory of some of the most common urban development policies of the 1970s and 1980s in the Latin America and the Caribbean (LAC) region. During most of the twentieth century, informal urban sprawl was the norm for the region. Rapid urbanization was coupled with a legacy of national policies that favored mass low-cost suburban housing developments combined with the eradication of slums. This led to the creation of large isolated communities that lacked social services and were serviced by inadequate, expensive public transportation systems, making it difficult to reach decent jobs in the city center. The poor could not afford the cost of housing, high subsidies were in demand, and the whole model became unsustainable. This led to the collapse in the 1980s of the National Housing Bank (Banco Nacional da Habitação, or BNH), which had been responsible for implementing the policy.

In the 2000s, the twin-track approach became nascent. More modernized institutional architecture, a new regulatory framework, an increase in channels for citizen participation, and more efficient financial engineering that allocated funds for low-income housing fueled the approach. The twin-track approach was embodied in two major programs namely, PAC Favela and My House My Life (Minha Casa Minha Vida, or MCMV). The twin-track policy, combining the upgrading of public services and standard living conditions in favelas, and providing new housing with highly controlled costs and lower subsidies, enabled a reduction in the housing deficit that benefitted over three million families. Major funds were invested but, despite the success in alleviating housing deficits, there were critical challenges. These challenges included, among others, difficulties in procurement and public licensing, urban sprawl resulting from the lack of affordable land, and low housing quality and design as a result of tight budget constraints.

Country Profile and Urban Context

Brazil is the largest country in the LAC region in terms of geographical area and population, with 190.7 million inhabitants. Population growth rates have been decreasing since the 1960s because of declining birth rates. Between 2000 and 2010, Brazil's average annual population growth rate was 1.17 percent, the lowest in its history. The metropolitan centers in the southeast are Brazil's most densely populated areas. In 2009, the population of metropolitan regions, São Paulo and Rio de Janeiro, were 19.7 and 11.7 million, respectively (IBGE, 2010a).

After almost two decades of low growth that significantly limited government investment capacity, the millennium heralded new achievements for Brazil's economy. Economic reforms brought discipline to the government finances. Improvements in the financial system and greater economic stability provided an enabling environment for businesses to invest. Economic growth rates gradually increased during the 2000s, so that in 2010, Brazil became the seventh largest economy in the world. Brazil's 2010 gross domestic product (GDP) equaled US$2.1 trillion (World Bank, 2011), with 7.5 percent of that growth occurring the previous year. Per capita GDP in 2010 was US$10,800, an increase of 45 percent compared to 2000, when it was US$7,400 (Index Mundi, 2011), leading to a reduction in jobless rates from a peak of 13 percent in 2002 to a low of 4.6 percent by the end of 2012. The jobless rate has remained around this level until 2014. Brazil has become a top destination for foreign direct investment, and its national companies compete on an equal basis in the global market.

Also in 2010, wealth redistribution policies were strengthened and social expenditure increased, with government expenditures on social programs amounting to R$566.2 billion (IPEA, 2011). Investments in health, education, sanitation, welfare, and housing grew by 161.5 percent in the period 1995–2010 (in 1995, the government's investments amounted to R$216 billion). Between 2008 and 2009, public spending increased 11.5 percent as part of the federal government's strategy to alleviate the effects of the global economic crisis. Along with anticyclical goals, the government increased investment in social programs to achieve sustainable economic development that engenders social inclusion.

The combination of economic growth and stable inflation that came with expansion of the labor market improved individual incomes, contributing significantly to a process of upward mobility. This was expressed as changes in the

per capita income of Brazilian families. In 2003, 28 percent of Brazilians lived on a monthly income of up to half the minimum wage, whereas in 2011 that rate decreased to 13.7 percent.

Since 2003, 50 million people have joined class C (Neri, 2011).[2] In the years between 2009 and 2011, class C and classes A and B grew 11.1 and 12.8 percent, respectively. From 1992 to 2012 (IPEA, 2011), the number of people living in extreme poverty was reduced from 13.7 to 3.6 percent, the equivalent of 12 million people, and the overall poverty rate dropped from 31.5 to 8.5 percent, shifting 28 million impoverished individuals into the middle class. With the poverty rate cut in half during the last decade, inequality has reached its lowest level in five years. Innovative cash transfer programs targeting the poorest sectors of the population, such as Bolsa Família, have contributed to this decrease.[3] Numbers for 2013, however, show an 8.9 percent increase in the poverty rate, creating a worrisome outlook for the future (World Bank, 2013).

Amid these formidable achievements, Brazil still has a long way to go to address the problems accumulated in many sectors. Social and economic inequalities remain hallmarks of Brazilian urban society. Income disparities have decreased but remain significant. While 23 million people in classes A and B live at the top of the social pyramid, 26 million Brazilians persist in class E, which encompasses those who live on a monthly income of up to R$751. More alarming figures reveal that of the 26 million people in class E, 16.2 million live in or on the threshold of extreme poverty, with a monthly income of up to R$70, according to the IBGE (2011).

Brazil's scores on the Gini coefficient and the Human Development Index in 2013 were 0.55 and 0.74, respectively, revealing one of the highest rates of inequality on the globe. A recent study on urban income inequality in developing countries (UN-Habitat, 2010) defined six degrees of inequality, ranging from low (1) to extremely high (6). Brazil was categorized as a 5 because of its high

[2] Brazil divides income categories into five classes according to IBGE (2011)—A, B, C, D, and E, with A representing the wealthiest and E the poorest. Class C embodies the middle class in Brazil and covers households with an average monthly income varying from, R$1,200 up to R$5,174 in 2011. In 2014, these numbers were R$14,500 and R$1,450, respectively.

[3] Bolsa Família, an important social initiative, benefits more than 13 million households living in conditions of poverty and extreme poverty. The program offers cash transfers with values ranging from R$32 to R$306, according to monthly family income and number of children.

inequality rates. The growth of the middle class, however, together with a 100 percent increase in the minimum wage in recent years, has caused a decline in these rates.

In the 2000s, the income of the poorest 50 percent of Brazil's population rose 67.9 percent, while income rose 10.3 percent for the wealthiest group (Neri, 2011). Other social indicators reveal the challenges that hamper Brazil's social development. The 2010 census showed that illiteracy persists for 9 percent of the population. In absolute numbers, that means that 14.6 million people could neither read nor write (IBGE, 2010a). Such indicators disclose the paradox of achievement and illustrate the remaining challenges that modern Brazil faces.

Since the reestablishment of democratic elections in the mid-1980s, successive governments have embarked on a process of profound economic restructuring, characterized by trade liberalization and increased foreign investment. Urban development processes, in light of the economic restructuring, included changes in urban labor markets and a redefinition of the economic roles played by cities. The economic restructuring during the 1980s and 1990s was based on an intensification of the urbanization process. Yet, urban growth in Brazil drew considerably on informal practices that had shaped labor relations and access to housing in cities (Valença, 1998). The global oil crisis, however, exposed the Achilles heel of what some call the "Brazilian Economic Miracle." Its impact on cities was easy to see. World-class neighborhoods accumulated wealth, and the prosperous urban elite living in them possessed modern urban infrastructure and services. At the same time, slums and irregular settlements proliferated on vacant land, along with abandoned buildings and hazardous areas. The urban fringes were where the majority of citizens lived—crowded, underserved, and often at the mercy of paramilitary and criminal organizations that prospered in the void created by the state's withdrawal.

Housing has played a central role in the political agenda of successive governments. During the redemocratization process of the mid-1980s, Brazilian housing policy shifted from public welfare and centralized social housing to market-oriented land and housing provision. Constrained by the economic crisis, national and municipal governments implemented cost-cutting measures and prioritized cost recovery over social programs for the poor.

Democratization was accompanied by decentralization, which transferred the responsibility for delivering social housing to municipalities. They were

unable to perform this role, given their fragile technical and institutional structures and limited fiscal and investment capacities. Marked by intensive rural exodus and rapid urbanization, Brazilian cities grew fast and were devoid of basic infrastructure—urban population rates increased from 45 to 84 percent within 50 years (IBGE, 1961; 2011).

To a great extent, cities have still not overcome this challenge. The 2010 census revealed that the main need in the area of public services and infrastructure in Brazilian cities has been access to basic sanitation: only 55.4 percent of the 57 million urban households were connected to sewer systems. While garbage collection services catered to 87.4 percent of households and 83 percent were connected to running water systems, 10 percent of families still depended on wells.

Brazilian cities are at the core of this dilemma. As a predominantly urban nation, with 84 percent of the population amounting to 161 million people living in urban areas in 2010, cities contribute the lion's share of Brazil's GDP and receive the largest share of private and public investment. Still, they have accumulated enormous deficits in terms of access to basic services, housing, and infrastructure. According to the Brazilian State of the Cities Report 2000–2009, in 2000 only 43.2 percent of homes in the large metropolitan areas had adequate access to basic infrastructure, public transportation, and social services, and houses were of minimum structural quality (Cities Alliance, undated).

This situation was worse on the periphery, where only 24.3 percent of housing was adequate. The 2010 national census estimated that 11.4 million people—6 percent of the country's total population—lived in slums. Overall, 6,329 settlements were identified in 323 Brazilian cities. Until the mid-2000s, the formal housing market only served a small portion of the national demand created by the upper middle class (IPEA, 2006). Thus, Brazil's housing deficit is concentrated among the poor—a massive proportion between 85 and 90 percent—that encompasses families with incomes of up to three times the minimum monthly wage.

The size of informal settlements (slums or *favelas*) is evidence of government neglect and consent to normalization of the informal dynamics of access to land and housing construction. The informal path represented an alternative that in the short term was less expensive and more convenient for governments, leaving the poor to create their own urban living conditions. At the turn of the millennium, favelas were present in almost 30 per cent of Brazilian cities. The problem, however, was more critical in larger cities and metropolitan areas,

where between 40 to 50 percent of the population was estimated to be living in informal conditions, with 20 percent concentrated in favelas (IBGE, 2001). The favela phenomenon persists in metropolitan areas, where 88 percent of favela households are located.

Favela residents are younger—27.9 years of age, contrasted with the national average age of 32.7. They live in denser conditions—4.2 residents per household, while the national average is 3.2 per household. Their incomes are also lower, with an average per capita income of R$370 (US$200). Favela residents earn 37 percent of what people living in formal neighborhoods earn. Coverage for services and infrastructure is on average half of that reported for formal neighborhoods. Respectively, only 27.5 and 32.7 percent of favela households have access to regular electricity and sanitation (IBGE, 2010b).

The emergence of organized crime linked to drug trafficking during the 1980s and 1990s reinforced the spatial and social divide between the favela and the formal city and reinforced the stigma of poverty, violence, and criminality. Drug-trafficking groups have hardened the spatial boundary, transforming the favelas into nearly enclosed territories due to their disputes with other gangs and the police and limiting the room for intervention by social movements and local governments (Leeds, 2006).

At the turn of the millennium, Brazil's government shifted toward the domestic market. The success of its economic stabilization policies enabled it to reduce its primary fiscal balance and increase public expenditures. Good economic and fiscal foundations allowed the government to launch a series of national flagship programs in key infrastructure and social areas. The economic downturn heightened the risks from the globalized economy, and Brazil committed to a strategy of increasing investments in infrastructure to boost its economy, create jobs, increase income, and empower households to consume and stimulate the internal market.

Wealth redistribution programs—the flagships of the federal government since the early 1990s—played the dual role of empowering consumer markets and tackling socioeconomic inequalities. This cycle has been sustained by large-scale infrastructure programs—namely the Growth Acceleration Program (Programa de Aceleração do Crescimento, or PAC)—which has made massive investments in areas such as energy production, urban infrastructure, roads, sanitation, slum upgrading, and housing. PAC also focuses on reducing Brazil's quantitative deficits in terms of universal access to basic services, education, and health; on making critical infrastructure investments; and on

preparing it to be more competitive in the quality of its public services and infrastructure so as to reach levels similar to those of other middle- and high-income countries.

Dealing with an Explosive Urbanization Process: What Housing Policy?

Brazil's government, like Chile's, started intervening in the housing sector in the second half of the twentieth century, coinciding with the intensification of the urbanization process. Before this period, policies and programs were minimal, and the majority of the housing stock occupied by the poor was composed of rental accommodations, popularly called *cortiços* (high-density tenement housing) known for the precariousness and insalubrity of living conditions and building structures.

During a single generation that began in the 1950s, Brazil was transformed from being predominantly rural-agricultural to being an urban-industrial society. In the 1950s, 1960s, and 1970s, urbanization grew annually at an impressive 5 percent, led by heavy industries located around the main hubs in the Southeast region, such as Belo Horizonte, Rio de Janeiro, and São Paulo, along with strong rural-urban migration and high rates of population growth.

The booming urban economy, combined with a limited affordable formal housing market, created the right environment for an exponential growth of slums and substandard shelters. Attracted by the promise of jobs and a better quality of life, large numbers of the rural poor migrated to the main urban centers. While some fortunate, better-off newcomers replaced the immigrant population living in tenement housing, the majority of those who migrated only found shelter in existing or new slums. While some benefited from Brazil's unprecedented modernization, industrialization, and urbanization, many more failed to find those opportunities.

The year 1964 marked the beginning of a period of public intervention in housing provision on the national level, with the creation that year of a real estate credit system, known as the Housing Finance System (Sistema Financeiro da Habitação, or SFH) operated by the BNH. The BNH was created to channel financial resources into housing that did not rely on direct subsidies, with the costs repaid by the beneficiaries. During its 20 years of operation from 1964 to 1985 (Bolaffi, 1992), the BNH provided 4.5 million housing units, mostly to the middle class and higher-income groups. Of all the units financed by BNH, only

30 per cent were earmarked for families with incomes of up to three times the minimum wage. The BNH became insolvent; in 1986 its obligations and assets were transferred to the Caixa Econômica Federal (CEF), a public financial institution responsible for collecting national savings and for managing government pension funds and other government resources for public investment.

The BNH's fiscal sustainability was undermined by readjustment policies that inconsistently applied different indices to correct the debt balances and monthly payments of mortgage holders, as well as by weak foreclosure enforcement (Arretche, 1990). It was worsened by the economic crisis that blighted the country from the mid-1970s to the 1990s. The public housing apparatus was dismantled upon the BNH's dissolution and responsibilities for housing were transferred to various government bodies without achieving any effective results. The BNH's collapse created a vacuum in national housing policy and finance that took more than a decade to remedy.

Another legacy of the BNH was increased urban sprawl arising from the large amount of low-quality housing built for low-income groups, much of it on the periphery of cities to accommodate people evicted from slums. This housing exacerbated social and spatial segregation; families had a house, but not much more. Public schools and health services were precarious, and households had to spend large sums on public transportation to reach centrally located areas to find a job. Economic and social conditions for these poor families were undermined as they were forced from the formal city into social housing projects built in peri-urban areas. Far from job opportunities and good public services and cut off from the rest of the city, the housing projects deteriorated and became new slums. This scenario was dramatically portrayed in the internationally acclaimed movie *City of God* (*Cidade de Deus*), portraying the 1960s involuntary resettlement project implemented in Rio de Janeiro, which had become one of the worst places to live because of its high levels of poverty and violence, as well as lack of public services.

In the 1990s, housing policy shifted. No longer state-led, the private market provided housing. The lack of subsidies and adherence to the cost-recovery principle limited housing access for the poor. Lack of financing and high construction and land costs impacted housing prices, heavily constraining the affordability of low- and middle-income housing. Only 30 percent of Brazil's urban population could afford the housing offered on the private market (Maricato, 2006).

At the end of the twentieth century, the spread of informal urban settlements confirmed that neither government-led housing provision and slum

upgrading nor the efforts of the private market were capable of responding to the housing demands of the poor or of coping with slum growth. Housing provision by the federal government has oscillated between periods of complete lack of supply to others of intermittent government attempts to implement public programs. Low coverage, limited resources, and ineffective responses marked the government's involvement, as it was unable to reverse the general deficit and increasing informality of housing.

The Residential Leasing Program (Programa de Arrendamento Residencial, or PAR), launched in 1999, was the federal government's first attempt to target housing for low-income families earning up to six times the monthly minimum wage. Using funds from the Workers' Severance Fund (Fundo de Garantia do Tempo de Serviço, or FGTS) and the Federal Budget (Orçamento Geral da União, or OGU), the program subsidized units offered by the private sector at a pre-established price ceiling that varied from approximately US$11,000 to US$21,000 in newly built or renovated buildings (Bonates, 2007). While Caixa Economica Federal was responsible for the overall management of PAR, municipal governments were responsible for pre-selecting the beneficiaries, financing the necessary urban infrastructure, and subsidizing local taxes to reduce final unit and maintenance costs.

Private real estate companies managed the lease contracts, which had a 15-year duration. At the end of the lease term, families had the option to buy their units. In its six years of operation, PAR invested R$4 billion (US$1.7 billion) and produced 177,155 housing units (Bonates, 2007). The program was restructured in 2009 and incorporated into the national housing program, MCMV, a market-led housing policy largely inspired by the PAR and designed to ameliorate the enormous housing deficit.

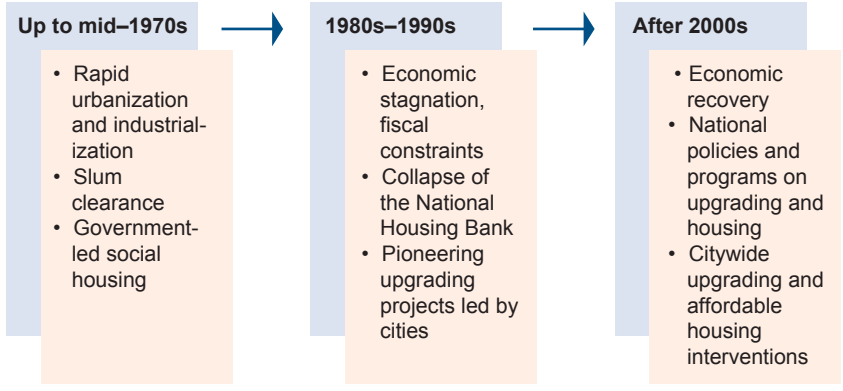
Facing the Challenge of Slums

Brazil's urbanization process inherently involved the creation of slums, so there were several attempts to eradicate them by relocating residents to state-built mass housing complexes on the periphery of cities. Slum clearance policies shaped most government action from the 1950s until the 1990s. The apex of the removal processes occurred during the 1960s and 1970s; these years represented one of the most violent chapters in the history of repression and favela eradication in Brazil. In Rio de Janeiro, 130,000 people were displaced between 1965 and 1975, with 60 favelas vanishing from central areas of the city (Burgos, 1998).

The harsh slum-clearance policies eventually became more flexible. This usually coincided with the dissolution of military regimes that occurred from 1946 to 1964 and from 1985 to the present, when emerging democratization made the former policies politically untenable. After the fall of the military regime in 1985 and subsequent democratization, no candidate could afford to alienate the large electorate that had become increasingly vocal and organized into social movements that fought against evictions and demanded public investment in their communities. The old policies were no longer politically viable and they became economically unsustainable, as no government could recover the costs of land acquisition and new construction that were demanded to face the challenge of slums.

During the late 1980s, housing policy began to recognize the growing social mobilization and the importance of involving local residents in designing and implementing slum upgrading programs (Figure 3.1). Municipalities in the large urban areas took the lead and filled the void left by the BNH's collapse, pioneering slum upgrading policies in many Brazilian cities. Beginning in the early 1980s, slum upgrading projects emerged in several Brazilian cities. PROFAVELA in Belo Horizonte, Plan for the Regularization and Urbanization of Special Social Interest Zones (Plano de Regularização das Zonas Especiais de Interesse Social, or PREZEIS) in Recife, Favela-Bairro in Rio de Janeiro (Box 3.1 and Box 3.2), and Mutirão Habitacional in São Paulo were some of the pioneers. These early municipal upgrading programs developed an integrated approach to addressing slum and housing deficit problems, combining

Figure 3.1 Evolution of Housing Policies since the Mid-1970s



Source: Author's elaboration.

Box 3.1. PROFAVELA and PREZEIS

The Municipal Favela Regularization Plan (Programa Municipal de Regularizacao de Favelas, or PROFAVELA)) and the Plan for Regularization and Urbanization of Special Social Interest Zones (Plano de Regularizacao das Zonas Especiais de Interesse Social, or PREZEIS) are two pioneering initiatives of municipal governments designed to guarantee tenure security and improve the lives of slum dwellers**.** Created in the early 1980s, these programs responded to the increasing demands of social movements in the wake of redemocratization. Both programs drew on the principle of recognizing and regularizing slum areas within the scope of zoning laws, which enabled the declaration of special social interest zones (*zonas de especial interesse social*, or ZEIs) where building standards for upgrading were more flexible and appropriate to the conditions of slums. They greatly contributed to the consolidation of tenure security actions in Brazil, which were subsequently ratified at the national level through the City Statute (Estatuto da Cidade).

In 1985, the municipality of Belo Horizonte launched PROFAVELA, a municipal tenure regularization program that aimed, through federal and municipal legislation, to modify the urban and legal status of favela settlements. The program enabled these informal areas to be incorporated into urban maps, laws, and plans, and allowed municipal administrations to promote upgrading interventions along with service delivery and tenure security. In 1996, PROFAVELA was scaled up, with the approval of several ZEIs in the master plan. By 2002, the program had issued close to 9,500 property titles, benefiting more than 13,000 families.

In 1983, the municipality of Recife created PREZEIS (Law No. 14.511) to regularize land tenure and prioritize the provision of urban facilities for favelas and low-income areas. Implemented in Recife in 1987, it provided guidelines and tools to delimit the ZEIs. The PREZEIS was a milestone in Brazil, as it was the first petition undertaken by civil society that recognized the social right to housing before the right to property. The law sanctioned the principle that land must be used primarily for shelter rather than as a source of profit. Under PREZEIS, the plan defined the roles and responsibilities of government and the criteria for social participation. It established deliberative councils that decided on the investments. Funds came from 1.2 percent of municipal tax revenue, the Inter-American Development Bank, and the national budget. However, limited resources have undermined the capacity of PREZEIS, and until the mid-2000s, only some 60 favelas were recognized as ZEIs within a universe of more than 500.

Source: GACIP (1999).

Box 3.2. Favela-Bairro Program

One of the first city-led slum upgrading programs was the Favela-Bairro Program, implemented by the municipal government of Rio de Janeiro and co-financed by the Inter-American Development Bank for the purpose of raising the living conditions in Rio's slums to the same level found in the formal city. Since its inception in 1994, the program invested more than US$600 million in urban infrastructure and services, community equipment, and social inclusion interventions. With its budget allocated mostly to urban infrastructure upgrading, investments have concentrated on improving accessibility by opening new roads and footpaths, paving streets, and expanding household water supply, sewage, and drainage. Investments also have been channeled to daycare centers, primary health care facilities, and sports and recreation areas. Special care was taken to ensure in situ relocation of families living in high-risk areas.

Now in its third phase, the program has expanded to include housing improvements, income generation, crime prevention, youth and adult professional training, and energy efficiency. To contain future settlement expansion, a geographic information system and an aerial photography monitoring system were developed, formal street addressing implemented, and slum boundaries marked by reforestation of original vegetation. Some of the critical success factors of the Favela-Bairro program were its multisectoral scope, the strong institutional and technical capacity of the local government, and the active involvement of slum dwellers. This last factor might explain the continuation of the program through five municipal administrations despite their different political leanings. More recently, measures to contain crime and violence, such as community policing units (*unidades de policias pacificadoras*) helped to improve security in communities dominated by drug lords, reducing violence and creating better conditions for local businesses to flourish.

infrastructure investments, land regularization, social development, and community participation.

At the same time, social mobilization continued as an important political counterpoint in the struggle for housing rights and tenure security in the favelas, finally being addressed by the 1988 Constitution. Another important milestone was the enactment of the Estatuto das Cidades, or City Statute, in 2001. It was a federal law that created instruments for regulating and implementing the right to a city agenda in Brazil. The law recognized the social function of

property and instituted important mechanisms for promoting access to land and the regularization of favelas (Cities Alliance and Ministry of Cities–Brazil, 2010).

São Paulo's creation in 1989–92 of one of the first municipal Social Housing Funds for Irregular Settlements (Fundo de Atendimento a População Moradora em Habitação Subnormal, or FUNAPS) was another milestone. It became the model for a popular initiative for a National Social Housing Fund (Fundo Nacional de Habitação de Interesse Social, or FNHIS) (Box 3.3). Backed by more

Box 3.3. PLHIS and SNHIS

Since its creation in 2005, the National Social Housing System (Sistema Nacional de Habitação de Interesse Social, or SNHIS) has established that states and municipalities must develop their Local Plans for Social Interest Housing (Plano Local de Habitação de Interesse Social, or PLHIS) as a condition for accessing resources of the National Fund for Social Housing (Fundo Nacional de Habitação de Interesse Social, or FNHIS). The PLHIS represented the consolidation of national housing policy at the local level and promoted the connection between federal, state, and municipal governments.

The PLHIS comprises a set of guidelines, objectives, indicators, and instruments for intervening in the housing sector at the local level. Through its application and analysis, municipalities and states acquire a more comprehensive understanding of the problems that affect the housing sector and the measures that should be used to address the housing deficit and meet future housing demand. Involving local communities and using the democratic process at all stages are fundamental tenets of the PLHIS. Given the different realities of small municipalities regarding their administrative capacity and ability to mobilize resources, the government created a simple process for using the PLHIS designed for cities with populations of less than 50,000.

The PLHIS mainly focuses on social housing, but it also considers the housing sector as a whole, acknowledging the role of private actors and promoting the expansion of housing supply and credit within the private market. Its objectives and targets are threefold: (i) normative, consisting of changes in urban and housing laws and regulations; (ii) institutional, involving improvements to public administrations; and (iii) technical, consisting of measures and interventions to provide, adapt, and improve the performance

(*continued on next page*)

Box 3.3. PLHIS and SNHIS (*continued*)

of local governments in the urbanization and regularization of favelas. The main sources of financing are municipal, state, and federal governments and multilateral institutions.

The resources that the federal government allocates to executing agents for each project are calculated according to the number of families that will benefit from slum upgrading. The government defines one unitary value per family as the total cost of the project (for infrastructure, housing, regularization, environmental recovery, and so forth). Under the housing solution, there are two standards: one for the slum upgrading interventions not requiring resettlement (excluding the costs of housing provision), and another for those with resettlement (including the costs of housing provision). The amount allocated by the federal government for each beneficiary family varies across regions and cities, as prices of land and building inputs fluctuate.

In phase 2, the Growth Acceleration Program (Programa de Aceleração do Crescimento, or PAC) operated in conjunction with My Home My Life (Minha Casa Minha Vida, or MCMV). The housing provision in PAC for resettling was established according to MCMV's rules and financial arrangements.

Reimbursement by Federal Government (per beneficiary family) PAC 1 and PAC 2 according to the Ministry of Cities

Program phase	Maximum value reimbursed by federal government per family and per type of slum upgrading intervention (R$)		
	Interventions with no resettling	Interventions with resettling, (including costs for housing provision) * in metropolitan areas	
PAC 1	11,000	18,000–23,000*	
PAC 2 (MCMV/FAR)	13,000	(detached houses)	44,000–63,000*
		(apartments)	48,000–65,000*

Sources: Diário Oficial da União (2011); Ministério das Cidades (2006; 2010a).

than a million signatures, Congress approved the FNHIS in 2005, and it became the primary financial instrument for countrywide improvement and scaling up of social housing.

The program known as Habitar Brasil BID (HBB-BID), a partnership between the national government and the Inter-American Development Bank (IDB)

Box 3.4. Habitar Brasil BID

Habitar Brasil BID (HBB-BID) was a pilot program aimed at helping the government to develop national policy and a programmatic framework for slum upgrading and financing interventions in capital cities and municipalities in metropolitan areas. Since 1999, the program has benefited some 119 municipalities along two main lines: (i) institutional development of municipal governments in all areas related to housing and capacity development to strengthen national housing policy, and (ii) informal settlement upgrading in selected municipalities through co-financing of integrated interventions. Knowledge accumulated from previous local programs, such as Favela-Bairro, was incorporated into HBB-BID, and the program helped to establish the foundations of the new national housing policies and slum upgrading programs that followed.

To receive funds from the HBB-BID program, municipalities were required to enhance their institutional capacity in social housing and to promote community participation in all project cycles—from the identification and planning to the evaluation and post-occupation phases. Prior to HBB-BID, local administrations had limited experience implementing social housing policies, and technical staff lacked the skills to satisfy the international agencies.

To address the limited institutional and management capacity of local governments in implementing large housing programs, the HBB-BID established a capacity-building scheme to improve the technical and management skills of municipal employees and their ability to implement and execute integrated slum upgrading projects. Part of this process involved the creation of new tools such as the Strategic Municipal Plan for Slum Upgrading (Plano Estratégico Municipal para Assentamentos Subnormais, or PEMAS), and requests were made to municipal offices to implement it. In addition, the program introduced instruments to deal with the social aspects of slum upgrading interventions.

Source: Ministério das Cidades (2007a).

inspired by the lessons from Rio's Favela-Bairro program, was a critical step toward reaching national scale in upgrading favelas (Box 3.4). Launched in 1999, it was the first initiative undertaken by the federal government that attempted to extend the scope of action in favelas. Capitalizing on the knowledge produced by local experiences, and attempting to respond to the

constraints faced by municipal governments, HBB-BID inaugurated an integrated approach to slum upgrading interventions.

With the creation of the Ministry of Cities in 2003, the federal government signaled that urban issues were at the center of its political agenda, and that it was committed to establishing a broader policy framework, financial system, and institutional architecture to support the development of housing policies. A few months later, in 2004, the National Housing Policy was approved and slum upgrading became a national priority, with its financial framework strengthened in 2005 by Federal Law No. 11.124, establishing the National Social Housing System (Sistema Nacional de Habitação de Interesse Social, or SNHIS).

However, the grand opportunity for a large-scale national slum upgrading policy came in 2007 with the PAC, an economic stimulus package launched by the government. The PAC's main objective was to accelerate economic growth by substantially increasing public investment in critical infrastructure areas. Headed by the Minister of Casa Civil, Dilma Rousseff, whose election to President in 2010 was due in part to its success, the PAC was designed based on the notion that public spending stimulates economic activity and generates jobs with little risk of crowding out private investment. The PAC channeled massive public investment in infrastructure to three labor-intensive sectors: transportation, energy, and social and urban infrastructure. Investments in the first phase (2007–10) reached R$619 billion (US$334 billion). Slum upgrading was inserted into the social and urban pillar and baptized as PAC-Favela, and the new national program increased resource allocation and harnessed a strong institutional structure from the federal to the state and municipal levels to plan and execute infrastructure improvements for favelas on an unprecedented scale (Ministério do Planejamento, 2010).

The second phase of PAC-Favelas and MCMV, launched in 2011, expanded the interventions to include improved access to education, culture, health, and security services. The PAC 2 allocated large investments, combining subsidies and financing to make market-led housing production more accessible. In the new phase, PAC-Favela was integrated into MCMV. These combined investments in upgrading and affordable housing represent one of Brazil's largest budget items, containing more public resources than most of its ministries taken together. The preliminary results of the PAC 2, published at the end of 2014, pointed out that with MCMV, the government was able to reduce the housing deficit to 5.9 million homes, or 9.5 percent, in 2011, and to 5.79 million homes, or 9.1 percent, in 2012.

After the first round of PAC 2 projects, the Ministry of Cities identified challenges in the program design and implementation and incorporated changes to the program guidelines that included strengthened monitoring of project implementation, reduced counterpart funding from local governments, resources for project design and execution, greater emphasis on land regularization, and strengthened social work through more detailed instructions on implementation of social support programs. PAC 2 also prioritized the population living in areas subject to high risks for natural disaster, insalubrity, or natural degradation (e.g., fires, landslides, floods, and earthquakes), granting them the prerequisite criteria for family resettlement (Ministério do Planejamento, 2015).

Drawing on lessons learned from failed policies of forcibly evicting the urban poor from favelas, and from the collapse of traditional government-led social housing programs, Brazil has built a solid policy and institutional framework for addressing its enormous housing deficit, stock of slums, and informal settlements that accumulated through decades of rapid urbanization with insufficient public investment in basic infrastructure and services for the urban poor. Building upon the pioneering experiences of several cities in improving the physical, social, and economic conditions of their slums, the PAC-Favela and MCMV programs have brought about slum upgrading and affordable housing on an unprecedented scale. PAC-Favela incorporated the concept of integrated slum upgrading learned from programs operating since the late 1980s with a focus on integrated upgrading, and connecting slums to the surrounding urban fabric, going beyond the mere provision of basic infrastructure, and introducing social supports for promoting inclusion and capacity building.

Compared to previous programs, PAC-Favela and MCMV vastly increased the scale and scope of interventions in favelas. The HBB-BID program allocated US$0.6 billion and benefited 89,000 families in 119 municipalities between 1999 and 2006 (based on the Ministério das Cidades' website [http://www.cidades.gov.br/] and Ministério das Cidades [2007b]). Under the MCMV, about US$26.6 billion was invested during the first phase (2009–10) and about US$128.67 billion was allocated for the second phase (2011–14). The program has already financed 1.87 million new houses and 2.7 million more are under contract (Table 3.1).

PAC-Favela and MCMV mobilized unprecedented resources for slum upgrading. From 2007 to 2010, US$8.4 billion in grants, subsidies, and loans were allocated under PAC-Favela for slum upgrading, sanitation, and in situ resettlement, benefiting 1.2 million families in 558 different operations.

Table 3.1 Results of HBB-BID, PAC-Favela, and MCMV according to the Ministry of Cities

	HBB-BID (1999–2006)	PAC-Favela (2007–10)	MCMV (2009–14)
Number of beneficiary families	89,000	1.2 million	2.7 million (contracted)
Funding allocation (US$)	0.6 billion	13.1 billion	155.27 billion
Funding allocation per family (US$)	6.7 thousand	10.9 thousand	31.4 thousand

Source: Author's elaboration based on the Ministério das Cidades' website (http://www.cidades.gov.br/) and Ministério das Cidades (2007b).

A Twin-Track Approach: Combining Slum Upgrading with Market-Based, Low-Income Housing

The consolidation of Brazil's slum upgrading policy has been built on more than 20 years of experience and knowledge produced by local and national governments and multilateral institutions, along with initiatives promoted by civil society and social movements. Initiatives undertaken by municipal governments and attempts to achieve scale by the federal government have gradually consolidated into policy.

However, at the turn of the millennium, housing policy coverage was still limited, given the magnitude of the problem. It needed to be scaled up to become a national housing policy. Governments analyzing the situation acknowledged two main obstacles: the inconstancy of resource allocation and the institutional deregulation between federal, state, and municipal spheres of government. In 2004, Brazil launched the National Housing Policy (Política Nacional de Habitação, or PNH), a long-term, integrated urban development strategy aimed at tackling the growth of housing informality, followed in 2009 by the National Housing Plan (Plano Nacional de Habitação, or PlanHab).

Brazil's enormous housing problem revealed itself as a phenomenon characterized by the steady growth of slums and an increasing deficit of affordable housing. The government designed programs, such as PAC-Favela and MCMV, to address these problems (Box 3.5). Using this twin-track approach, the Brazilian government, for the first time, made a concerted attempt to simultaneously reduce the quantitative housing deficit by supplying new government-led housing through the MCMV and upgrade the quality of the immense

Box 3.5. Minha Casa Minha Vida

Minha Casa Minha Vida (MCMV) was launched in 2009 with the goals of increasing housing financing for the urban poor and low-income families and providing incentives for private developers to increase the supply of affordable housing. It allocates funds from the General Federal Budget (Orçamento Geral da União, or OGU) in the form of subsidies, and from the Workers' Severance Fund (Fundo de Garantia por Tempo de Serviço, or FGTS). Funds are transferred to private developers and/or to final beneficiaries based on different design flows that are defined according to household income level, as shown in the following table:

	Group 1: Lowest income	Groups 2 and 3: Low–medium income
Beneficiary	Families with monthly income up to US$800 selected by municipalities based on national and local criteria	Families with monthly income from US$200 to US$2000 that are eligible to one of the housing subsides modalities.
Subsidy	90–95 percent of total unit cost	Upfront and interest subsidies varies according to income (5–8 percent)
	10 years (cap at 5 percent of family income)	10 to 30 years (cap at 30 percent of family income, and insured for loss of income up to 36 months)
Unit costs	US$25,000–US$35,000	Max. US$86,000
Delivery	Private sector bid for municipal or state government contracts	Private housing market

Source: Adapted from Federal Law No.12424, 2011.

The Ministry of Cities is the lead coordination agency. It is responsible for defining project selection criteria, developing project design specifications, detailing project execution guidelines, and monitoring and evaluation of results. Caixa, the federal savings bank, is the financial operator, responsible for contracting processes and the transfer of resources between national and subnational levels of government. The financial arrangements for MCMV consist of a combination of subsidy grants and housing finance. Beneficiary households are classified into three groups according to their monthly household income:

(*continued on next page*)

Box 3.5. Minha Casa Minha Vida (*continued*)

Modes of Subsidy and Financing Provision in MCMV

Group	Income range (R$)	Types of benefits	Origin of funding
1	Up to 1,600	Subsidy	OGU
		Insurance exemption	
		Exemption of property registration costs	
		Tax reduction for housing developments (for developers)	
2	Up to 3,100	Subsidy + finance	OGU and FGTS
	Access to FGHab		
	Insurance reduction		
	Reduction of property registration costs and interest rates		
3	3,100–5,000	Finance	FGTS
	Insurance reduction		
	Access to FGHab		
	Reduction of property registration costs		

group I up to R$1,600, group II up to R$3,100, and group III between R$3,100 and R$5,000.

Municipal governments and their housing departments are responsible for selecting the areas to be upgraded, creating proposals, organizing the contract bidding, and supervising the actual work. They are also responsible for implementing the social support program, including the process of public participation during project execution. State governments can also execute projects or partner with municipalities, adding funds to the upgrading interventions. These arrangements are defined at the local level, depending on interest, availability of resources, and political context.

To increase control quality, some municipalities, such as Rio de Janeiro and São Paulo, have emphasized the technical aspects of their contracts with construction companies, creatively circumventing restrictions in the public procurement law that favor cost above quality. The municipalities organized competitions to generate ideas for the interventions and identify the minimum technical criteria and budget allocation for project design.

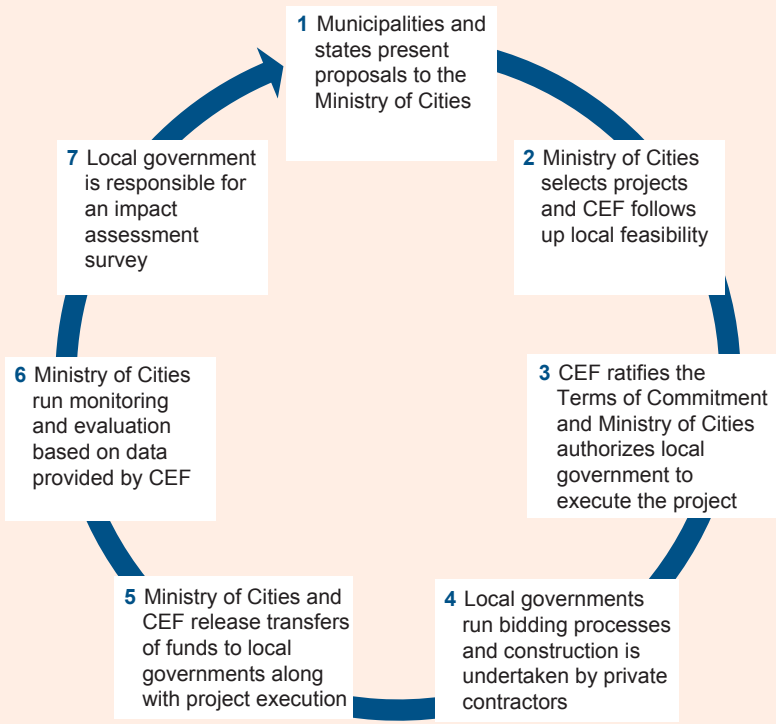
(*continued on next page*)

Box 3.5. Minha Casa Minha Vida *(continued)*

MCMV Goals according to the Ministry of Cities

Income group	Goals in housing units	Housing units contracted	% of the goal
Group 1	2 million	978,092	49
Group 2	1 million	1,018,031	101.8
Group 3	0.4 million	283,583	70.8
Total	3.4 million	2,279,706	76

Institutional Architecture



Source: Ministério das Cidades (2010b).

stock of slums and informal settlements through PAC-Favela. The twin-track approach combined a curative with a preventive housing policy to stem the growth of slums.

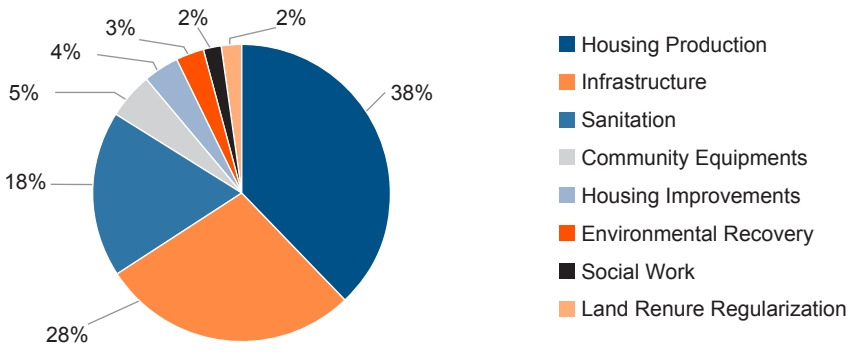
Despite the impressive number of households these programs reached with over 2 million new houses produced, the targets for the lowest-income families lagged behind, reaching a mere 49 percent. MCMV's best results were achieved with housing units produced for higher-income groups, possibly indicating that the best targeted subsides and incentives for the private housing market were for those groups.

In Brazil, as in Chile, moving from government-built public housing policies to subsidized, market-based policies taxed the market's capacity to create an enormous increase in affordable housing supply. A number of challenges remain: how can this housing be made more affordable to the lowest-income quintiles? Even if affordable, is this housing a good option for the poor, given that often it requires them to relocate to distant, underserviced areas with no access to jobs and to incur higher transportation costs?

The slums that benefited from upgrading policies under PAC-Favela seldom have resources directed at improvement of existing houses or at construction of new amenities, since almost 85 percent of the investment resources go to urban infrastructure and production of new housing, as shown in Figure 3.2. Houses in slum areas suffer from a number of problems that hamper their livability, and given their informal and unplanned nature, slums have fewer public amenities such as those that exist in other parts of the city.

Economically, MCVM and PAC-Favela were successful in stimulating the construction industry (Box 3.6). From 2007 to 2012, they directly or indirectly created an estimated 3.5 million formal jobs. This was an important countercyclical

Figure 3.2 Allocation of Resources in PAC-Favela according to the Ministry of Cities



Source: Author's elaboration based on Ministério das Cidades (2010c).

Box 3.6. PAC-Favela

PAC-Favela is a slum upgrading program led by the national government. It is designed to improve urban infrastructure and services in the favelas and to promote income generation and social inclusion. The program uses infrastructure investments to promote integration between favelas and their surrounding neighborhoods. The integrated approach to slum upgrading includes four areas of investment, as detailed below:

Components	Scope
Infrastructure and services	Infrastructure provision, accessibility, housing renovation or new housing provision
Land regularization and tenure security of the settlement area in accordance with land ownership conditions, urban zoning and environmental legislation; security of tenure for families benefited	
Social support	Participation of beneficiaries in project implementation; including social communication; involvement in project execution (labor); and capacity building for post-occupation
Environmental risk reduction	Geological interventions for preventing natural disasters (e.g., landslides, flooding); resettlement of families in imminent risk; improvements in drainage and sewage systems; regeneration of degraded and hazardous areas; and environmental education.

Initially, PAC-Favela had the goal of tackling large-scale slums in Brazil, giving preference to proposals located in the most populated cities and metropolitan areas. The projects selected for the first phase included large-scale interventions that, due to their size and complexity, required good coordination between several institutional agents and that optimized cost opportunity to benefit a large number of vulnerable families living in precarious conditions. In the second phase, PAC 2 broadened the scope of resource allocation to include small- and medium-sized cities (with more than 70,000 inhabitants) and reinforced the focus on the northern and northeastern regions of the country. The enlargement of the territory poses new challenges for PAC's implementation. The problems of limited institutional and technical capacity of the public sector that constrained the program in the first phase may recur more seriously in smaller cities.

Source: Ministério das Cidades (2010d).

strategy that helped generate new jobs when the economy was affected by the 2008 global financial crisis. The second phase of the programs, from 2012 to mid-2014, generated an additional 2.9 million jobs (1.2 million directly and 1.7 indirectly).

Conclusions

Brazil has made significant progress in developing policies to address the problem of slums. It is one of the only countries in the world to have implemented a national slum upgrading program. Today, MCVM and PAC-Favela, together, represent the largest and most important social programs in Brazil. Their combined budget equals those of most ministries combined and is larger than that of Bolsa Família. This demonstrates the government's unprecedented commitment to address the housing deficit and slum issues, as well as the significant programs relating to slum upgrades and affordable housing in the broader national agenda. The funding from these programs has enabled the government to upgrade and/or eradicate slums at the city level, moving from the project level to programmatic interventions.

Prior to MCVM and PAC-Favela, many Brazilian cities already had social housing and upgrading projects, but because municipalities had to rely solely on their own resources, those initiatives were unsuccessful. The additional funding from the federal government with regard to the twin-track policy boosted the investment capacity of municipalities. Moreover, the territorial extension of PAC Favela and MCMV would never have been possible without the coordinated efforts and commitment of institutions and all levels of government.

As is often the case, the availability of well-located land remains one of the main obstacles to the success of low-income housing programs. The lack of large parcels of urban land in more centralized locations and the high cost of this land has created challenges for the MCMV and forced it to be on the periphery, thus replicating the urban sprawl that has segregated the poor and perpetuating the challenge of social integration with the rest of the city. Furthermore, land prices in most cities have skyrocketed, possibly also fueled by large infrastructure projects such as the 2014 World Cup and the 2016 Olympics.

The vast majority of housing developments under the MCVM and PAC-Favela programs does not incorporate land for commercial use; nor do they encompass diverse housing classifications. This lack of social and functional mix will likely result in the shortcomings of the mass-housing projects of the BNH era, thus repeating social and spatial exclusion.

To overcome these policy limitations, some cities, such as São Paulo, are considering combining the resources from PAC-Favela and MCMV with local incentives to attract private investment and create a social mix of middle- and higher-income housing. As deficits progressively reduce, as is the case in other middle-income countries, there are new challenges to the shift from quantity to quality.

Another important bottleneck is the lack of local government technical capacity to develop and execute high-quality project designs. To monitor the quality of urban and architectural design and implementation is a difficult task, often undermined by high budget constraints. To address this, PAC 2 was able to create an avenue for project management costs to be offset by direct investment. It also enabled local governments to undertake better reviews, plans, and slum upgrading projects, including the cost of architectural, engineering, and technical project design. The federal government, through the National Housing Secretariat, is promoting several initiatives to improve the technical capacity of stakeholders and public officials involved with urban and housing policies at the municipal level, including two e-learning courses on slum upgrading interventions.

PAC-Favela and MCMV allocate resources for social work. Community-based organizations and beneficiaries participate in creating an agenda of priorities and provide input at the design and implementation stages. In 2009, the federal government issued mandates on the development of social support networks, establishing new requirements and requiring local governments to support social work. However, social work is difficult to determine within social indicators and statistical data. To improve social work depends on enhanced intersectoral coordination to link specific community demands with local policy (Villarosa, 2011). To promote social inclusion in parallel to the development of physical interventions remains a key challenge in creating high-quality and effective social programs (Box 3.7).

PAC-Favela and MCVM still struggle to address the magnitude of the problems relating to social exclusion and vulnerability, which are beyond the scope of physical intervention. Social work should be a strategic component of housing and urban policy, but often public policy is disassociated from the reality of everyday life (Koga, 2011). Higher priority is given to more tangible projects, while more pressing issues and delays are not addressed in areas such as land regularization and titling, public licensing, administrative procedures, procurement, and implementation. For example, regularization procedures have not taken place at the same pace as upgrading and infrastructure, and by 2009 only 8 percent of households had received deeds to their property.

Box 3.7. PAC Social Support Programs in Manguinhos and Rocinha

The State Management Office of Rio de Janeiro (Escritório de Gerenciamento de Projetos, or EGP-Rio) received two prizes for the social support programs undertaken in Manguinhos and Rocinha PAC-Favelas (Growth Acceleration Program (Programa de Aceleração do Crescimento)). The competition was organized by Caixa to promote and encourage knowledge transfer and disseminate lessons learned from the social development programs throughout Brazil. PAC interventions in Manguinhos and Rocinha were recognized, among other things, for their impact on social inclusion, innovation in the local context, and strengthening of local leadership. Manguinhos has more than 50,000 inhabitants living in 12 communities. Its slum upgrading project has improved accessibility and promoted urbanization and construction of housing and public infrastructure. In Rocinha, home to more than 100,000 people, the state government has invested in urbanization, improving accessibility, housing, and public infrastructure. Overall, slum upgrading was based on a broad process of social support aimed at encouraging the participation of local society, ensuring dialogue, improving income indicators, building capacity, and health and environmental education. The PAC projects in Manguinhos and Rocinha were nominated for the Dubai International Award for Best Practices 2012, organized by the United Nations Human Settlements Programme (UN-Habitat).

Source: Governo do Rio de Janeiro, Secretaria de Estado da Casa Civil (2015).

The absence of adequate information systems to support planning, evaluation, and monitoring of housing programs at the national and local levels threatens further policy development. Many municipalities have failed to undertake data collection surveys and have had to rely mostly on data that has been produced by the Brazilian Institute of Geography and Statistics (Intituto Brasileiro de Geografia e Estatística, or IBGE) in its national census. Based on recent census surveys, the IBGE has attempted to geo-reference information to improve data for municipalities and to enable cities to improve planning and monitoring capabilities and develop technologies. The failure to introduce reforms to address operational bottlenecks and structural problems (e.g., supply of land for affordable housing), and the local capacity to plan high-quality, integrated housing and urban developments, as well as generate economic development could result in national policies falling short in providing a long-term, effective framework that will enable cities to face the challenges of urban issues and governance.

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CHAPTER 4

Learning from the Bottom Up

Patricia Acosta Restrepo

Introduction

National housing policies are often limited by the need to implement structural change. In 1997, urban reform laws in Colombia created decentralized municipal, administrative, and political systems; since then, local governments have acquired planning, fiscal, and administrative autonomy, and are administered by elected councils and mayors. Municipalities emerged as key players for introducing land policy and planning changes to buttress the low-income housing supply and also to directly upgrade slums. Colombia is a good example of a country in the Latin America and Caribbean (LAC) region where municipalities have stepped into the void that was left by national policies and it has taken the lead in terms of housing.

Bogota and Medellin have had successful experiences with low-income housing policy. With strong institutions, financial muscle, and favorable political environments, these two cities present noteworthy examples of innovative territorial approaches and advantages of urban reform law in force that includes planning instruments that serve as a platform for policies that relate to large-scale, integrated, and low-income housing; slum upgrading; and land issues. Limited to the two cities, the experiences, unfortunately, did not evolve into national policies.

Nonetheless, taken in isolation, the successes of Bogota and Medellin exemplify the significant constraints that municipalities face and they underscore the continuing need for urban reform to enable the implementation of robust national policies. These policies make it possible for municipalites to promote integrated, low-income housing and increase the focus on slum upgrading. Between 2000 and 2010, Colombia's national housing policy lagged behind its structural reforms. At that time, low-income housing production nearly came to a halt and the rapid informal urban expansion in secondary cities confirmed that national policy needed modification. Since 2010, new national initiatives have been promoted. These programs have been controversial since they undermine significant aspects of the reform. However, important lessons can be drawn from the local experiences in their implementation.

Country Profile and Urban Context

Colombia encompasses more than 1.1 million square kilometers. It is the third most populous country in the LAC region, with an estimated 46.9 million inhabitants, 75 percent of whom are urban. Its annual population growth rate has dropped from 2.96 in 1960 to 1.39 in 2010. The 6.9 fertility rate of 1960 decreased three-fold in the early 1990s, reaching 2.1 in 2010. During the same period, life expectancy increased from 56.7 years to an estimated 74 years in 2012.

Social indicators reported by the World Bank show that since 2004, Colombia's population below the national poverty line has decreased from 47.4 to 32.7 percent in 2012 with an estimated 5.6 percent of the population living under US$1.25 per day. The high levels of segregation and exclusion in city developments are a result of this condition, given that an estimated 33 percent of the total urban population lives below the national poverty line. The country has one of the highest internal displacement rates in the world; 5.2 million individuals have been displaced since 1985, due to long internal armed conflict.

Despite being classified as an upper-middle-income country with an annual gross domestic product (GDP) of US$378 billion in 2013, a score of 0.710 on the Human Development Index, and being ranked 98th on the Index in 2013 (UNDP, 2014), Colombia is also one of the most inequitable countries in the world. Since 2002, increasing democratic stability and security have attracted direct foreign investment and have accelerated economic growth. GDP has increased steadily from 2.2 to 6.9 percent in the period 2002–07, 0.8 percent higher than the regional average.

Colombia was not severely affected by the global economic crisis. Expansion slowed in late 2008 and GDP rebounded to 4 percent in 2010, rising to 4.3 percent in 2013. GDP composition by sector shows that the economy relied significantly on the tertiary sector—60.5 percent of national GDP between 2000 and 2008 was generated by this sector—and that it also depended, to a large extent, on oil and carbon exports. With new trade agreements and improved international relations with its neighbors, Colombia's scope for production and other exports is likely to improve. However, underdeveloped support networks, compounded by the impact of recent disasters on existing infrastructure, pose major challenges.

Employment is mostly informal and is concentrated in low-income groups—of the country's 22.1 million labor force in 2010, 53.5 percent of

those employed were self-employed, while 11.6 percent of the labor force was unemployed. At the national level, 59.9 percent of households were estimated to earn less than twice the minimum monthly wage, 80 percent of whom were employed in the informal sector (DANE, 2007). According to the World Bank (2012), the labor force had increased to 23.1 million by 2012; of that, the percentage of self-employed people remained at 53.5 percent, while 10.4 percent of the total labor force were unemployed. The construction sector's participation in Colombia's GDP has decreased significantly; between 1997 and 2008, it ranged between 3.7 and 5.2 percent. However, it continues to strongly influence national policy, given its importance for job creation (UN-Habitat, 2010).

Colombia's urbanization process, though similar to that of the rest of the LAC region, reflects its geopolitical singularities, particularly its natural geographic division into distinct economic regions, poor infrastructure, unequal income distribution, and its long history of internal armed conflict. Bogota, the capital, was the destination for the wave of rural-urban migration during most of the twentieth century, along with three secondary cities—Barranquilla, Cali, and Medellin. It has a fairly balanced, unique urban system that contrasts with most of the LAC region.

More recently, Bogota has consolidated its economic and demographic priorities. Intermediate cities, however, experience much higher population growth rates than major cities. Although the overall urbanization rate has stabilized at 1.79 per year, as such, an emerging group of regional sub-centers close to metropolitan areas are showing urbanization rates as high as 6 percent per year. Poverty is concentrated in the cities, where about 60 percent of the nation's low-income population and about one-third of individuals living below the urban poverty line reside (UNFPA and Externado University of Colombia, 2007).

Prolonged conflict between the government and the guerillas, and between paramilitary and drug trafficking networks, has been critically significant in efforts to define an internal migration pattern and urbanization process. Between 1985 and 2009, conflict disturbances displaced 4.9 million people. This trend continues, with 300,000 people displaced each year. Displacement was particularly acute in the late 1980s when drug cartels demanded rural land, exacerbating the expulsion of people in several regions. This has produced a migration cascade from rural to urban centers that continues to this day. The overall effect of this internal migration pattern has been rapid informal growth, especially in the 31 intermediate cities, some of which currently experience annual population

growth rates as high as 6.2 percent. This has placed overwhelming pressure on municipal governments (UNFPA and Externado University of Colombia, 2007).

The combination of extended informal settlements and the inability of municipalities to provide the required housing and basic infrastructure has formed the political ground to motivate urban reform law. The 1997 Territorial Development Law established the mechanisms that entitled municipalities to promote their own territorial development and to control their land use.

The decentralization process has not, however, been accompanied by sufficient institutional strengthening to enable the municipalities to fully exercise strategic territorial management. Despite the decentralized, integrated spatial and local development planning system that was established in Colombia in the late 1990s, most municipalities have been unable to address the many issues that hinder access to housing for low-income families, let alone to overcome the local political tensions created by land reform policies.

Most municipalities suffer restricted autonomy in public investment due to their dependence on national and regional fund transfers and their poor fiscal performance. Furthermore, local autonomy in planning adds complexity to strategic, development, and environmental challenges. The absence of consolidated regional planning authorities and institutions, except for those created by a few metropolitan areas, leaves critical institutional gaps to adequately address issues that transcend municipal boundaries—such as policies to provide affordable housing and prevent the development of slums (DNP, et al., 2007).

As a result of these conditions, the housing shortage has mounted. In the Census of 2005, there were 8.2 million households in Colombia, 2.2 million of which experienced either a quantitative (1.03 million) or a qualitative (1.2 million) housing deficit. On average, between 1990 and 2006, public expenditure on housing as a percentage of GDP was only 0.8 per cent, one of the lowest in the region (UN-Habitat, 2010). Based on these statistics, there are two structural problems: (i) a deficit in housing production; and (ii) an entrenched informal land market that traditionally has produced over half the country's housing, culminating in a large stock of substandard dwellings and urban environments. The Ministry of Housing recently estimated that this deficit decreased from 27 percent in 2005 to 16.48 percent in 2012, when an estimated 1.6 million households continued to face either a quantitative (0.55 million) or a qualitative (1.09 million) deficit.

In the last 20 years, national housing policy has focused on providing subsidies to the demand for housing. Eligibility requirements are designed for families with stable incomes, sufficient credit to obtain commercial mortgages, and enough savings for a down payment. Housing grants exclude, however, about

70 percent of the population, with over 62 percent of the annual housing supply produced informally (MV, 2011b).

Overview of Housing Policies

As in other LAC countries, a shortage of affordable housing is a key factor in slum formation. In Colombia, it is estimated that by 2008 there were 1.3 million households living in slums. An estimated 63 percent of total urban households experienced qualitative deficits relating to sanitation and overcrowding, and 20 percent of those were located in high-risk areas. The 2006 estimates indicated that informal settlement accounted for an average of 18 percent of the residential areas of the country's four largest cities, 19 percent of cities with populations over 300,000, 24 percent of urban centers with populations between 100,000 and 300,000, and 26 percent of urban centers with a population below 100,000. Areas of informal origin vary according to other specificities. For example, about 25 percent of Bogota's urban area is of informal origin, while in Cartagena and Soacha, this figure is close to 70 percent (DNP et al., 2007).

Despite the potential of the legal framework to directly involve municipalities through structural reform, the backlog in affordable housing continued to escalate following 1997. While national housing agencies ceased to operate in the early 1990s, municipalities, in turn, failed to take advantage of the favorable planning instruments that came about through urban reform. However, the 2006–10 National Development Plan (NDP) set new and unprecedented goals for direct national involvement in housing, which were further expanded in the 2010–14 NDP.

According to the most recent estimations, 19.75 percent of national households live in one or the other type of inadequate housing, and 7.73 percent of these correspond to the quantitative deficits prioritized by national policies. Nonetheless, as Table 4.1 shows, baseline estimations have been highly variable and cannot be fully explained by the moderate impacts of recent programs. Innovation in housing and slum upgrading in Colombia have been closely linked with progressive local political environments and comprehensive urban development ideals.

Structural Reform and the Evolution of National Housing Policies: The Failure of Market-Based Housing

Viewed as a process, the evolution of Colombian national planning and housing policy can be understood by way of two distinct paradigms: first, an early history

Table 4.1 Estimated Housing Deficit in Colombia according to the Ministry of Housing

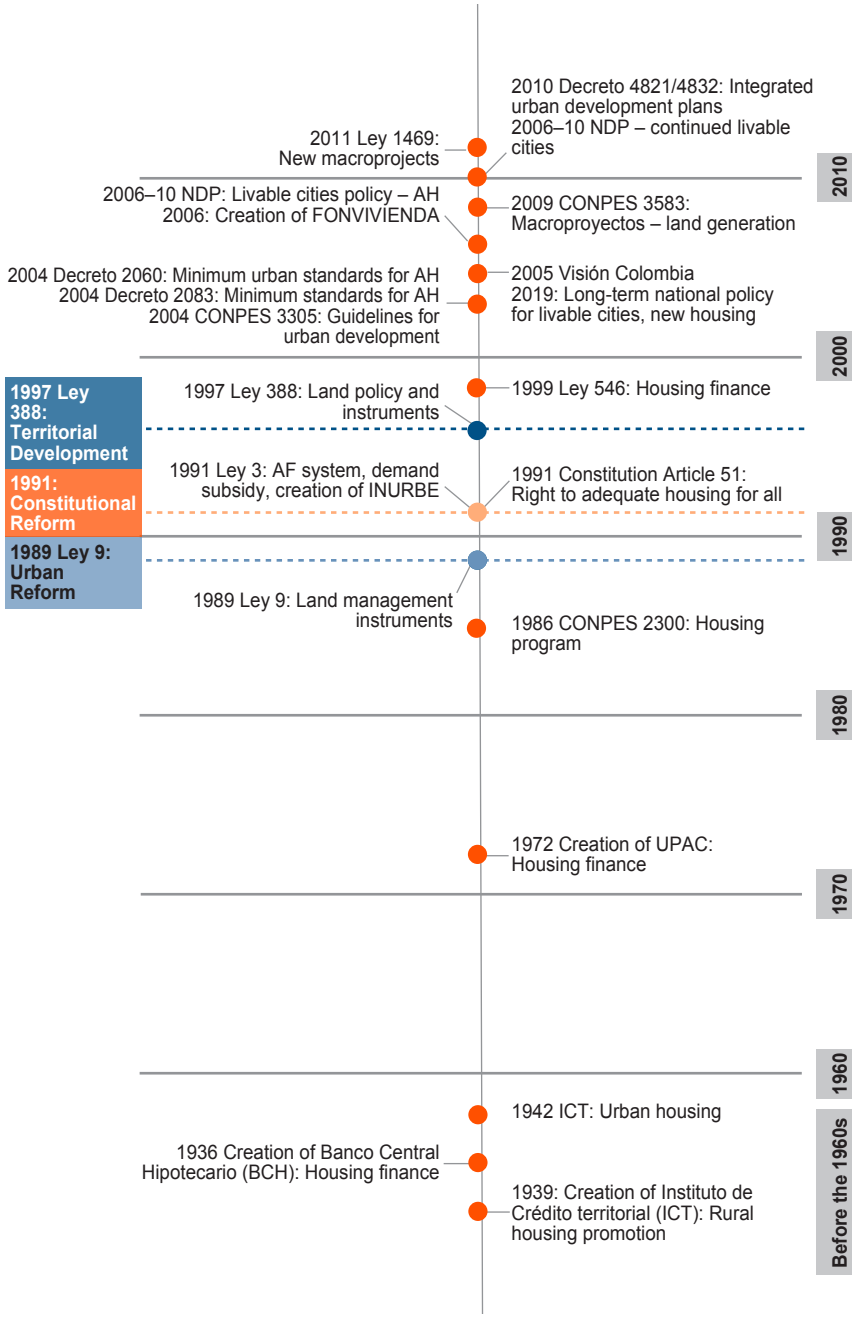
	Census 2005	Percent of households	Forecasting (GEIH 2012)	Percent of households	Percent variance
Total households	8,210,347.00	100.00	9,996,144.00	100.00	21.80
Households with deficit	2,216,863.00	27.00	1,647,093.00	16.48	–25.70
Quantitative deficit	1,031,863.00	12.56	554,087.00	5.54	–46.30
Qualitative deficit	1,185,607.00	14.44	1,093,006.00	10.93	–7.80

Sources: Author's elaboration, based on DANE (2005) and Mesa VIS–Diego Echeverry Campos (2011).
Note: GEIH refers to Gran Encuesta Integrada de Hogares (Principal Integrated Household Survey).

of government or market-led mass housing supply, and second, a more recent history of land and planning policies. The constitutional reform of 1991 redefined the public mandates regarding several key issues that directly affected planning and housing policies: it (i) introduced the legal framework that established an active role for the state in territorial planning, (ii) reframed and separated property and construction rights, (iii) determined public participation in added land value, to be generated through the development process as a collective right, and (iv) mandated direct local public intervention in urban development. This structural reform established the core legal framework, which in 1997 revived the earlier progressive urban reform.

In spite of the progressive nature of this planning and land management scheme, the return in 2010 to a direct national intervention approach in housing policy and the dominance of affordable housing production programs over positive planning approaches suggest that sound policy reform may be only the beginning of a long socio-political process that is necessary to change the traditional relationships between key stakeholders. Broadly, national housing policy in Colombia has been based on three stages, with national policies alternating between direct public housing supply and local enabling approaches, summarized in Figure 4.1. The first stage was a change in national policy focus from a rural to an urban development agenda. This took place between the 1950s and the early 1970s, when rapid urbanization and uncontrolled informal settlement in key cities called for state involvement in the housing supply, unprecedented infrastructure development, and slum upgrading. National housing policies aimed to supply subsidized, inferior quality, housing units, combining poverty

Figure 4.1 Housing Policy Milestones in Colombia



Source: Author's elaboration.

alleviation programs and pro-poor housing initiatives with large-scale upgrading initiatives. These initiatives, which occurred mainly as a result of international cooperation during the 1970s and 1980s, came about because of a deep concern about political stability in Colombia, coupled with its structural incapacity to provide basic services.

This direct housing-supply approach in Colombia ended in 1991, as the quality of the projects developed by national housing agencies had consistently worsened and housing operations became fiscally unsustainable. Nonetheless, this project-oriented approach was successful, particularly in Bogota and Medellin where, by involving local governments, it contributed to capacity building. At the same time, in the policy arena, a prolonged political struggle took place in favor of establishing a national land policy structure.

The second stage in the evolution of housing policy was the transition toward housing policies at the local level, integrated into territorial development planning through autonomous municipal management mechanism, and combined with the adoption, at the national level, of a market approach. This shift occurred at the same time as the decentralization process and the introduction of constitutional reform in 1991. The Territorial Development Law, enacted in 1997, enabled municipal autonomy in the planning process. The new legislation provided the instruments for long-term integrated land use, land management, and planning, thus establishing a stable legal framework. However, the result of decades of policy debate and studies gave rise to certain key issues: (i) assessments proved that land accounted for 70 percent of the cost of infrastructure and public goods; (ii) land speculation and distorted land markets resulted in erratic urban development, making housing unaffordable; (iii) short-term local political agendas seriously constrained structural urban development decisions; and (iv) the critical role that spatial planning and urban standards played in the production of public goods was compromised by the concentration on building codes (Barco, 1994).

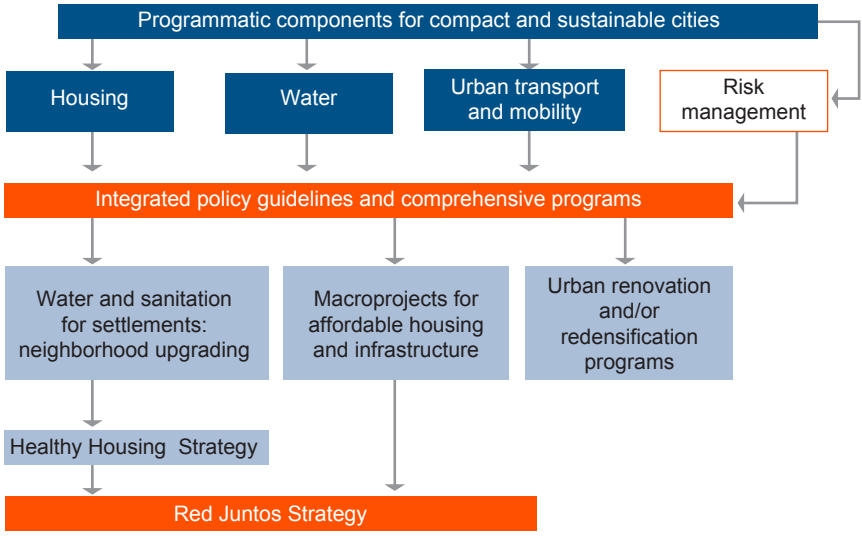
As had occurred in other countries of the region in the early 1990s, Colombia's municipal decentralization, combined with structural adjustment measures that were required to transition to a free market economy, eventually led to a redefinition of the housing sector and its policy instruments. Colombia's national housing policy was then redirected towards an incentive-based, market approach, focusing on public expenditure programs for individual family grants. Such policies aimed to transfer affordable housing production to the private sector, thus reducing production costs and expanding credit by

offering incentives to the construction and financial sectors and lessening the affordability gap through family subsidies. With the exception of the Healthy Cities (Ciudades Saludables) program in 2008, national resource allocation to address the qualitative housing deficit was restricted to family housing improvement grants in an attempt to include the issue of informal development in terms of housing policy. Despite its inefficacy, national housing policy persisted along this line for two decades due to a direct link to the macroeconomic strategies that sustained the private construction and financial sectors.

The critical affordable housing backlog and growing informal development resulted in the return by the government to a direct approach. As detailed in Figure 4.2, the Livable Cities (Ciudades Amables) strategy, under the 2006–10 NDP, was an integrated national approach to directly address the challenges in the sectoral areas (i.e., housing, water, urban transport and mobility, and risk management).

At the same time, the dissatisfaction of the construction sector of the uncertainty and legal complexity in urban development, since the implementation of local comprehensive plans in key real estate markets, created additional political tension with local governments that favored the national policy shift. Concern about weak local capacity prompted several important decisions

Figure 4.2 Livable Cities Strategy, 2006–10 NDP: Colombia



Source: Author's elaboration.

at the national level: (i) the introduction of overarching national planning instruments to promote strategic projects, (ii) restructuring of national institutions to reorganize the housing sector and address new planning and project management functions, and (iii) the introduction of national slum upgrading guidelines and a pilot program.

Furthermore, with no monitoring or coordinating mechanisms in place to ensure that local policy instruments were used to make serviced land available for low-income housing supply, Colombia's national demand-led grant subsidies policy was seriously challenged, and the increasing number of returned family grants revealed a general policy failure. This policy of subsidy to demand, conceived primarily to broaden effectiveness, had excluded low-income households that had informal/irregular incomes and that were unable to meet the eligibility criteria.

By 2006, it became clear that this policy mechanism was in deep crisis. The housing deficit and the dilemma of the national housing grants policy provided an opportunity to shift toward more direct approaches. The need to break through the barriers of land production in order to diversify the housing policy portfolio and the deep concern about rapid slum expansion in key secondary urban centers became pressing issues on the national agenda. The return to direct housing provision brought about the third stage of policymaking: the implementation of a comprehensive national land production mechanism—Macroproyecto (a macroproject relating to social interests). Created under the 2006–10 NDP, this project was designed to allow the state participation in local land decisions to jumpstart affordable serviced land production and to facilitate access to affordable housing.

The mechanism provided measures that included (i) direct planning and investment; (ii) diversification of the housing and finance policy portfolios; and (iii) direct support to local slum upgrading efforts in intermediate cities. The mechanism also promoted an innovative business model incorporating-public–private, public–multilevel, and private housing partnerships to leverage the sector's capacity to create an upscale housing supply, as detailed in Box 4.1.

To increase the efficiency of Macroproyecto's implementation, in 2011 the government completely restructured the Ministry of Housing into a centralized unit for affordable housing, neighborhood upgrading, and urban renovation programs. This one unit contained the Urban Space and Territory division (Dirección de Espacio Urbano y Territorio), from where a large-project task team operated. A US$40 million loan from the World Bank has funded four

Box 4.1. The Macroproyecto Program

Macroproyecto (a macroproject program) is an exceptional national interest mechanism created by the 2006–10 NDP. It enabled the government's direct involvement in local land-use decisions to promote the production of serviced land for affordable housing. Macroproyecto allowed Colombia to approve eligible developments and directly authorize land use and building regulations to enable large-scale, public–private development. Between 2007 and 2010, 32 proposals were approved and distributed nationwide.

The program included key measures to ensure the mechanism was fully functional. The measures include the following: declaring any land that might be involved in public interest projects; authorizing the use of eminent domain or any other special property transfer mechanism to obtain land, enabling the nation's agencies to be part of the trusts created to develop the projects; and authorizing any organizational adjustments the Ministry of Housing might require to promote the initiatives. Together, these measures established the institutional framework to support the development process and monitor implementation and resource flows. The government assigned FONVIVIENDA the responsibility to oversee the trust fund of each project and outsourcing fund management.

In 2010, however, the mechanism was declared unconstitutional in terms of having violated local autonomy and having taken the role of local governments in territorial development. Nonetheless, the 32 projects were allowed to continue. At the same time, 10 of those projects were already implemented and the rest were at different stages of development. These projects were expected to service 1,852 hectares and produce about 126,928 housing units of various types in nine intermediate cities. Of the 22 pending proposals, 2 more were approved in 2014. The expectation was to produce 18,988 additional units, although no national funding has yet been allocated to implement these projects.

In an effort to institutionalize the mechanism, Congress in 2011 approved a revised version involving the local authorities, while allowing for local revisions to the territorial development plan as needed. This framework was to enable Colombia to continue integrated projects in housing and regional development strategies. However, to date, no new projects have been implemented.

macroprojects, including direct investments in secondary infrastructure to leverage serviced land production. These resources have also strengthened institutional and technical capacities.

Besides bridging the policies of land production and new housing, national strategies have introduced additional housing finance instruments to complement the traditional approach. These include credit guarantees for low-income families with irregular incomes, new credit resources for the same target group through a cooperative National Housing Fund (Fondo Nacional del Ahorro), and supply-side subsidies to reduce production costs, such as grants to finance infrastructure. More recently, NDPs have also committed to pro-poor approaches in housing production, such as the 100 percent subsidy and Priority Homes for Savers (Vivienda de Interés Prioritario para Ahorradores, or VIPA) introduced in 2014 (MVCT, 2014).

Macroproyecto's recent policy changes acknowledge the need to diversify the national policy portfolio, and they reflect a concern for scaling up housing policies. Despite this, implementation of these policy changes has not been without controversy. Opponents question its consonance with urban reform and land policy principles, and they specifically criticize the negative long-term impacts of such isolated large-scale developments which are disconnected from locally formulated comprehensive plans, a situation often seen in other mass housing programs in the LAC region (Acosta Restrepo and Henao Padilla, 2011).

Enabling National Policies in Slum Upgrading: Learning from Experience

The first slum upgrading programs emerged in Colombia in the 1970s and 1980s. They were part of broader poverty alleviation strategies, such as nutrition programs, security and social development programs, and poverty reduction and local development programs, designed and implemented with guidelines from bilateral and multilateral aid agencies such as the United States Agency for International Aid, Inter-American Development Bank (IDB), and the World Bank. Prevention of urban social unrest was their underlying concern (Ceballos Ramos, Saldarriaga Roa, and Tarchópulos Sierra, 2008). The government played an enabling role, extending loan guarantees and providing the basic structure for local governments to issue the guarantees directly.

These early national initiatives supported large-scale, coordinated sector programs that involved significant investment to finance trunk infrastructure projects, sites and services housing projects, and complementary health, social, and educational facilities. These initiatives, implemented primarily in Bogota and Medellin, became important for local capacity building and institutional strengthening.

The urban reform of 1997, however, gave municipalities the responsibility for informal settlements, providing a framework for some local governments to develop their own policies and planning mechanisms to deal with the problem of slums. On a national scale, the only significant policy supporting local upgrading programs was a public credit fund by FINDETER that most municipalities—with their low fiscal performance—were reluctant to use. Bogota and Medellin, both able to autonomously finance their initiatives, took the lead with their slum upgrading programs. At the same time, the national slum upgrading policies stagnated.

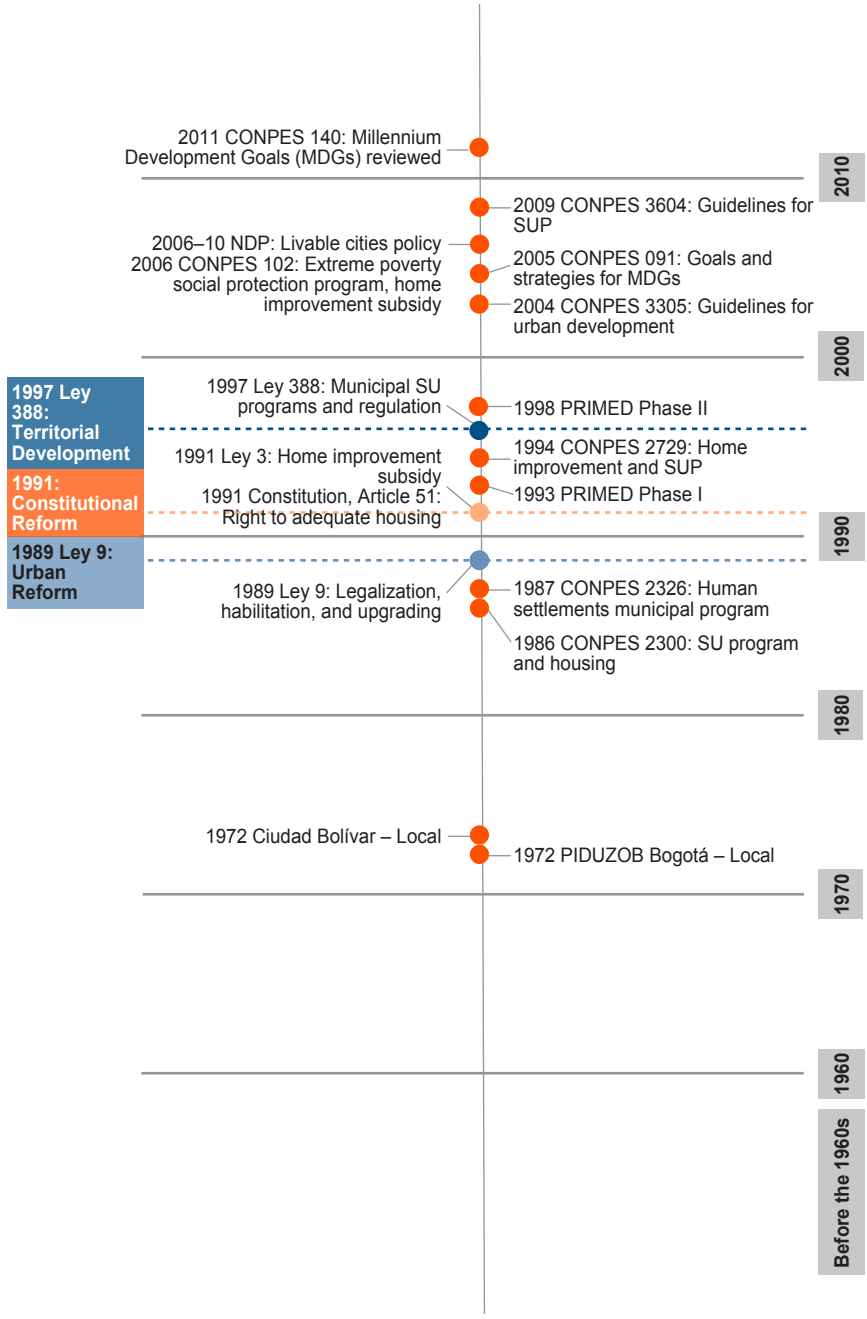
A favorable international context involving agreements around the Millennium Development Goals placed slum upgrading back on the national urban poverty alleviation and human development agendas. It was in this context that the government of Colombia launched the Livable Cities strategy, which made upgrading part of a much broader urban policy while maintaining the focus on alleviating the quantitative deficit, as shown in Figure 4.3.

Slums were selected to participate in the Livable Cities initiative, based on project proposals that municipalities presented to formulate and implement integrated, multi-sector slum upgrading projects. Financed by the national government through a loan from the IDB and a smaller proportion of local counterpart funds, institutional cooperation agreements were initially signed in 2008 with six cities: Apartado, Barrancabermeja, Cucuta, Florencia, Leticia, and Pereira.

Together, the pilot projects covered 47.8 hectares and benefited about 2200 households, with a total investment of US$14.8 million (MAVDT, 2008). According to site specificities, and despite their small scale, these projects included planning, basic public services, risk mitigation and protection works, road access, housing, open space and facility improvements, and community development components. Project reports indicate that available resources only covered between 30 to 50 percent of the required investments to complete each of the microproject components. Furthermore, the limited territorial scale of each intervention—4 to 6 hectares, with the exception of Barrancabermeja, which covered 14 hectares—made it difficult to create significant synergies or broader urban impacts.

As an illustration of Colombia's national housing upgrading policy, the initiative was commendable, particularly for its technical assistance scheme and for the joint effort between the national and local governments and communities. The national technical coordination unit that led the program contributed to the process of knowledge transfer between cities and informally provided an

Figure 4.3 Slum Upgrading Policy Milestones in Colombia



Source: Author's elaboration.

opportunity to share with smaller cities the experience of professionals formerly involved in slum upgrading programs in Bogota and Medellin. Dissemination of flagship slum upgrading and peer learning networks are still incipient. Key lessons have not been translated into recommendations that shape national policy, as has happened in other countries such as Brazil, nor have they informed local program design in preventing pitfalls and supporting the development of innovative schemes.

In sum, renewed national interest in supporting local neighborhood upgrading was a critical step forward in housing policy. However, in light of the magnitude of the challenges that intermediate cities face with growing informal settlements, the pilot program was a timid effort. The program's demonstration project approach reflects learning from the bottom up in program design, while the fractioned execution strategy, based on microprojects in multiple cities, fared less well. Slum upgrading in its true complexity—which has the possibility of scaling up—requires resources, as in the early slum upgrading experiences of the 1970s and 1980s. A microproject approach is unlikely to promote the planning practices or enabling municipal institutions required to develop local autonomous slum upgrading/slum-urban integration policies.

Inspiring Municipal Experiences

The combination of spatial planning and land management, land readjustment, and financial instruments for urban development constitutes the core land management toolkit that supports the Colombian municipal development planning system. The Territorial Development Law provided more than a toolkit—it implemented several progressive constitutional reform principles in urban policy. Thus, the paradigm shift in local policy reflects renewed political agreements about the role of the State in urban development and the redistributive potential of land policy. The mismatch between local and national approaches to housing policies in recent years reflects, in part, this transition.

Earlier experiences with the implementation of large-scale slum upgrading programs through international cooperation in Bogota (1970s through 1980s) and Medellin (early 1990s), in combination with their institutional and financial capacity, were enabling factors for these cities' pioneering work in this area. The scale of early national programs that had cooperation agencies in both cities promoted the evolution of their local slum upgrading policies by consolidating expertise and setting key precedents for local institution building, project management, and planning. Acknowledging the importance of informal

markets in housing the poor and making informal settlements a central issue of the local social development policy agenda led mayors in both cities to make upgrading a primary target for public expenditure, and provided continuity to programs during successive administrations.

In the late 1990s, Bogota developed an approach that linked neighborhood and intermediate-scale projects with an inclusive transportation strategy for the Transmilenio BRT system. Three consecutive administrations consolidated an integrated slum upgrading program approach, which had a significant transformative effect on the urban dynamics of consolidated peripheries and on the quality of life of the people living there. This program raised the bar for urban upgrading standards in Colombia, incorporating top quality architecture for public facilities and excellence in urban design of public spaces. It became internationally known, together with Transmilenio, as the flagship project of the Peñalosa administration. Most importantly, this approach set institutional precedents for locally led integrated program implementation on an unprecedented scale.

Medellin's early experience with PRIMED, a pilot program implemented between 1993 and 1998 with the assistance of the German Agency for International Cooperation (GIZ) and the United Nations Development Programme (UNDP), introduced integrated slum upgrading practices with an emphasis on social integration. It was also a trust-building process that later became a springboard for work on the Integrated Urban Project (Proyecto Urbano Integral, or PUI) Nororiental initiative (Betancur, 2007). The program's greatest challenge was increasing the State's presence in settlements where organized criminal groups were causing violence and extreme social tension. Despite some shortcomings, particularly in titling, PRIMED set important institutional precedents by integrating physical improvements with social programs and it played a key role in capacity building.

Between 2004 and 2011, after implementation of the cable car project, two administrations in Medellin were responsible for implementing the PUI Nororiental initiative. The pilot's urban strategy and practices were so successful that the project quickly evolved into the PUI approach, which has been fully institutionalized as a local structural program, and has become an international reference for its best practices in urban management and participatory planning.

Medellin's PUI and Bogota's Metrovivienda (MV) anticipated the recent national housing policy shift discussed previously. Medellin's PUI approach to slum upgrading exemplifies the positive structural effects produced by

multiscale projects linked to long-term planning strategies. Bogota's experience with MV illustrates local innovation in slum prevention, using integrated land management and land policy instruments to produce affordable land for priority low-income housing. Innovation and project-oriented planning approaches were key elements for the success of both initiatives.

Slum Upgrading: Proyecto Urbano Integrado in Medellin

Medellin has become internationally renowned for its PUI urban project upgrading model, both for its participatory planning approach and its operational scheme. It is a broadly documented model, which is generally presented as a completely predefined program rather than the result of a process of learning by doing. The full PUI program known today is the result of institutionalizing a political initiative and a particular vision about how a local administration dealt with the challenge of territorial exclusion and concentrated poverty. The Fajardo administration introduced this vision in 2004 through the PUI Nororiental initiative (Box 4.2), which was based on the premise that interconnected, emblematic urban projects within the informal urban fabric, linked with targeted social programs, would have a stronger positive impact on the quality of life in one of the city's neediest areas than would dispersed, sector-led, traditional programs. Lessons about the dynamics of working in conflict areas, especially those learned by the previous administration from the construction of the Metrocable (cable car) in the same area, emphasized the potential benefits of a participatory approach for the pilot operation's overall implementation strategy (Alcaldia de Medellin, 2007; Cárdenas, 2006).

Following the pilot project's model, the PUI program institutionalized a broader, long-term commitment to structure the informal settlement areas and to promote social and community development through similar strategic operations. The program aims to formulate and implement an urban project for each of the city's major informal settlement pockets, according to the specific potential and challenges found in each area. Thus, each PUI plan consists of strategically interconnected projects, combined with broader social sector programs which gravitate toward a key transformative intervention. For example, the core interventions in both PUI Nororiental and Centro-occidental 13 initiatives have been the cable-car lines connecting to the metro system.

Since 2004, the program envisioned five major medium- to long-term initiatives, with an estimated potential citywide impact on over a million citizens:

Box 4.2. PUI Nororiental Initiative

This integrated urban pilot project was structured around three components that were to be addressed simultaneously in two phases: (i) a planning phase, consisting of assessment and formulation; and (ii) an implementation phase, consisting of design, construction, and animation. The physical component involved risk mitigation and environmental protection works; road rehabilitation; open space and pedestrian networks connecting to mass transit; strategic intermediate service nodes and commercial paths near Metro cable stations; parks and landscaping; and an enhanced institutional presence in new and improved social facilities. The social component consisted of strategies for community building, including participatory planning processes to develop leadership and promote citizen organizations, as well as local economic development initiatives. It integrated over 250 social assistance projects. Finally, the institutional component involved creation of the management and implementation taskforces for intersectoral coordination and the new administrative schemes and monitoring systems devised by the inter-agency entity responsible for implementing the projects (Patiño, 2011). Total investment on the pilot during the 2004–07 administration, excluding the cable car line already built before its formulation, was about US$400 million, 20 percent for the physical component (US$75 million) and 80 percent for the social programs targeting the neighborhoods within its area of influence (US$340 million) (Echeverry Restrepo, 2011; Patiño, 2011).

An interesting element of this PUI implementation was how it prepared local community members to take full advantage of their enhanced environments and play an active role in the sustainability of the new facilities and spaces. Starting during the formulation process, community work prepared its members to understand challenges, think prospectively, and be ready to share the care and maintenance of their enhanced environments. Once a project's construction process is concluded, an animation process starts to promote the use and interlinkage of social programs. These activities are designed to assist community members in integrating the use of facilities into their daily routines, while special civic events and celebrations are designed to improve community ownership of spaces.

(i) PUI Nororiental (230,000 citizens); (ii) PUI Centro-occidental (140,000 citizens); (iii) PUI Centro-oriental (total not available); (iv) PUI Noroccidental (280,000 citizens); and (v) PUI Iguaná (520,000 citizens). These operations are currently at different stages of planning and implementation. To date, even

Box 4.3. Medellin's Proyecto Urbano Integrado

The PUI approach has focused on enhancing the quality of urban slum environments. It broadly aims to link peripheries and raise living standards through a combination of physical and social interventions. It strategically targets public investments to multiply their territorial impact through an integrated project development scheme with three components: physical, social, and institutional.

The program management scheme, in its later stages, adopted a more decentralized decision-making model, reducing the Urban Development Company's (Empresa de Desarrollo Urbano, or EDU) influence in policy and key decision making, and distributing each operation's management to autonomous, in situ technical/management teams responsible for site supervision. A program management unit inside EDU that oversees the program's performance, while coordinating the inter-institutional agreements, general budget, and contracting activities, heads this multiple task force scheme. In this way, a specific institutional coordination team for each PUI, monitored through the SIPUI (Sistema Integrado del PUI) integrated project oversight system, ensures timely management decisions and implementation of each operation's action plan. SIPUI monitors activities and resource flow pertaining to EDU's activities, particularly public works contracts, while the Municipal Planning Agency, responsible for general planning and inter-agency coordination with other social and sector programs, is responsible for general operations oversight and for reporting emerging issues to the municipal strategic operations coordination committee.

though only the first initiative has been implemented, the results have already created generally positive expectations for future project areas, as well as keen international interest.

From a policy perspective, what became known as the PUI approach is the result of systematizing practices, perfected in the field during the PUI pilot's implementation, into replicable methods (Box 4.3). This is a valuable approach to local learning and to the general evolution of local management and planning practices, for which this case is noteworthy. For instance, contrary to common belief, the fieldwork revealed that when the PUI Nororiental initiative was implemented, it was separate and autonomous from the existing neighborhood upgrading program, which became slightly overshadowed by the PUI's political preeminence.

The neighborhood upgrading program focused on a microproject, risk prevention, and in situ resettlement in the same area, which resulted in the emblematic project for the Juan Bobo Watershed. However, while a PUI taskforce centered its efforts on achieving the transformative structural and intermediate urban interventions targeted for the informal development area, resettlement of displaced families from PUI projects, such as the España library, were not similarly engaged. Furthermore, other neighborhood microprojects that concerned the smaller slum upgrading program also working in the area will have difficulty obtaining funding once the PUI program shifts from the Nororiental initiative to other priority operations. These are among the new challenges posed by the pilot experience for future administrations and the community of residents, where new innovations may emerge.

The flexible, ad hoc institutional frameworks devised by local officials to implement the PUI pilot proved to benefit the complete project cycle and provide leeway for adjustments as the operations unfolded. Some key elements, nonetheless, have not been possible to replicate. As the lead agency, Empresa de Desarrollo Urbano (EDU) headed the pilot, simplifying outsourcing designs, managing the operations' budgets and contracts, and monitoring construction. The EDU task teams also provided supervision, working closely with communities to monitor the quality and impact of the construction. However, after the pilot phase, EDU's management and monitoring responsibilities were reduced, and the municipal planning agency was made responsible for PUI program planning as well as oversight and interagency coordination.

Furthermore, once the program was institutionalized, the mayor was no longer the central figure in decision making and priority setting, as had been the case during the pilot phase. The decision-making chain was fundamentally transformed, producing different results. With competing political priorities and simultaneous multiple operations at work, resources and attention inevitably became fragmented. Regardless of such emerging challenges, the case is an excellent example of how existing institutions can, without major changes, be organized around integrated projects in a way that may transform the institutional culture of the previous management.

Finally, an essential component of the pilot experience of the PUI program is the way that large-scale urban development operations were able to integrate citizen participation into each phase of the project cycle. The PUI approach has been particularly celebrated for its breakthroughs in the combined use of multiple methodologies to engage citizens in problem identification, project design, construction, monitoring, and maintenance, legitimizing public initiatives and

promoting community ownership of the resulting projects. The transition from traditional top-down participation models with mere informative purposes toward multiple strategies for citizen engagement in Medellin's PUI confirmed that these practices not only foster a positive relationship between institutions and communities but they also prepare community members to play key roles in the sustainability and creative use of the new facilities and open spaces (Box 4.4).

The local urban upgrading initiatives have highlighted some socioeconomic dynamics, posed challenges, and raised new issues and debates relating to the unexpected additional positive impacts seen from the PUI Nororiental initiative,

Box 4.4. Community Participation in the PUI

The PUI Noriental initiative set key precedents and provided lessons for the PUI program's general community participatory approach. A preliminary preparation stage was implemented to inform and involve stakeholders, which was particularly useful to focus the communities' expectations and to clarify the scope of the operation and the nature of its potential projects. The media and political leaders announced early community integration and preparation workshops aimed at renewing leadership and progressively consolidating working groups around specific topics and challenges. During the operation's planning stage, prospective workshops were organized for collaborative work on problem identification and project prioritization. Participatory design and imagination workshops were implemented to build agreements around aspects of the designs and their operational requirements (Calderón, 2008). Finally, during the implementation stage, consensus-building workshops were held to build pacts between neighbors on the use and care of new facilities and public spaces. Simultaneously, throughout the operation's execution, many kinds of social programs were coordinated to foster community-building, support emerging leaderships, and channel grassroots organizations around key concerns such as health, education, economic development, and community safety nets.

Community leaders have recognized that, with completion of the pilot, as programs and public agencies have evolved, their citizen organizations have also evolved. The use of participatory approaches has progressively fostered a transformation in citizenship and in the relationship between public agencies and the community, and it has changed expectations about what public interventions bring. New leadership and organizations have emerged. Community members have raised their awareness of their needs and rights and have

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Box 4.4. Community Participation in the PUI (*continued*)

become more capable of articulating their preferences (Calderón, 2008). This approach has become highly valued and a request for it to be a part of all public initiatives has been made. Furthermore, the community is now committed to the responsible use of the facilities, and it is aware of the importance of preserving them. This is illustrated by the cleanliness and absence of vandalism at all project sites. It is also a critical factor for project sustainability, which has encouraged new private and cooperative investment in the area.

such as the attraction of visitors and tourists to the area and new concern over increased informal settlement on higher grounds. In Medellin, the institutionalization of the PUI program, the political will to continue it, and the international recognition it has gained have provided a favorable context for further exploration of local practices.

By adopting the city planning-oriented approach to slums, Medellin has introduced a new paradigm in slum upgrading—shifting the focus from the neighborhood to the city. Hence, the recently coined term, "social urbanism", assigns particular importance to the project development process itself and its potential positive impact on community building. By carefully organizing its pilot experience and building on the strengths of its earlier upgrading programs, the city has consolidated a robust urban development strategy intended to categorize its informal development areas and integrate them through a layered, continuous process.

Slum Prevention: Bogota's Experience as a Public Developer—Metrovivienda

Another notable local innovation in housing policy, enabled by the urban reform, has taken place in Bogota. The city ventured on the creation of a public developer, MetroVivienda (MV) to acquire the operating capacity to supply land through large public initiatives and to leverage privately led, high-quality, affordable housing construction. The agency was conceived as a self-sustaining public company with autonomous capital, which would have a monopoly on municipal land policy instruments to acquire and service land, so that the municipality could offer it on the market at a price that would engage private construction companies in building and commercializing low-income housing under special rules.

The agency's public mandate defines its role as an institution to channel public management and investment toward affordable land production and housing operations. Bogota's planning system, in turn, provides a clear framework for MV to perform this role within development and land policy guidelines provided by the city's long-term comprehensive Territorial Development Plan (Plan de Ordenamiento Territorial, or POT). Therefore, in addition to being a public agent to facilitate affordable land production, MV has become an essential actor in the general plan's spatial consolidation, and its projects are not only committed to meeting housing targets, but are an essential component of an urban project strategy to consolidate Bogota's borders and link existing urban gaps.

Initially conceived as a land bank, MV would potentially reduce private risk in large housing operations by assembling the land and coordinating with the planning and sector agencies to service it. Simultaneously, it would redirect private capital gains from transforming rural land into urban land, toward financing infrastructure and producing public goods. The company's capital was expected to rotate every two to three years and thus continue to promote new affordable serviced land; in practice, however, land acquisition and other setbacks, such as legal disputes and fluctuating political support, extended this cycle and reduced the expected returns, leading to serious financial constraints (Ferguson and Navarrete, 2003; Gilbert, 2009; MV, 2011a; Saborido, 2006).

Consequently, MV's initial model gradually shifted toward a second-tier urban developer model. Project schemes evolved into more complex land development partnerships, reducing the risk of the uncertainties with land acquisition that jeopardized the earlier projects. According to this transformation in the agency's operational schemes, three generations of projects have been identified. First-generation projects (El Recreo and El Porvenir) were developed using the land bank approach, that is, by acquiring large amounts of land using condemnation and other purchase mechanisms, and then servicing the land through cooperation with municipal agencies and utility companies. Once the land was fully serviced, it was sold to private builders in units of one to two hectares (Gallo P., 2010). This scheme faced several difficulties, notably that land valuations were contested and judges increased land prices, neutralizing the positive impact of anticipated acquisitions. These additional costs became losses for MV and were absorbed by the projects, which severely affected MV's capacity to provide serviced land at the hoped-for prices. Thus, the initial projects did not reach the lower end of the target groups.

Metrovivienda later developed a second generation of projects, introducing associative schemes with landowners, such as Campoverde, La Palestina, and Nuevo Usme-La Esperanza, in which it did not front capital for land but rather created a public–private partnership with landowners and directly executed the infrastructure. The value of the undeveloped land and the public investments became part of a trust in which each partner proportionately shared the dividends produced by the operation's land sales with builders (Gallo P., 2010). This approach reduced the company's need for capital, but land valuation continued to be an issue having strong repercussions for the weight of serviced land per housing unit. This still limited the project's potential impact for housing supply (MV, 2011b).

Metrovivienda subsequently developed a third generation of projects, which were based on the long-term land management framework and designed to anticipate growth at the urban fringe. The Usme Operation combined a more complex, inclusive associative scheme for MV projects, making better use of positive planning and land policy instruments to (i) plan urban growth and act ahead of informal urbanization, (ii) regulate land prices by establishing an official reference price prior to making planning decisions to make the priority of affordable housing feasible, and (iii) fully integrate value capture mechanisms into the operation's benefits and burdens distribution system, allowing for payment in kind, thus obtaining public land for housing and infrastructure.

The approach initially yielded positive results in reducing the weight of the price of rustic land on the final costs of serviced land from 37.42 to 15.5 percent (MV, 2011b). However, the long-term continuity in policy required by the scope and scale of this phased urban operation has been neglected—overshadowed by environmental disputes and new political agendas.

Since 2013, MV's attention has shifted away from direct slum prevention strategies and the ongoing operation toward renovation and inner city projects, overlapping other agencies' missions. Delayed implementation, linked to a general decline in municipal urban management capacity, suggests at present a limited understanding of the broader repercussions implied by this administrative shift. In the meantime, many of the land management breakthroughs and investments in Tres Quebradas, the Usme Operation's first phase, have been losing their impact, while vulnerability to the serviced area's informal occupation remains a deep concern.

Bogota has, nonetheless, maintained its vision of a local public developer guided by long-term urban planning strategies. Programs have considered the

structural impacts of housing projects on urban development trends. Each initiative has been an opportunity to enhance metropolitan connectivity, to introduce new urban open space networks, and to create new nodes with public facilities, raising urban quality standards in general.

Furthermore, MV's experience illustrates an approach to housing with policy linkages to long-term local concerns about (i) the effect of local planning decisions and public investments on land prices and the need for a progressive strategy to mitigate it; (ii) the potential complementarity between integrated housing operations and the slums in their areas of influence; (iii) the need for public incentives to promote high livability standards, and (iv) the need to focus public attention on strategies for housing the lowest-income groups.

Granted, while Bogota's technical capacity and fiscal performance favor its potential to finance large-scale, complex operations autonomously, its real capacity to do so is seriously constrained by the magnitude of its public investment challenges in other critical sectors. Therefore, financing MV projects since its creation has been understood more as a policy challenge than as a public expenditure problem (Box 4.5).

Metrovivienda initiatives over the years reflect its determination to become a game-changer in urban development rather than merely achieving quantitative sector goals. Metrovivienda is an agent of change for entrenched behaviors, which distort formal and promote informal land markets. In doing so, the projects' schemes have shifted from being fully public, toward public–public and public–private partnerships that involve more types of landowners and private investors, not only to reduce the need for up-front capital but also to stimulate new relationships among urban development agents and explore new partnership possibilities. In the last two years, there has been a partial return to public initiatives and a redirecting of its institutional expertise toward construction of fully subsidized housing on public land.

While there are reasons to believe Bogota's experience with MV might set a precedent for more progressive urban management approaches—and it is true that international habitat debates have shifted favorably in that direction—resistance to change in key sectors has visibly affected implementation speed and caused the faltering of political will. All things considered, Bogota's experience challenges the common belief that land is too expensive to enable a supply of affordable housing within a high-quality urban environment.

Regardless of the variations in local political agendas, which is a key variable in the way MV's operations have been conceived, its track record for supplying land for affordable housing is noteworthy. Between 1999 and 2011, the

Box 4.5. Financing Metrovivienda

Metrovivienda (MV) was created with the assumption that it would be able to function by rotating its initial capital from the returns on its land sales. Since MV's inception, however, land valuation has been a critical factor that has put several of its projects in jeopardy. The judicial system and the reformed planning system do not complement each other. This has led judges to systematically overrule the municipality's land valuations based on land policy principles, which multiplies the cost of land that MV's projects require and distorts the financial schemes designed to produce affordable land.

Keeping in mind that its primary objective is not to be profitable but rather to produce affordable serviced land, the city finally added an annual investment budget close to US$2.6 million to provide the agency with capital to finance infrastructure and land for its projects. Because these funds actually leverage land production and prevent informality, they can be considered transfers from the unearned increment tax fund, which is levied from all developments in Bogota where land values have multiplied because of the city's planning decisions. Once the investments are made and the land is serviced and commercialized, the agency obtains its returns from the sales. In third-generation schemes, MV aimed to obtain land as payment in kind from the project's trust, which it hoped to transfer to local housing agencies at no cost for fully subsidized priority housing and relocation programs.

To reduce the impact of trunk infrastructure costs and preserve land for environmental protection, MV decided to moderately subsidize infrastructure in the Tres Quebradas operation. The original strategy to finance the trunk infrastructure was redefined. The project's initial goal to be fully self-sustaining was reduced to cover the difference between the US$79.3 per square meter that it cost to obtain more public land, and US$68.3 per square meter, which is the maximum selling price required to make low-income housing construction feasible. A collective subsidy was deemed a better approach than grants to individual families to meet the housing price gap. The agency has also been able to channel private investment and credit toward groups and areas of the city where it had seldom ventured before (Saborido, 2006).

public developer had acquired 485 hectares of rustic land, formulated eight major integrated low-income housing projects, and serviced over 274 hectares of affordable land for the city of Bogota (Box 4.6). This made it the largest and most important single land developer in the country, as well as the only operating local policy that actively addressed at scale the crisis in affordable serviced land (MV, 2011b).

Box 4.6. Metrovivienda Projects 1999–2011

Between 1999 and 2011, MetroVivienda (MV) acquired 485 hectares of land, formulated eight major integrated low-income housing urban projects, and serviced over 274 hectares of affordable land for the city of Bogota, making it the largest and most important single land developer in Colombia. By 2011, MV was developing 18 additional projects, some of which were still at the bidding stage.

Metrovivienda Projects and Affordable Housing Production

Project	Total project area (in hectares)	Acquired land (in hectares)	VIP units	VIS units
Ciudadela El Recreo	115.3	115.3	9,253	2,370
Ciudadela El Porvenir	130.6	130.6	16,235	4,929
Ciudadela Nuevo Usme–III La Esperanza	35.7	35.7	3,366	659
Tres Quebradas Partial Plan–Usme Operation	310.9	85	26,000	
El Carmen-Partial Plan	29.3	29.3	3,900	
La Palestina-Partial Plan	24.9	—	5,868	
Campoverde-Partial Plan	84.2	84.2	16,943	
Total	730.8	481	89,563	
Usme Operation:				
Partial Plan 2	121.2	0	30,294	
Partial Plan 3	165.2			
Partial Plan 4	224.4			

Source: MV (2011b).
Notes: VIS (Social Interest Housing): 135 m.m.w, equivalent to US$43,320 (in 2012 USD); VIP (Priority Interest Housing) 70 m.m.w, equivalent to about US$22,463 (in 2012 USD).

An overview of this institutional process and its constraints highlights the difficulties of producing affordable serviced land and dealing with landowners' expectations about land prices. In this sense, progressive third-generation project schemes reflect a political determination to use special available public powers to minimize the weight of land prices on public-led operations. Tres Quebradas illustrates that combining the use of land management instruments to regulate land

prices, as well as reinvesting land value capture to finance high-quality infrastructure and environmental preservation, is in practice, a potentially powerful strategy for local urban development to partially finance itself (Box 4.7). Overall, this project's conception is especially useful for contrasting redistributive planning practices with traditional rent-promoting planning approaches; it opens the door to a deeper discussion on how local implementation of urban reform hinges on process-driven, concrete initiatives that address land markets in housing policy.

Box 4.7. Usme Operation and Tres Quebradas

The Usme Operation is Bogota's long-term venture on integrated, affordable land production and housing policy. It is the centerpiece of Bogota's long-term land management strategy for developing one of the two last pockets of land within its jurisdiction with a focus on low-income housing. The alternate development scenario for this area, if historical trends continue, would be informal urbanization. Even though the operation was outlined in the city's 2000 comprehensive plan (Plano de Ordenamiento Territorial, or POT), the local planning system established a series of nested, intermediate-to-detailed plans to phase the process. The city planning agency led the formulation of a general framework for Usme Operation's 938 hectares and legally adopted it as a zone plan in 2006. The operation was conceived as fully integrating planning and value capture mechanisms to reduce to a minimum the repercussions of rustic land on the price of serviced land.

The implementation process was divided into four partial plans, Tres Quebradas being the first in the urban strategy. The initiative covers 310.9 hectares (38 percent of the operation). The detailed designs have a strategic component that involves developing a key regional corridor to channel the potential rents from commercial uses to leverage serviced land for 26,000 housing units, 85 percent of them to be low-income housing units.

The Usme Operation was initially estimated to develop over 20 years at a cost of about US$1.06 billion, US$764 million of which would be invested by the private sector through housing construction, commercial uses, and industrial/logistic complexes. The Tres Quebradas partial plan would require an estimated investment of US$114 million to service its 311 hectares (61 percent of which are public and environmental protection areas). However, the refusal of three of the four landowners to negotiate led to expropriation, or compulsory purchase, which implied an additional US$2.2 million public investment in land. In

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Box 4.7. Usme Operation and Tres Quebradas (*continued*)

this land policy scheme, the city would offer landowner partners a share in the project's trust fund of US$6.79 per square meter of rustic land, already including their share of 50 percent of the windfalls created by the land's new development potential, while informal developers operating in the area at the time were offering US$1.00 per square meter.

The detailed formulation of the partial plan financed by MetroVivienda (MV) included the infrastructure to service the area. A system was then devised to balance the project's building possibilities and land uses to produce as much serviced land for low-income housing as possible. The partial plan, a legally adopted development guideline, defined the financial mechanisms to execute the project and it established an action plan with specified commitments for the public and private agents involved, enforced by a trust for each development unit.

As an implementation strategy, the plan was divided into self-contained land management project units, sequenced to complete the partial plan over a period of ten years. MV used Tres Quebradas as a pilot project to refine a

Tres Quebradas Partial Plan

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Box 4.7. Usme Operation and Tres Quebradas (*continued*)

redistributive approach toward burdens and benefits that proportionately distributed the project's possibilities and derived costs among participating landowners. It also gave local authorities the option of obtaining land in exchange for greater development rights in commercial areas and to receive their city's unearned increment tax dues as payment in kind from landowners.

The land management strategy had different phases, the first of which started in 2003 with a formal project announcement establishing the reference of land valuations. The second stage began in 2007, sanctioning Usme Operation's master plan and legally establishing general land management guidelines for partial plans. In 2008, the area was declared to be in the public interest to enable the use of exceptional mechanisms to obtain public land. The same year, a declaration of rights of preference was sanctioned in MV's favor to control sales. Finally in 2009, Tres Quebradas' partial plan was sanctioned, and with it came 10 development units with specific regulations for associative development. When the pilot's first development unit was implemented in late 2009, landowners declined to participate in the associative scheme. Some accepted a sales offer, and others required expropriation.

By 2010, MV began to contract and execute the trunk infrastructure for the pilot development unit. To do so, MV procured its services using a short list or open invitation method for technical studies and designs, and it contracted public works with private companies using public competitive bidding processes. Since the city is normally responsible for financing and constructing trunk infrastructure in areas of expansion, and developers are responsible for intermediate and local networks, MV has also become directly involved in contracting trunk infrastructure under the responsible agencies' supervision and covering the costs with its own budget, later receiving a refund. This approach has helped the agency reduce its dependence on some other sector's budget structures and resource flows. By late 2011, the agency was ready to place the first 13 hectares of semi-serviced land on the market that had a potential of 4,400 units, 85 percent of which would be low-income housing.

Several critical obstacles have since restrained MV's further development at the pace originally expected. Informal developers, local farmers, and the Ministry of Environment became strong opponents. Disputes with land owners and the controversy generated by Macroproyecto's land valuation policy added tensions. Since 2011, it has lost local political support and has nearly stagnated.

Box 4.8. Controlling Land Values through Land Policy Instruments

Urban reform has put instruments in place to ensure that public projects will not be blocked by speculation. Declaring an area to be in the public interest creates a legal precedent for obtaining the land for the public good in the event that formal expropriation becomes necessary during the process. Land valuation is contingent upon the project's announcement or a public declaration of the date of the reference values that will be legally accepted for any transaction with public agencies in the specific area. Land valuations once formally issued define the value per square meter assigned to each lot in a homogeneous area. This mechanism sets the basis for calculating windfalls and thus for issuing an official breakdown of the unearned increment tax fund levy, which is then registered upon the property to notify any transaction that it will be subject to this payment. Additionally, a declaration of rights of preference might be sanctioned in MetroVivienda's (MV) favor to ensure that the city legally retains first bid on any land put on the market in the area.

A land management operation, such as Tres Quebradas, requires a long, layered planning process with a sequenced application of land policy mechanisms to prevent land prices from skyrocketing. By applying the process described above, together with a sound land valuation policy, MV obtained rustic land for Tres Quebradas at US$6.24 per square meter (including 50 percent of windfalls). However, in nearby Soacha, similar Macroproyecto unserviced rural land was valued at US$20.80 per square meter. This valuation discrepancy seriously undermined MV's negotiations with stakeholders in Usme. This problem highlights the importance of having consistent land valuation policies.

The results of the Tres Quebradas project illustrate that controlling land values can reduce the price of serviced land (Box 4.8). According to the Municipal Habitat Agency, in 2011, developments were offering serviced land for low-income housing at between US$220/$m^2$ and US$157/$m^2$ while MV's average price was US$64/$m^2$ (Mesa VIS–Diego Echeverry Campos, 2011). The agency showed that in its projects, even when considering real costs of production of US$94/$m^2$, the option of a moderate subsidy to service the land (US$30) is more effective than direct housing subsidies in reaching the lowest-income segments. This is because it is not only an investment that can be channeled to improve the size and quality of units, but it also enables the production of more units.

Policy debates highlighting MV's approaches have shortcomings. True, the land acquisition challenges during its early projects reduced its ability to reach the poorest segments of the low-income groups it initially set out to serve. For that reason, it is difficult to assess whether it has worked as a slum prevention strategy. It is also fair to claim that many aspiring families may still prefer the potential progressive growth of informal housing, rather than the regulated lifestyle required by MV's high-density, gated projects.

The likelihood is low that the environmental protection areas that MV's projects are hoping to obtain through land management strategies in the Usme Operation can actually be restrained from informal occupation in phased developments of such scale. While MV cannot single-handedly face the magnitude of Bogota's housing challenges or stop informal development altogether, its experiences suggest that the integration of land policy, planning, and housing policies may positively affect housing standards and affect urban quality and the feasibility of affordable serviced land.

By introducing a public land developer, without directly building or selling housing, Bogota made an historic leap in low-income housing production, increasing from 250 units per year in 1999 to 15,000 units per year in 2003, setting a nationwide policy precedent. Its competitive bidding caused the average area of the lowest-income housing units to rise well above national minimum legal standards—from 43 to 61m^2—within the price cap, while driving down the prices of the priority units from 90 to 50 times the minimum monthly wage range (Saborido, 2006). Furthermore, it filled critical gaps for families in meeting subsidy application requirements by promoting demand-side capacity-building strategies, such as personalized financial advice, fully integrating national and local housing subsidies into the cycle. Private builders have since integrated these practices nationwide at each project site as a sales strategy.

To summarize, Bogota's MV has (i) channeled local housing supply toward the lowest-income groups, dedicating between 40 and 100 percent of its projects' buildable land to priority low-income groups; (ii) moderately subsidized infrastructure costs to keep serviced land prices low enough to make priority low-income housing feasible and to increase housing unit size; (iii) promoted competition between private builders by using a competitive bidding system for the serviced land to elevate the quality of design and construction and increase the number of housing units offered; (iv) broadened access to the lowest-income groups formerly excluded from national subsidies, by channeling to them a local subsidy that does not require financial

references and considerable family savings; and (v) developed flexible partnership schemes that diversified the potential agents involved in low-income housing supply.

Critical Remaining Issues and Lessons Learned

The local experiences reviewed in this chapter are inspiring. They demonstrate above all how local political initiatives have originated projects and policies that have fully integrated housing issues into urban planning strategies and how initiatives like these can be developed into institutionalized local programs and management practices. Medellin's PUI approach to slum upgrading has become a high-impact strategy that has flourished, given the city's resource-leveraging and institutional operating capacity. By carefully systematizing its pilot experience and building on the strengths of its earlier programs, Medellin has consolidated a robust strategy with permanent programs to integrate informal development pockets in a layered, people-centered, continuous process.

On the other hand, Bogota's experience with MV demonstrates that a long-term planning approach to housing policies, even when fully institutionalized, may be vulnerable to an absence of continuity and political support. Slum prevention policies particularly require systematic, continuous institutional efforts to resist policy opponents and maintain public action and investments aligned in a long-term perspective. Local conditions—knowledge and institutional development—partially gained by national involvement through international cooperation programs for slum upgrading in the past, have played a key role in strengthening both of these cities' local capacity to later embark on autonomous initiatives. However, self-reliance, fiscal performance, and local political will are the factors that have determined their impact and sustainability.

The cases highlight how targeted public investment, linked to broader city planning strategies, may redefine urban dynamics, integrate informal settlement pockets, and simultaneously reshape housing markets. Nevertheless, the National Neighborhood Upgrading Pilot program, for example, could not address this key aspect. In addition, while it reflected some concern for capacity building, it ultimately shied away from structural local institutional strengthening at a time when intermediate cities urgently required the type of support that Bogota and Medellin had once benefited from.

Technical assistance through handbooks has had limited local impact, although early slum upgrading experiences suggest that learning by doing

has had deeper long-term effects on institution and capacity building. Acknowledging a local need for technical assistance in the field, combined with technical and administrative capacity building, is as important as overcoming the chronic deficiency of national resources that promotes local slum upgrading at scale in key intermediate cities with budget restrictions. Otherwise, the more meaningful upgrading experiences in Bogota and Medellin could be reduced to mere aesthetic references which, nonetheless, influenced local aspirations and investment nationwide.

Moreover, although the two local experiences proved that structural approaches are more efficient and transformative than scattered microinterventions in informal neighborhoods, the limited scale of the national programs led them to focus on the latter. Yet, there are critical aspects in the PUI and the MV programs that need to be addressed. For example, there is the need to integrate risk-mitigation measures, in situ relocation, and a housing component in PUI operations which, given their scale, create displacement and leave critical microscale issues unattended. Moreover, the rapid post-project process of informal densification in upgraded neighborhoods, which is the result of improved accessibility and livability, poses new local challenges. New strategies, such as cooperative block-to-block renovation, might need to be explored at later stages of upgrading to prevent the risk of unsupervised, self-built, high densification approaches.

In addition, MV's experience in Bogota has revealed that improving slums might be more expensive than investing in affordable serviced land. Once calculated, the costs per housing unit of such an investment scheme, compared to upgrading informal settlements, were 1.3 times less for road rehabilitation, 3.2 times less for sanitation works, and 2.8 times less for rainwater drainage. Slum prevention in Bogota would be far less expensive than dealing with the consequences of local neglect of land policies.

The MV projects also taught Bogota that adopting a land policy approach is not enough to make its development projects self-sustaining. In spite of that, the outcome, in terms of good urban quality, would prove in the long run that subsidizing infrastructure to supply serviced land is a far better social investment than individual family, market-driven housing grants.

Lessons from Bogota, similarly, seem not to have influenced national housing policies. Even though at first glance it might have appeared to be the inspiration for Macroproyecto as a new model for large-scale national housing projects—up close—it not only fell short in addressing affordable land availability constraints, but it also promoted speculative, expansive, traditional development practices.

Indeed, Macroproyecto more closely resembles mass suburban housing experiences like those in Brazil and Chile than the integrated planning, land policy approach for which the MV experience is noted.

Looking at specific MV cases teaches further lessons, for example, on the role of land valuation. In the Usme Operation, it became clear that not enough serviced land could be produced at a price that would reach the poorest groups at the scale required, unless the price of land was regulated and the infrastructure slightly subsidized. Failure to use the instruments made available by urban reform to supply affordable land seriously limited the ability of the Macroproyecto policy to address the critical housing gap. To mitigate this problem, the program has, with World Bank funding, introduced collective subsidies through infrastructure. However, by failing to put in place appropriate land policy measures, it has allowed the transfer of subsidies to private developers' middle-income real estate. The Tres Quebradas land valuation policy clash illustrates that the effectiveness of land policy instruments hinges partly on the general application of urban reform principles and on avoiding asymmetries within key regions, which may ultimately render individual local efforts useless.

Since the time of the early Colombian urban reform debates until today, studies have found that land speculation and land market distortions, often originated by public decisions and investments, have been two of the most significant structural factors underlying the country's chronic scarcity of affordable serviced land (Barco, et al., 1994). Nevertheless, most local decision makers continue to shy away from the responsibility of using the reform's land policy instruments to make affordable serviced land available. Additionally, there may be other reasons behind such local behavior: (i) political reluctance to welcome low-income groups for fear of increasing fiscal burdens and facing resistance from higher-income groups; (ii) limited local institutional and technical capacity to design and implement integrated land management policies and systems; (iii) fear of the political costs of defying traditional land development expectations from land owners; and (iv) absence of supra-municipal institutions to integrate strategies requiring regionally coordinated local policies (DNP et al., 2007). National policies need to recognize these and other aspects of local rationale, to design more comprehensive strategies, to counteract local aversion to addressing the housing challenge more responsibly, and to monitor the cumulative effects of autonomous local planning on the broader horizon.

Despite these bottlenecks, the MV experience demonstrates that if affordable, well-serviced land is produced by the public sector, and if the

right incentives are provided to the private sector, affordable housing for the poor can be produced. Moreover, it highlights that local institutions can supply affordable serviced land as well as have an essential role in improving housing quality.

In conclusion, despite its solid legal framework, land policy/production in Colombia is at a crossroads. The implementation of land reform principles at the local level is controversial because it affects the primary windfalls of urban development agents and because it questions the traditional collectivization of the costs of servicing land for real estate development. In practice, the nation's agencies have not yet integrated fair land valuation principles or land policy practices that would counter the market's exclusionary effects.

National agencies have, nonetheless, learned that a limited policy portfolio reduces their ability to reach the poor. Local developments have been useful in understanding the importance of acknowledging the constraints of specific groups and in responding to more inclusive policy goals. After several decades of a single-focused policy, diversification of the national housing policy portfolio suggests there is a new level of engagement with the issues for national institutions, which, according to this evaluation, should lead to a new generation of locally enabling policies.

Conclusions

Colombia has been a pioneer in adopting a land policy-based, decentralized planning system. Its 1997 urban reform anticipated by ten years the direction that international urban policy debates were to take after the 2008 economic crisis. However, implementing practices that challenged traditional development relationships created tension. Ideological arguments about the pros and cons of local experiences must be reframed into evidence-based analysis so that policy can progress. Present debates fragment and divide opinions and, in the long run, potentially nullify the diversity of public efforts to address the housing challenge.

The two Colombian initiatives reviewed in this chapter have caught the attention of the international community. They have informed the United Nations Habitat Agenda, as discussed in the 2010 World Urban Forum, by highlighting the government's role in promoting equitable and redistributive urban developments and by drawing attention to the need to institute legal frameworks and planning instruments to balance land markets and increase access to adequate

housing. For other regions undergoing rapid urbanization, these breakthroughs may be a source of innovation, underscoring the significance of a bottom-up learning process.

The history of housing policy in Colombia suggests that enabling national legal frameworks are important for promoting integrated slum upgrading and prevention. It also underscores the fact that merely establishing a policy framework is insufficient for achieving effective breakthroughs in adequate housing supply. National and local strategies, particularly concerning resource allocation, must also converge. Finally, national governments must provide adequate technical, financial, and field assistance that strengthens local capacity and institution building, as well as municipalities to enable them to perform their roles in providing housing.

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CHAPTER 5

Shifting Gears

Fernanda Magalhães

Summary

This chapter summarizes the main lessons and challenges that emanate from the analysis of the policy choices presented in this book, with the aim of contributing to the formulation of better national and local slum upgrading policies. It reviews the extent to which countries have managed to scale up and provide universal access to quality housing. It also highlights the shortfalls and outcomes of each country's experience and the consequences of their policy choices, identifying the critical policy measures posed for the future, for national as well as local governments in the Latin American and Caribbean (LAC) region. The chapter is structured around the seven themes of this book, which are decentralization, prevalence of market-based policies, persistence of slums, democratization with decentralization, role of national governments in scaling up housing, providing quality housing to the poor, and remaining structural challenges. One of the most important lessons to emerge from the experience of the three LAC countries (Brazil, Chile, and Colombia)—best exemplified by Colombia—is the need to shift the focus of policy from quantitative outputs to qualitative outcomes; that is, from providing housing to creating better cities. Another important lesson is that the location of housing is more important than its provision per se. Appropriate location of housing enables families to live in socially diverse communities, find work, and have access to quality urban services.

Lessons and Challenges

1. *Even with democracy and decentralization, LAC countries still struggle to provide affordable housing.*

Massive rural–urban migration, concentrated in the period between 1940 and 1970, resulted in the population of the LAC region being concentrated in and around cities. Attracted by the promise of jobs and a better quality of life, large numbers of rural poor migrated to the main urban centers. The inability of

governments or the private sector to respond with housing and urbanized land led to the proliferation of informal settlements. In most LAC countries, urbanization was also unbalanced, concentrated around economic hubs and influenced by geographic particularities.

Nowhere was this process of rapid urbanization more dramatic than in Brazil. In the space of a single generation, it went from being predominantly a rural-agrarian to an urban-industrial society. From 1950 to 1970, the urban population grew at an average annual rate of 5 percent, with the flow of migrants coming from the north and northeast regions to the southeast, attracted by the prospect of employment in the heavy industries located around Belo Horizonte, Rio de Janeiro, and Sao Paulo. Brazilian cities were unable to keep pace with the need for basic infrastructure and urban land-use planning. In 50 years, the urban population increased from 45 to 84 percent of the total population. The emergence of slums accompanied the urbanization process, as did attempts to remove them and relocate residents to massive, state-built housing complexes on the urban periphery. Slum-clearance policies shaped most government action from the 1950s until the 1990s. In Rio de Janeiro alone, some 130,000 people were displaced between 1965 and 1975; 60 favelas were completely eliminated from central areas of the city.

Colombia's urbanization process, although broadly similar to that of the rest of the LAC region, has some peculiarities due to the country's protracted conflict between the government and guerilla, paramilitary, and drug-trafficking networks. Between 1985 and 2009, 4.9 million people were displaced by these conflicts. This trend persists, with some 300,000 people displaced each year. This was particularly acute in the late 1980s when drug cartels demanded rural land, exacerbating rural expulsion in several regions and producing a cascade of migration from smaller to larger urban centers. The overall effect of this internal migration pattern has been the rapid emergence of informal settlements, especially in the country's 31 intermediate cities. Some of them still experience population growth similar to that experienced by the large cities during the peak of Colombia's urbanization process. This phenomenon has created continuous pressure on municipal administrations.

As a result, slums have become a ubiquitous feature of many LAC cities. Governments have struggled to respond, and public policies have alternated between eviction and relocation in new public housing with locally enabling approaches. The persistence of slums, coupled with the steady emergence of informal settlements, pressured governments to develop increasingly sophisticated tools and models.

The size of slum upgrading programs has varied. In Brazil, the programs evolved over the years into major national policy, while in Chile, they were always marginal, and in Colombia, they were mostly municipal, implemented by local governments. One of the most important results of these slum upgrading programs, beyond their impact on the settlers' quality of life, was an enormous increase in social capital. Everywhere, formal community organizations, committees, and neighborhood organizations were formed to address the problem of urban slums. By the late 1980s, housing programs acknowledged the role of social mobilization and the importance of involving local residents in designing and implementing slum upgrading programs.

The decentralization process in Brazil and Colombia has not gone hand in hand with sufficient institutional strengthening of municipalities to allow them to fully exercise strategic territorial management. Moreover, dependence on national and regional funds transfers, coupled with low fiscal performance, reduced their autonomy. Overall, municipal autonomy without appropriate institutional strengthening, coordination, and integration mechanisms has been a major impediment to the implementation of many strategic, spatial, and environmental planning decisions. The municipalities' general inability to provide the required housing and basic infrastructure became a critical issue. Additionally, the absence of consolidated regional planning authorities and institutions left critical institutional gaps in an effort to adequately address key regional issues, such as environmental protection, supramunicipal infrastructure, affordable housing, and slum prevention policies.

In Colombia, these issues inspired the Urban Reform Law and the 1997 Territorial Development Law, which created mechanisms to entitle municipalities to promote territorial development and control land use. In practice, they provided the legal framework for the execution of a decentralized, integrated spatial and local development planning system, but they have not enabled municipalities to provide access to land for the poor. The reform, however, opened a path for new arrangements between real estate and public cooperation.

Starting in the 1970s in Chile, and later in other countries, a major policy shift occurred, with the State withdrawing from directly providing social housing and replacing it with a liberal free-market policy. This policy, in compliance with agreements with the International Monetary Fund, incentivized the private sector by providing incentives. In the 1990s, deregulation and pro-market approaches also became major features of Brazil's political economy. Brazil de-emphasized the public sector and carried out market-oriented social reforms. Likewise, housing policy shifted from an emphasis on public welfare

to centralized social housing provided by the private market. Constrained by the economic crisis, national and municipal governments put cost-cutting measures in place and prioritized cost recovery over social programs to target the poor.

These policies significantly reduced the housing deficit, although they did not always reach the poorest groups. In Chile, for example, this approach led to the supply of 2 million homes between 1980 and 2000, representing 43 percent of the total housing stock. But the characteristics of these buildings and neighborhoods in terms of location, configuration, and quality created social and spatial problems. If the previous issue was people "without a roof" (the slums), the new problem became people "with only a roof"—in other words, it was insufficient only to provide a roof.

In 2010, the Colombian government recognized that virtually no low-income housing was supplied under the free-market policy. This was partially due to the scarcity of affordable land and to the eligibility requirements designed for families with stable incomes, sufficient credit capacity to obtain a private mortgage, and the ability to make a down payment, thus excluding most of the population.

In the last 20 years, LAC housing policies have, in general, not addressed the underlying socio-political issues behind informal urban development. Such policies have not met the housing needs of the lowest-income groups, nor have they addressed structural issues such as serviced land production. Therefore, they have not reduced slum formation to any appreciable degree. In tandem, informal settlements are the primary form of housing provision for most low-income households, while slum upgrading policies are not part of many national political agendas.

2. *Free-market policies have had unintended negative consequences in the region.*

By the end of the twentieth century, free-market policies in housing prevailed in the LAC region. These policies often boosted investment and business expansion, particularly in the construction and real estate industries, and were an important countercyclical strategy that helped to generate new jobs following the 2008 global financial crisis. From 2007 to 2012, an estimated 3.5 million formal jobs in Brazil were directly or indirectly created. Given that they seldom reached the poor, however, the question remains why they have continued to be the predominant national approach to housing. Another question is why other types of subsidies—such as those for infrastructure to boost the production of affordable serviced land—have not been adopted.

In addition, the expansion of real estate, supported by public investment, negatively influenced the location of investments. It directly exacerbated segregation in the social-spatial pattern of cities, resulting in exclusive pockets of higher-income populations being separated from the poor, the latter of whom were concentrated in social housing projects located on the periphery. Expansion also generated sprawl, raising the value of land and increasing the demand for extended service infrastructure and transportation. This dysfunctional urban process was also fueled by the early decay of public social housing due to a combination of poor design, substandard construction, and lack of maintenance.

In view of these negative effects, LAC housing policy is now gradually incorporating a more integrated and comprehensive approach, combining housing solutions, social development, and social inclusion, and moving from providing single housing units to developing inclusive, livable cities. This shift notwithstanding, a number of challenges and questions remain. How can free-market housing be made more affordable for the lowest income quintiles? Even if affordable, is such housing a good option for the poor, since it often requires them to move to distant, under-serviced areas with no access to jobs, leaving them to cope with higher transportation costs?

3. *Despite policy efforts, slums persist in the region.*

Although Chile is the only country in LAC that has almost eradicated slums, the most recent census, conducted in 2011, indicated the presence of more than 30,000 families in 706 informal settlements. These informal settlements had existed for an average of 21 years, 57 percent of them for more than 15 years. Within this group of older informal settlements, many already had been intervened with more than once. Only 4 per cent of the settlements were established after 2007. A previous survey, conducted in 2007, provided additional information: 50.8 percent of those informal settlements occupied public land, 26.5 percent occupied private land, and 13.4 percent were on shared sites. Furthermore, 73 percent of the settlements were located in urban areas, 47 percent of them did not have regular drinking water, and only 1.3 per cent had public sewer connections.

Infrastructure gaps are another major problem, Brazil, as a predominantly urban nation with 84 percent in 2010 (161 million people) living in urban areas, cities not only contributed the lion's share of the country's GDP and received the largest share of private and public investments; they also had enormous deficits in access to basic services, housing, and infrastructure. According to the Brazil

State of Cities Report, in 2000, only 43.2 percent of homes in the large metropolitan areas had adequate access to basic infrastructure, public transportation, and social services, and the homes built were of minimal quality, with 40 to 50 percent of the population estimated to be living in some order of informality. A synopsis of the 2010 census reveals that access to basic sanitation remained the major necessity in terms of public services and infrastructure in the cities: only 55.4 percent of the 57 million households was connected to sewer systems. Garbage was collected from 87.4 percent of households, and only 83 percent were connected to the public water system, while 10 percent of families depended on well water.

Favelas are a persistant and predominant phenomena in Brazilian cities, with 88 percent located in metropolitan areas. Residents of favelas are younger—aged 27.9 as opposed to the national average age of 32.7. They live in denser conditions—4.2 residents per household while the national average is 3.2—and they have lower incomes. With an average per capita income of R$370 (US$200), according to the IBGE Census of 2010, residents of favelas earn 37 percent of what people living in formal neighborhoods earn. Coverage of services and infrastructure is half that reported for formal neighborhoods—27.5 and 32.7 percent of households, respectively, have regular access to electricity and water.

At the end of the twentieth century, the unbridled expansion of urban informality in Brazilian cities proved that neither the government nor the private market was capable of housing the poor. The history of public housing has oscillated between periods of complete lack of supply and intermittent attempts by the government to implement public programs without success. Government programs have been characterized by coverage, limited resources, ineffective response, and the inability to reverse the housing deficit, as well as increasing informality. The extent of informal housing slums in Brazil evidenced a certain degree of neglect and acceptance by governments in favor of generalizing informal methods of access to land and housing construction. The informal path represented an alternative that in the short term cost less and was convenient, leaving the poor to their fate. At the turn of the millennium, favelas were present in almost 30 percent of Brazilian cities.

The picture in Colombia is not very different. The 2005 census registered 8.2 million households in Colombia, 2.2 million of which reported either a quantitative (1.03 million) or a qualitative (1.2 million) housing deficit. By 2008, there were an estimated 1.3 million households living in slums, of which only 14.3 percent had access to water and sanitation. Concentration of informal housing varies

by cities. In 2006, estimates indicated that informal settlement accounted for an average 18 percent of the residential areas of the country's four largest cities, 19 percent in cities with populations over 300,000, 24 percent in urban centers with populations between 100,000 and 300,000, and 26 percent in urban centers with a population below 100,000. In large cities such as Bogota, 25 percent of the total urban area is informal, while in mid-sized cities such as Cartagena and Soacha, the informal area amounts to about 70 percent. Additionally, an estimated 63 percent of all urban households experiencing qualitative deficits are affected by lack of sanitation and overcrowding, and 20 percent are located in high-risk areas.

Yet, average public expenditure on housing in Colombia as a percentage of GDP is small. Between 1990 and 2006, it was only 0.8 percent, one of the lowest percentages in the LAC region. Behind these statistics lie two structural problems: (i) a deficit in housing production, directly linked to the fact that 70 per cent of the demand could not afford available housing on the market and (ii) an entrenched informal land market that traditionally has produced over half the country's housing, leaving behind a large stock of substandard dwellings and urban environments. According to recent estimates by the Ministry of Housing, this deficit decreased from 27 percent in 2005 to 16.48 percent in 2012, for which an estimated 1.6 million households still face either a quantitative deficit (0.55 million) or a qualitative deficit (1.09 million).

4. *Decentralization has not enabled local governments to successfully confront the challenges of urbanization.*

A hallmark of democratization in the LAC region was decentralization. With decentralization, local governments were granted planning, fiscal, and administrative autonomy. Municipalities emerged as key players, responsible for implementing land and planning policies to create low-income housing supply and to upgrade slum areas. They also acquired the responsibility for delivering social housing.

Decentralization in some countries was more successful than in others. Brazil and Colombia are prime examples of countries where municipalities have taken the lead in housing, pioneering innovative slum upgrading programs that have adopted integrated approaches, and combining infrastructure investments, land regularization, social development, and community participation. Starting in the early 1980s, slum upgrading projects emerged in several Brazilian cities. At the same time, community organizations mobilized the poor in the struggle for housing rights and tenure security in favelas. The enactment

of the City Statute in 2001 established instruments to regulate and enforce the right to the city agenda in Brazil and created important instruments to promote access to land and the regularization of favelas.

In Colombia, fiscal autonomy and legal reform empowered local governments to exercise integrated, long-term local development planning and carry on housing programs. However, the chronic absence of national resources and guidelines for local slum upgrading has affected implementation capacity, particularly in mid-sized cities and small municipalities with larger budget constraints. Fifteen years have passed since the reform and, given the lack of solid institutions, most municipalities still find themselves unable to put sophisticated planning and management systems in place. Yet successes in Bogota and Medellin have inspired a deep cultural change that emphasizes the quality and role of public infrastructure in promoting urban development, addressing informality, and influencing constituents' expectations and social demands.

Municipalities continue to struggle with weak institutional capacity and lack of funding. With few exceptions in LAC, they have been unable to address housing and slum problems without the support of national policies. National technical assistance and institutional strengthening programs have had limited impact on local capacity. There is still a great need for funding, technical assistance, and administrative capacity building. Recent changes in national housing policy, with national governments again becoming more involved in housing supply, seem to acknowledge local governments' inability to embark alone on integrated slum upgrading initiatives and scale up without the support of coherent national policies and adequate funding. Moreover, the absence of adequate information systems to support planning, evaluation, and monitoring of housing programs at the national and local levels, with many municipalities barely undertaking data collection and relying mostly on data produced by the national census, poses real challenges to the correction of bottlenecks and further policy development.

5. *The region has not been able to meet the need for slum upgrading and quality housing.*

Early upgrading programs in the region during the 1970s and 1980s, including infrastructure and sites and services, extended the coverage of basic services and evolved into integrated interventions that provided social assistance. These were mainly programs introduced through the international development agenda as part of poverty alleviation strategies, motivated by an underlying concern to prevent social unrest, and designed and implemented with guidelines

from international agencies such as the Food and Agriculture Organization, IDB, United States Agency for International Aid, and World Bank. National governments have played an enabling role in allowing subnational governments to implement these programs, extending loan guarantees and offering the basic framework to local administrations to implement them directly. These early national, large-scale, integrated slum upgrading programs financed trunk infrastructure projects; sites and services housing projects; and complementary health, social, and education facilities. Gradually, these programs became more multi-dimensional and all-encompassing, and municipalities took the lead in their design and implementation.

Slum upgrading came to the forefront of housing policy recommendations, and national urban poverty alleviation and human development programs were brought back onto the agendas of national governments due to the favorable international climate surrounding the agreements in the 2000 Millennium Development Goals. Many slum upgrading programs were launched, yet the focus remained on alleviating the quantitative deficit. National investment in upgrading slums falls far short of the financial support given to policies oriented toward production of new housing.

With a focus on integrated upgrading aiming to insert slums into the surrounding urban fabric, the more recent slum upgrading programs introduce social support to promote inclusion and capacity building. However, because they are so territorially limited and are focused on upgrading specific neighborhoods, they hardly generate significant synergies or broader urban impact.

In Colombia, the experience with broad slum upgrading remained largely confined to Bogota and Medellin. The knowledge gained from those experiences did not trickle up and influence national policy. Dissemination of slum upgrading and peer learning is still incipient in Colombia, and key lessons at the local level have not shaped national policy, as has occurred in Brazil.

Brazil launched a national slum upgrading program combined with new affordable housing, known as the twin-track approach, that enabled a gain of unprecedented scale. This national program has built upon lessons learned from the pioneering experiences of several municipalities and amid the collapse of traditional government-led social housing programs and decades of failed policies of forcibly evicting the urban poor from favelas. It has made significant strides in addressing the problems of slums. With this dual-track policy, Brazil has finally managed to build a solid enabling and institutional framework for cities to address the magnitude of the housing deficit and the stock of slums and informal settlements accumulated over years of rapid

urbanization and insufficient public investment in basic infrastructure and services for the urban poor.

Brazil is one of the only countries in the LAC region and in the world to implement a national slum upgrading program, dedicating large sums of money to it. Today, the two national programs—My House My Life (Minha Casa Minha Vida) and the Growth Acceleration Program, PAC-Favela—together represent the national government's largest and most significant social programs. These programs account for the budget of most ministries taken together and are larger than the well-known national conditional cash transfer program, Bolsa Familia. They demonstrate not only an unprecedented commitment by the central government to address the housing deficit and slum problem, but also the importance of slum upgrading and affordable housing programs within the broader national development agenda. This agenda enables cities to address slums at the city level—progressively moving from projects to programmatic interventions.

6. *The dilemma of quantity versus quality persists.*

Massive low-income housing programs have often produced poor-quality, badly located housing, fueling urban sprawl. This is true of the housing stock produced by the private sector in Chile under the free-market model, resulting in low-quality, poorly located houses with deficiencies in equipment and services. The legacies left by the National Housing Bank (Banco Nacional de Habitação) (1964–1985) policies in Brazil are no different. They leave cities with a large share of low-quality housing for low-income groups, many earmarked to accommodate people evicted from slums on the periphery, exacerbating social and spatial segregation. Forced out of the formal city into social housing projects built in peri-urban areas, poor families saw their economic and social conditions undermined. Public schooling and health were precarious. Households had to spend a lot on public transportation to reach centrally located areas where the jobs were. Far away from job opportunities, lacking good public services, and cut off from the rest of the city, these new housing projects quickly deteriorated and became new slums.

This policy was heavily criticized because of its implications for quality of life and the lack of socioeconomic opportunities it provided families. Residents were dissatisfied. Surveys in Chile indicated that two-thirds of the inhabitants wanted to move but lacked an alternative. They were stuck with houses that had not increased in value. Subsequent policies in some extreme cases included partial or total demolition of existing failed social housing projects. Recent policies mark a clear shift from this model, adopting more holistic, flexible solutions.

For Colombia, the mid-2000s brought important policy shifts. The housing deficit and the crisis of the national housing grants policy provided a window for change, moving away from the enabling approaches back to more direct government intervention. The need to overcome barriers to land production and diversify the housing policy portfolio and concern about growing precarious rapid urban expansion in key secondary urban centers began to influence the national agenda.

Some Brazilian cities, such as São Paulo, are developing alternatives that combine national funding with local incentives to attract private investment that will enable diversification of local economic options and a social mix of middle- and higher-income housing. Brazil's twin-track approach combined a curative with a preventive housing policy intended to stem the growth of slums while simultaneously reducing the quantitative housing deficit, supplying new government-led housing and upgrading the quality of the immense stock of slums and informal settlements. Despite the impressive numbers reached by this twin track approach, with over 2 million new houses produced, targets for the lowest-income families are lagging behind, reaching only 49 percent. The best results are still achieved with housing units supplied to higher-income groups, indicating that targeted subsides and incentives for the private housing market have not reached the poor.

As quantitative deficits are progressively reduced, new challenges emerge, shifting the focus of the housing problem from quantity to quality. This change in the political agenda, characterized by more comprehensive policies, will not only reduce the housing deficit, but it will also improve people's welfare and quality of life. Slums that benefited from upgrading policies seldom have resources to improve the quality of existing homes or improve the urban environment with the construction of new amenities. Nearly 85 percent of investment resources go to urban infrastructure and new housing production. These policies leave behind a stock of slum houses that suffer from a number of problems that hamper their livability and housing settlements devoid of adequate amenities.

The experience of Bogota's MetroVivienda shows that improving slums is more expensive than investing in affordable serviced land. A public developer has calculated that the costs per housing unit to upgrade informal settlements were 1.3 times greater for road rehabilitation, 3.2 times greater for sanitation works, and 2.8 times greater for rainwater drainage, for an estimated total of over US$3,450 per housing unit. Housing quality and slum upgrading projects are also undermined by the lack of local government technical capabilities to elaborate and execute quality design projects. To safeguard and monitor the

urban and architectural quality of design and execution of developments is a difficult task, constrained by budgetary restrictions.

Many slum upgrading programs still struggle to address social exclusion and vulnerability, which can only be addressed through effective social support initiatives. With higher priority still given to more tangible and visible aspects to the detriment of more complex and structural issues—such as social inclusion, job creation, land regularization and titling, cumbersome public licensing, excessive bureaucracy, and the complex procurement process, the efficiency and the impact of slum upgrading programs are reduced. Slowly but steadily, centralized and sectoral policies are being replaced by a new generation of policies based on multiscale, multisectoral partnerships, with a wider range of financial mechanisms and improvements in governance.

7. Structural factors remain the main obstacles to quality housing.

National housing policies are frequently limited by the need to implement structural changes. One of the most pressing ones is the need to provide well-located serviced land to the poor.

Surveys in Colombia indicate that historically, the cost of land accounts for up to 70 percent of the cost of infrastructure and public goods. In Brazil, the lack of large parcels of affordable urban land in central locations and the high costs associated with it posed difficulties for the MCMV housing program and relegated most developments to the periphery, reproducing a model of urban sprawl that segregated the poor from the rest of the city.

In Colombia, the urban reform law enabled municipalities to limit urban perimeters according to their technical/financial feasibility and to extend basic service networks and establish legal procedures to legitimize and progressively adapt informal settlements. It also provided land policy instruments, including land value capture, designed to facilitate financing of affordable housing. Municipalities, however, have struggled to comply with these requirements, and their redistributive nature made it politically contentious, delaying implementation. Until 2010, the national policy framework was merely indicative and did not promote any specific practices. Nor did it establish a specific program to directly support local slum upgrading initiatives. The law also prompted a shift in city management practices toward an integrated project approach within a long-term planning vision, offering municipalities the opportunity to change the way large-scale slum upgrading programs were conceived. Medellin's comprehensive city plan (2000) and its revision (2006) adopted broader urban development strategies connected to

specific planning instruments, including plans and projects for the regularization of urban areas and slum upgrading.

Instruments for long-term integrated land use, land management, and planning require a stable legal framework. Very few national policies in the LAC region are underpinned by such a framework. Colombia, in this respect, was innovative, and its experience indicates the direction that housing policies should take to tackle the housing problem in all its dimensions and significantly improve urban life. Bogota and Medellin led their own slum upgrading strategies and designed their own integrated, large-scale programs based on an integrated urban intervention approach. Their starting point was acknowledging the important role played by informal markets in supplying housing for the poor and electing slum upgrading as a central issue on the policy agenda and a target for public expenditure. They institutionalized a broader, long-term commitment to upgrade and structure informal settlement areas, while at the same time promoting social and community development. As part of city policy in Medellin, each project was used as an opportunity to enhance connectivity, introduce new urban open space networks, and create new nodes with public facilities, enhancing the periphery's overall urban dynamic. These actions reflect a broader city vision.

The successful experiences of Bogota and Medellin offer inspiring examples for the LAC region about how to use national established legal frameworks and planning instruments as a platform for large-scale, integrated low-income housing policy, slum upgrading, and land policy operations. Unfortunately, those experiences were not scaled up. Had this happened, national policy would have shifted from a sectoral approach to more enabling, integrated, strategic, and comprehensive city development approaches. This would have allowed the development of an affordable land production strategy, promoting new housing project business models at an unmatched scale in the country; enabling the emergence of new public–private and public (multilevel) association models that would have transformed the housing scene; and laid the groundwork for other countries in the region to follow.

Despite its solid legal framework, land policy and production in Colombia are at a crossroads. The implementation of local land-reform principles is controversial because it has affected windfalls for urban development agents and because it questions the traditional collectivization of the costs of servicing land for real estate development. In practice, the nation's agencies have not integrated the land valuation principles or land policy practices into their sectoral policies.

Governments need to shift gears. By failing to introduce reforms that go beyond housing to address structural problems such as land supply for affordable housing, local capabilities for planning high-quality integrated housing and urban developments, or promoting a diversified local economy that can generate jobs, national policies will fall short in providing a long-term enabling framework that would allow cities to face the complexity of their urban and governance issues.

A Way Forward: Planning Ahead

Ironically, the 1997 urban reform in Colombia anticipated by 10 years the direction that international urban policy debates have taken following the 2008 economic crisis, which brought back the discussion of the state's role in urban development and of planning instruments to balance land markets. Introducing value capture mechanisms in housing to make land affordable or to support public–private partnership in low-income housing is now considered a best practice with potential macroeconomic impacts in emerging economies. It is an innovation that today finds resonance in international cooperation agendas.

These experiences show that national housing policy in the LAC region should undertake the important role of developing umbrella and enabling policies that integrate monitoring mechanisms to allow the understanding of their aggregate effect and the impact of housing policies on local urban development. They must help local governments devise targeted but citywide strategies and layer public investments in ways that multiply impact, thus helping to promote balanced urban development to integrate the city.

ANNEX 1

Glossary of Terms

Accelerated Growth Program: implemented by the government of Brazil in 2007, this program has five groups of measures designed to encourage public and private investment in large-scale infrastructure projects: infrastructure (transportation, sanitation, and housing), credit stimulation, institutional development, tax exemption, and long-term fiscal measures.

Affordable housing: in Colombian law, priority social interest housing and social interest housing

Aldeas: villages in Chile created as transitional settlements after the earthquake and tsunami of February 27, 2010.

Barrios: neighborhoods in Chile and Colombia.

Block: three- to four-story flat buildings.

Brazilian Institute of Geography and Statistics (IBGE): agency responsible for statistical and geographic information on various aspects of demography, economy, and society in Brazil. IBGE conducts a national census every decade and provides a complete picture of the population and living conditions in Brazil. The data and information produced by IBGE serve as inputs to the elaboration of government policies and programs.

Caixa or CEF (Federal Savings Bank): the largest federal public bank in Brazil and a major player in the housing finance system. It accounts for a significant part of the direct credit system (SBPE) and uses most of the funds from the Workers Severence Fund (Fundo de Garatia do Tepo de Serviço) for housing finance. Caixa is responsible for the distribution of public subsidies related to housing.

***Campamentos*:** informal settlements in Chile.

City/Municipal Comprehensive Plans: legally required long-term city plans in Colombia, approved by the city council, which determine strategies, guidelines,

and regulations for urban development and define priorities and programs for interventions, including infrastructure.

City Statute (Estatuto da Cidade): Federal Law 10. 257/2001 in Brazil related to urban development, which establishes a series of norms relating to social interest, regulating the use of urban property for the communal good and regularizing favelas. The law devolved a number of housing and land responsibilities to municipalities and stimulated the development of municipal institutional capacity.

Community organization: legal, non-profit organization whose purpose is to represent and promote the values and interests of the community within a commune or group of communes.

***Cortiços*:** high-density tenement housing in one or more buildings constructed on an urban plot usually located in central areas. *Cortiços* are mostly rentals, with limited access to services, precarious sanitary installations, and limited space for collective uses.

Favela: an urban area or neighborhood with one or more of the following characteristics: irregularity of land occupation, lack of tenure/titling, deficient or precarious infrastructure and public services, risks from natural disasters, high density, precarious building conditions, social problems, and poverty. In this report, favela, slum, and precarious/informal settlements are synonymous.

Federal Budget: an annual law in Brazil, passed by the federal government that estimates the income and expenditures of the public sector. It comprises taxation, social security, and investment in state-owned enterprises.

Home improvement: national and local programs, specifically in Colombia, which provide grants to eligible beneficiaries to improve their housing conditions. Some focus on health (sanitation, kitchens, and bathrooms); others focus on human safety (structural reinforcement).

Legalization: legal acknowledgement in Colombia of an informal settlement, which is a prerequisite for regularization processes and intervention through upgrading programs.

***Macroproyectos*:** a national planning instrument in Colombia created under the 2006–2010 National Development Plan as an urgent measure for approval of affordable housing developments in any municipality, at the direction of the Ministry of Housing.

Municipal development plans: local government plans and framework for a mayoral administration's investment, approved by the city council.

Minha Casa Minha Vida (MCMV) Program: a Brazilian national housing program, launched in 2009 as a stimulus package to mitigate the effects of the 2008 economic crisis. The MCMV aims to increase the supply of new affordable housing units for low- and lower-middle-income households.

National Development Plan: Colombia's government plan and framework for an administration's investment approved by Congress.

National Social Housing Fund: established in Brazil in 2004 to coordinate transfers, subsidies, financial resources, and funding to support social housing programs under the National Housing Policy.

Neighborhood upgrading: Colombian term for slum upgrading.

Partial Plan: an instrument introduced under Colombia's Territorial Development Law, which combines detailed urban land-use planning and urban design with the land management mechanisms required to balance potential gains as well as costs of planning decisions among landowners and local authorities in order to promote associative integrated developments.

PlanHab: the National Housing Plan in Brazil, completed in 2008. It is the roadmap for implementation of the National Housing Policy, which lays out specific targets up to 2023 and the responsibilities of each public agency, as well as financing needs and potential sources of financing.

***Poblador*:** resident of an informal settlement.

Poverty line: established minimum income per person to meet basic needs, derived from the cost of the basic food basket with a multiplier applied to

it, which differs between rural and urban areas. Thus, the poverty line corresponds to twice the value of a basic food basket in urban areas, and 1.75 times in rural areas.

Priority interest housing: the official term in Colombia for priority affordable housing for households earning between 50 and 70 percent of the official monthly minimum wage.

Qualitative housing deficit: an indicator of the Economic Commission for Latin America and the Caribbean that refers to the number of existing housing units that lack basic services and present insecure physical and/or tenure conditions.

Quantitative housing deficit: an indicator of the Economic Commission for Latin America and the Caribbean that refers to the number of housing units required to meet the housing needs of existing households, compared to the number of existing housing units.

Social interest housing: the official term for "regular" affordable housing for households earning between 70 and 135 percent of the official monthly minimum wage.

Special Social Interest Zones (*zonas de especial interesse social*, or ZEIs): an instrument in Brazil under the aegis of the City Statute enabling the delimitation of certain municipal areas for social housing purposes. The ZEIs are also employed to determine and elucidate special norms regarding land use, occupation, parceling and building rules in areas already occupied by informal settlements. ZEIs must be defined in the Municipal Master Plan or in other related municipal laws.

Urban area: a concentration of population over 2,000 or 1,001 to 2,000 inhabitants in which at least 50 percent of the economically active population is engaged in secondary or tertiary activities.

Workers' Severance Fund: the cornerstone of Brazil's social housing credit system. It is funded by compulsory monthly contributions of salaried employees into accounts managed by Caixa.

ANNEX 2

Exchange Rates

Chapter 2

Currency unit = Chilean peso
On March 1, 2012
Ch$1 = US$0.0020
US$1 = Ch$490

Chapter 3

Currency unit = real
(Average exchange rate in the period 2007–11)
R$1 = US$0.54
US$1 = R$1.85
Brazil monthly minimum wage 2011: R$510 (US$275)

Chapter 4

Currency unit = Colombian peso
March 2012
Col$1 = US$0.0006
US$1 = Col$1,766
Colombian monthly minimum wage 2012: Col$566,700 (US$320.9)

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