

INDES – EUROPEAN UNION  
JOINT PROGRAM  
WORKING PAPERS

**HOUSING IN LATIN  
AMERICA**

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## Preface

INDES provides training programmes for public officials in Latin America and the Caribbean. The emphasis in its current courses is on strategies for poverty reduction and the provision of social services, particularly education and health. INDES is considering extending that programme to include discussion of a current orphan of social policy, housing and shelter. This poses three questions. First, why is housing deserving of inclusion in its training course? Second, what are the interesting intellectual questions being raised in the housing field? And, finally, if a housing component were to be included in the course, what should be included in it?

This paper attempts to answers to those questions although, given the scope of the brief, it falls short in all kinds of ways. Attempted conciseness means that it fails to cover any issue fully and I have frequently resorted to pointing in the direction of the existing literature to fill the vacuum. If most issues have received short shrift, others have barely been mentioned. This latter group includes the following:

First, the paper says very little about the upper end of the housing market. This is defensible in terms of the orientation of INDES courses towards poverty and social issues. However, it is also a reflection of my own experience and interests. It does not imply that housing for the middle class and particularly the impact of housing processes in the ‘formal sector’ on lower-income groups is not of fundamental importance. The recent literature on housing markets and housing finance is eloquent in reminding us of the need for us to understand the interrelationships between different parts of the economy. As a fully paid-up member of the social science fraternity, I have total belief in holism.

Second, the paper is also biased insofar as it almost wholly focused on the individual home. This is not meant to offend those who believe, wholly correctly, that the thrust of government involvement in the low-income housing sector should be towards providing services and infrastructure. Nor is it to deny the critical importance that transportation and urban form play in the lives of residential neighbourhoods. Like the other matters I omit, these omissions are explained by the constraints of space. The emphasis on the individual shelter also means that the role that communities play in establishing and improving neighbourhoods is neglected. This is not in any sense to diminish the political and social significance of the many social movements, from tenant organisations to neighbourhood defense groups, which have bubbled up across Latin America for generations. The roles of civil society and social capital in answering the housing problem are clearly fundamental. The paper is also very thin on explicit discussions of the roles of different members of the family in creating and using the house, and of how different kinds of housing affects people of different ages and sexes in very distinct ways. Whole new papers can and should be written about these issues.

Third, the paper is strongly biased by my own interests, even obsessions, within the low-income housing field. The expanded sections on the exaggerated joys of home-ownership, the role of rental housing and use of the home to generate income reflect my fears that too many governments in Latin America and too many officials in Washington, D.C. have got their policy emphasis wrong. Hopefully, my enthusiasm about these issues will be passed on to some among my readers. But, in any case, why defend bias? For, in these post-modernist days, when few academics believe in

objectivity and when the greatest democracy on earth elects its president without counting all of the votes, is subjectivity not the new orthodoxy?

Finally, the paper omits to discuss a whole series of contexts in which the housing debate is conducted. The paper should have provided a more explicit account of the relationship between economic growth and decline, and housing conditions. It should have confronted more forcefully the whole notion of establishing more efficient markets in a seemingly more and more volatile financial and economic environment. It should have faced up to the issue of inequality and given proper weight to the vital issue of social and residential segregation. It should have said very much more about changes in forms of governance, such as decentralisation, privatisation and democratisation, given the major changes that have been occurring in these areas over the last decade. No doubt, some discussion of the way that the nature of Latin American society has changed over the last few decades would also have been relevant.

But, if too many enticing topics and issues have been omitted, the excessive length of the existing paper holds out the possibility that something of interest may have slipped in. Since my motives in writing the paper have been to introduce the housing issue to some who generally ignore it and to shift the opinions of others who perhaps know too much about the details of housing, a lack of comprehensiveness should not be wholly unappetizing to the reader.

## **Executive Summary**

INDES provides training programmes for public officials in Latin America and the Caribbean. Its current courses currently emphasise strategies for poverty reduction and the provision of social services, particularly education and health. INDES is considering extending its programme to include discussion of a current orphan of social policy, housing and shelter. This poses three questions. First, why is housing deserving of inclusion in its training course? Second, what are the interesting intellectual questions being raised in the housing field? And, finally, if a housing component were to be included in the course, what should be included in it? Answering those questions is the main purpose of the paper.

Currently, too many governments in Latin America ignore the housing problem. They plan for economic and social development without making appropriate provision for shelter. There are many reasons why this is the case but clearly neither economic nor social policy should neglect the major role that housing can play in raising personal welfare.

Latin America has a large housing deficit made up both by a shortage of homes and by deficiencies in the existing housing stock. According to one set of estimates, the deficit is equivalent to just over half of all the current housing. However, the seriousness of the housing problem varies greatly within the region: between countries, within countries and within cities. Poor countries tend to have worse housing conditions than rich countries and living conditions are typically worse in the countryside. In addition, the form of the housing problem varies from place to place. For example, levels of home ownership and the availability of services vary considerably from city to city. Living conditions also vary greatly by class, age and gender.

Despite the grave problems confronting the region, and despite the consensus that shelter conditions are generally deteriorating, there are some signs of hope. Even though the proportion of self-help accommodation in the urban housing stock has generally risen, the quality of most of this shelter has improved over time, with most of these informal housing areas now having access to water, electricity, drainage and other services. And, insofar as tenure is an indicator of housing quality, the rate of home ownership has risen dramatically in most cities over the past four decades.

Like beauty, bad housing is in the eye of the beholder. Consequently, there is no satisfactory way of defining quite what the housing problem is. Physical standards are important but not to those without much money who need to spend their limited budgets on food. As such, housing experts increasingly argue that adequate shelter must be defined in terms of a family's income, income flow and position in the life cycle. Politicians tend to be unhappy with such an approach and tend to promise their electorates high quality homes. As a result of those promises, housing expectations tend to rise both in terms of quality and in terms of expecting to be a homeowner. Rising standards make quantification of the national housing deficit difficult because the standards on which it is based are soon declared redundant. It is not easy to cut a housing deficit when higher and higher standards are being specified.

Most Latin American families aspire to owner-occupation and most governments are happy to encourage that aspiration, either through offering subsidies or by illicitly encouraging informal kinds of land alienation. And, it is certain that home ownership does bring families many benefits,

most notably a sense of security. Nevertheless, some of the advantages of home ownership have been exaggerated. For example, it is less than certain that every family will increase their capital through home ownership because selling a self-help home is usually less than easy. It is true that the house can be used to generate a supplementary source of income through operating a business or renting out rooms.

In any case, home ownership is unachievable for all. Many poor families will always have difficulty obtaining their own home. Equally, if most families want their own home one day, many do not want one today. There will always be some people, including the young, the spatially mobile, the recently separated and those who wish to use their capital for other purposes, who will postpone their desire to become owners. Fortunately, despite the fact that most governments neglect rental housing, the private sector provides plenty of accommodation for tenants. Few commercial companies become landlords and most investment in rental housing comes from ordinary homeowners. A large supply of rooms is now available in the mushrooming self-help settlements. Many of yesterday's bridge headers are today's landlords. Such accommodation is by no means perfect but most of the assertions made about grasping landlords, high rents, frequency of eviction and constant harassment can be shown to be myths. Being a landlord is less a business than a means to supplement the household income, a form of getting by.

Governments should formulate a policy for the housing sector just as they formulate policies for health, education or employment. Such a policy should recognize that housing is both an economic and a social sector. The housing sector has two legs: It contributes to production as well as to consumption. Housing investment generates both economic growth and jobs. In addition, many Latin Americans earn part or all of their living from their home. Governments need to incorporate incentives for new forms of home-based work into their employment and development programmes.

Sensible governments will attempt to design policies that may improve housing conditions. But they should be aware of their limited ability to achieve their objectives. Most of the difficulties afflicting the housing sector do not originate in the sector itself. Many begin with the poverty of so many people in the region and it is no coincidence that poor people generally live in bad housing. If we were to reduce the amount of poverty, the housing situation would improve automatically. If we do not reduce the amount of poverty, it is difficult to do much about housing.

If it is not possible to completely solve the housing problem, which is likely given the difficulty of reducing poverty substantially, governments can still do a great deal to make things better. However, if they are to do so, then they have to think a little more clearly than now, be prepared to eschew populist solutions and be willing to adopt a few policies that will be less than popular among some very influential groups in society. This is not an easy set of tasks but it reminds us that in the housing arena there is no panacea on offer.

To improve housing requires societal changes that go far beyond the housing sector. It is difficult to make major improvements unless the following are in place: a fairly honest and efficient civil service, a tax system that has fewer loopholes than most, a political system that maintains some degree of continuity both within and between administrations, and a reasonable system for identifying those living in poverty. A sensible balance between market forces and state control is

also necessary. Currently, there is perhaps too much confidence in the power of market forces. In practice, the market does some things very well but not others, particularly so in an unequal society.

Governments need to work in conjunction with the private sector and civil society to improve housing conditions. In this respect the argument for ‘enabling strategies’ is a correct one. But, perhaps conventional wisdom has gone too far in the direction of praising the virtues of the market. The market does not always work well, and land and housing markets often work much less well than other markets. Governments should not eschew intervention when it is necessary. Not all government agencies perform badly and there are plenty of examples across the world, even in the housing arena, to show how it can be done.

The key to improving housing conditions is to make sure that the major inputs to housing provision are available. Currently, too many are in short supply. Too much land is kept out of the market for speculative reasons. There is not enough serviced land because the service agencies lack resources and sometimes the competence to do an adequate job. Drinking water flows through the pipes and out of them before it reaches its destination. Building materials are too expensive, particularly for those in the self-help sector. Credit is not available to poorer families to buy housing, even when they have enough resources to justify a loan. These deficiencies reflect both market and government failure.

No satisfactory form of housing development can take place without land and services. Unfortunately, a shortage of serviced land has always been a major headache in shelter programmes in Latin America and is likely to continue to be so. The task facing the authorities in Latin American cities therefore is two-fold. First, they have to remedy the problems caused by past failures and, second, they have to anticipate future demands to prevent past failings occurring again.

Many families in Latin America live in illegal housing developments. They have invaded land, bought plots without planning permission or purchased housing that has been built by others in the illegal settlements. What should be done about these settlements? The consensus is that few should be demolished. Indeed, there has to be an extremely good justification before poor families are removed from their homes. Normally, slum upgrading is a much better way in which to improve urban conditions and help families live their lives, provide them with infrastructure and services, and leave the rest to them. Plenty of experience is now available on how to do it and the only major question mark relates to the familiar difficulty of guaranteeing cost recovery. Many also argue that these people’s lives should be simplified by issuing them with property titles. While this approach is sensible, the advantages of legalisation are frequently exaggerated. Legal title does not bring a flood of private bankers eager to lend to the poor, it does not generate a thriving housing market, it does not accelerate housing improvement nor does it automatically bring services. Legal title is only one part of a much wider set of housing needs.

The other priority is to prevent illegal developments emerging in the future. Making serviced land available in greater quantities would certainly help discourage the development of new shantytowns. Sites and service schemes are an excellent way of doing this, providing poor families with the means to develop housing incrementally. Such an approach saves on servicing costs because it is much cheaper to install services before settlement than after. Anticipating urban development by providing organised areas for settlement should also help prevent the occupation of

hillsides or of low-lying land liable to flood, both of which are dangerous for the settlers and expensive to service. In an imperfect world, the logic underlying a ‘sites and services’ approach is impeccable. Unfortunately, relatively few such schemes have been developed in Latin America, particularly in the largest cities, and few governments have backed such an approach in a big way. This deficiency should be remedied.

One of the major barriers to improving low-income housing is the inefficient way that so many land markets work in Latin American cities. They work badly because so many lack legal title and therefore have difficulty in using the property as collateral or even in selling it. In addition, land speculation and the concentrated pattern of land ownership on the periphery of many cities raises the cost of new housing. A further problem is that the relative cost of serviced land is raised by the inadequacy of service provision. Some of these problems are caused by market failure, others by government failure. Both need to be remedied.

Effective government intervention in the land market is desirable if it can reduce some of the problems of market failure. Experience in Santiago in the early 1980s suggests that, although encouraging the land market to work more efficiently is essential, it will not by itself improve the quality of the housing stock. Unless there is an adequate expansion of services and infrastructure, the efficient market will merely produce higher prices for serviced land. Arguably, Latin American governments are presently placing too much confidence in the inherent virtues of an unfettered land market.

Well-functioning housing finance systems are badly needed to permit more households to finance the purchase of a formal sector house. Current biases in housing finance, which favour excessively those with higher incomes, should be rectified. In addition, more attention should be paid to providing finance for buying and selling used property. After all, as cities get older more of their housing stock is in the form of used housing. There is no good reason why the buying and selling of older property in the formal housing stock should not be financed in the same way, and at the same cost, as that of new property.

One of the principal arguments why many governments have been providing the poor with title deeds is to encourage more lending to the poor. Unfortunately, formal sector financial mechanisms have rarely been very ineffective in reaching poor families. Few banks are prepared to lend in such areas and even the micro-finance sector seems reluctant to lend for housing. As a result, most kinds of housing credit go to middle-income groups and to favoured labour groups. In future, more credit should be made available to the poor although it should be recognised that many will be reluctant to borrow. Nevertheless, means should be found to make credit available to small businesses, including landlords, in the self-help settlements.

Housing subsidies are sometimes a sensible way of using government resources but should always be seen to form part of an enabling approach to housing and welfare provision. Subsidies should not be used if they are likely to distort the housing or financial sectors, or if the funds could be spent more effectively on other social needs, like infrastructure provision, health or education. Some would even argue that the best way to help the poor is to supplement their income rather than to provide subsidised housing. When housing subsidies are offered to the poor they should not be directed only at homeowners. In most parts of the developed world, subsidies are much more likely

to go to tenants, and there is no convincing reason why it should be different in Latin America. Similarly, subsidies need to be better targeted at the poor. At present, the more affluent among them receive a greater share of benefits.

Housing policy should be tenure-neutral. Too many governments provide generous incentives for owner-occupation and too few attempt to maintain, let alone, increase the rental housing stock. There are strong reasons why rental housing should receive equality of treatment from government vis-à-vis that afforded to owner-occupation. The real potential for expanding the supply of rental housing lies in the self-help sector. In such areas, it is necessary to build rental incentives into upgrading programmes. Not only should the upgrading of self-help settlements improve the quality of owners' lives, it should also increase their opportunities for renting rooms and thereby improve the lives of those looking for rental accommodation.

Latin American societies should also seek to reverse some of the foundations on which their urban areas are being built. Certain tendencies, not confined to Latin America, are contributing to a distinctly problematic future. Among these tendencies are: The drive to universal home-ownership, a goal that is impossible to achieve; the growing dependence on the private car, which encourages urban sprawl, causes traffic congestion and makes infrastructure provision hugely expensive; and an increasing failure to invest sufficiently in public goods and amenities. Changing any of those tendencies would help to improve the housing situation.

### **Background to the Housing Problem in Latin America**

Does the housing issue constitute an integral element in Latin American social policy? In many countries, the answer to this question is at best ambiguous. Education, health-care and pensions are clearly regarded as social issues but housing occupies an awkward position somewhere between the economic and the social. The consequence of its intermediate position is that both economic and social planners neglect housing neglect. Economists do not consider investment in housing to be as important as the need to generate exports or to reduce unemployment. Most social planners do not consider housing to be within their remit. It is true that most politicians make promises about housing in their election manifestos, yet they are less ready to increase the government budget when it comes to paying for the promised housing investment.

Why does housing occupy this intermediate position? Housing is difficult for some economists to accept as an integral element of macro-economic policy because they regard it primarily as an item of consumption rather than as a form of investment. When compared in importance with generating exports, increasing savings or developing power or transport networks, housing investment seems to rank low on most economists' list of priorities. Improving the quality of housing does not make the economy more competitive. It is only at times of recession that housing improves its position in the list of investment priorities as a way of generating jobs.

But why do social planners not embrace housing more enthusiastically? Part of the answer lies in the way that social policy developed historically. In most of the world, it evolved as a means of dealing with exceptional groups of people. Poverty programmes dealt with the very poor. Education dealt with the young (and not even all of the young because pre-school children were omitted). Health dealt with the sick or the pregnant. Pensions dealt with the old. The problem with housing is

that it was comprehensive; everyone except the very rich seems to need a house. Occasionally a special housing programme might be introduced in order to remove a problematic slum, but this was exceptional and was often to an emergency like a natural disaster. More typically public housing programmes evolved as a reaction to special interest pleading; housing for the military, housing for government workers. Public housing programmes were motivated more by political demands than by social philosophy.

However, the fundamental problem facing those who would embrace housing as social policy has always been cost. Housing is exceptionally expensive because everyone requires a home and because housing is an expensive item to produce. The per capita cost of housing compared to the per capita cost of providing primary education or even hospital care is high. Since few governments beyond Northern and Western Europe have ever been prepared to spend a great deal on social programmes, it has usually been ruled out as a serious contender for social policy. While many Latin American constitutions talk of decent housing as a human right, social practice has rarely followed those lofty words.

Despite the peculiarities of the housing sector, it is difficult to understand how housing cannot be regarded as a social issue. To state the obvious:

- The quality of housing is a critical factor in determining the state of health;
- A home is a critical element in maintaining a feeling of personal and family esteem;
- Housing takes up a substantial component of the family budget;
- For the fortunate home-ownership is the principal source of capital accumulation;
- The location of housing helps determine access to good schools, jobs and social facilities;
- Housing is a critical indicator of social class - to an extent where one lives is what one is;
- Maintaining family solidarity is more difficult in poor housing conditions;
- Housing is an important means through which the poor try to protect themselves from economic hardship;
- Urban protest is often based on issues related to the house and its environment.

In sum, an effective social policy cannot be developed without considering the issue of housing and the home.

### ***Regional Overview***

Millions of Latin American families face a severe housing problem. They live in homes without adequate sanitation, with an irregular electricity supply, built of flimsy materials and without adequate security. Millions more live in solid and serviced accommodation but in overcrowded conditions. Housing problems affect both large and small cities although they are probably most serious in the countryside. Apart from the households living in shacks, overcrowded tenements and accommodation without adequate services, millions more would claim to have a housing problem. They live in houses that do not match their hopes and needs: they have difficulty paying their rent or mortgage, they have a long journey to work, their home is too small, they wish to own a house rather than to rent. In short, the housing problem in Latin America is vast.

In 1996 CEPAL attempted to measure the dimensions of the housing problem in Latin America and the Caribbean by calculating the housing deficit of the region. They calculated the quantitative deficit by comparing the number of households with the stock of housing in existence and recording the total number of homes that were lacking. They then measured the qualitative deficit by recording the number of households living in homes that lacked some essential housing ingredient. Table 1 shows the numbers that they came up with.<sup>1</sup>

**Table 1: THE HOUSING DEFICIT IN LATIN AMERICA, 1995**  
**(Thousands of housing units)**

Region	Estimated Stock	Quantitative Deficit	Qualitative Deficit	Total Deficit
South America	69.549	18.063	19.402	37.465
Central America and Mexico	22.495	7.122	4.850	11.972
The Caribbean	7.494	2.810	1.407	4.217
Total	99.538	27.995	25.659	53.654

The quantitative deficit equals the difference between the number of households and the number of permanent homes (I have taken the lower estimate of the two made by CEPAL).

The qualitative deficit equals the proportion of houses not supplied with drinking water

Source: UNECLAC (1996)

There are all kinds of problems involved in calculating the extent of the housing deficit and below I question the value of calculating figures of this kind. Nevertheless, the CEPAL figures are useful insofar as they leave no one in any doubt that Latin America faces a severe housing problem. Table 1 shows that there is a shortage of housing equivalent to approximately 54 percent of the existing housing stock.

Whatever difficulties Latin Americans face with respect to housing, homelessness does not represent the principal problem. According to the World Bank's Housing Indicators Study, 0.6 percent of the Latin American population "sleep outside dwelling units or in temporary shelter in charitable institutions" (World Bank, 1993: 14). Worldwide, the equivalent figure is 0.3 percent; in the industrialised countries it is 0.9 percent. Most people in Latin America have homes, even if they live in overcrowded, poorly serviced or flimsy accommodation. Some children do live on the streets but the literature on 'street children' fails to recognise that most of the young people who work on the streets still live with their families. The Chileans have been rightly concerned over the years with homelessness but their *allegado* population, almost by definition, has a home - they share with kin (Mercado, 1992; Necochea, 1987).

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<sup>1</sup> I do not accept all of the assumptions that underlie the calculation of these figures and would argue that calculating housing deficits is not the best use of official time. However, these figures are useful in providing a broad approximation of the seriousness of the housing program and they are presented in that spirit.

### ***Variations Between Countries in the Seriousness and Form of the Housing Problem***

The seriousness of the housing problem varies from country to country. In general, Argentina, Chile and Uruguay have fewer housing problems than the rest of the region. What may constitute a major problem in, say, Argentina may be insignificant in, say, Bolivia. There are also important differences between housing conditions in different cities. Table 2 attempts to calculate how many homes are lacking in the larger countries. It shows that the combined quantitative and qualitative housing deficit is less than one-quarter the number of permanent homes in Argentina and Chile but in Guatemala and Peru the estimated deficit is larger than the total housing stock in each country.

**Table 2: LATIN AMERICA'S ESTIMATED HOUSING DEFICIT IN 1995**

Country	Permanent dwellings (000s)	Quantitative deficit (%)	Qualitative deficit (%)	Total deficit (%)	Total deficit (000s)
Argentina	8,044	17.7	4.6	22.3	1,794
Bolivia	1,468	36.5	33.3	69.8	1,025
Brazil	32,459	24.9	39.0	63.9	20,758
Colombia	6,557	19.4	21.8	41.2	2,699
Chile	3,098	13.2	9.6	22.8	704
Cuba	2,382	30.9	15.6	46.5	1,108
Dom. Rep.	1,818	16.7	12.9	29.6	598
Ecuador	2,136	18.1	52.3	70.4	1,505
Guatemala	1,543	64.8	41.9	106.7	1,646
Mexico	15,271	19.0	21.4	40.4	6,181
Peru	3,842	44.5	57.9	104.4	3,934
Venezuela	3,351	35.1	5.2	40.3	1,350
Total	89,584	25.8	28.6	54.4	48,766

The quantitative deficit equals the difference between the number of households and the number of permanent homes (I have taken the lower estimate of the two made by CEPAL).

The qualitative deficit equals the proportion of houses not supplied with drinking water

Source: UNECLAC (1996)

Table 2 also shows that the nature of the housing problem also varies between countries. In general, Argentina, Uruguay and Venezuela do not have many substandard dwellings; what they lack are sufficient numbers of homes. Other countries also need more dwellings to accommodate the homeless and those living in overcrowded conditions, but they also need a major improvement in the quality of the housing stock. Indeed, in Ecuador and Peru housing improvement appears to be the principal problem because the qualitative deficit is much larger than the quantitative deficit.

The ways in which the housing problem differ between countries and cities are underlined by Table 3 which shows that the principal problems facing one city may be of little significance in another. One city may have poor infrastructure and services but homes there may offer families plenty of space. In another city, families may suffer from severe overcrowding but have access to services. While a case can be made that housing conditions are worse in Quito than in the other cities, it is difficult to judge from this information whether the problems in Bogotá are worse than those in Kingston. Conditions in the former are more crowded and there is a much longer journey to work. However, households in Kingston have less access to drinking water and are much less likely to own their home. Such variations demonstrate the fact that the quality of housing in cities is highly susceptible to local differences in the form of the land market, climate, relief, employment characteristics and governments' ability to provide services. It is often dangerous to generalise.

**Table 3: HOUSING INDICATORS FOR SELECTED LATIN AMERICAN CITIES AROUND 1990**

City	Floor Area (m <sup>2</sup> per person)	Persons/ Room	Water/ Plot (%)	Illegality (%)	Journey To Work (minutes)	Ownership (%)
	8.8					
Bogotá	16.0	1.7	99	8	90	62
Caracas	15.3	2.0	70	54	39	65
Kingston	8.6	1.5	87	33	60	41
Monterrey	8.6	1.2	91	4	25	83
Quito	19.4	1.8	76	40	56	79
Rio de Janeiro	15.9	1.0	97	16	107	62
Santiago		1.2	99	0	51	80

Source: World Bank (1992b)

#### *Variations in Housing Quality Within Countries*

Much concern is regularly expressed about the state of housing in urban areas, particularly in the largest cities. It is a reaction both to the mushrooming of self-help settlements and to fears about the likely political repercussions of such widespread 'marginality'. In practice, housing conditions in urban areas are normally far better than those found in rural areas. In Colombia, whereas 27 percent of urban families were recorded in 1993 as having a housing problem, 65 percent of rural families fell into that category (Giraldo, 1997: 203). As Table 4 shows, most urban households have easy access to drinking water, whereas relatively few of the rural population are in a similar position.

**Table 4: HOUSEHOLDS LACKING DRINKING WATER IN URBAN AND RURAL AREAS, 1997-8  
(Percentage)**

Country	Urban	Rural	Total
Bolivia	12.6	70.2	35.0
Brazil	9.0	19.3	10.9
Chile	1.2	47.8	7.7
Colombia	1.6	30.7	12.5
El Salvador	41.3	74.5	53.9
Honduras	10.7	71.3	42.6
Mexico	24.1	34.7	28.1

Source: Adapted from UNECLAC/UNCHS (2000: 91)

Rather more surprising, given the image usually portrayed of urban housing in Latin America, is that overcrowding seems much more prevalent in rural than in urban areas. Table 5 shows that in the few countries for which data are available the average rural home accommodates from half to two-thirds of a person per room more than the average urban home. The seriousness of the rural housing problem should not be forgotten despite the fuss made about housing conditions in the largest cities. This is particularly true in those countries of the region where the country people still constitutes a majority of the population.

**Table 5: PERSONS PER ROOM IN URBAN AND RURAL AREAS IN SELECTED LATIN AMERICAN COUNTRIES**

Country	Total	Urban	Rural	Capital city
Colombia 1993	n.a.	1.6	2.3	n.a.
Honduras 1988	2.2	1.8	2.6	1.6
Mexico 1990	1.5	n.a.	n.a.	1.2
Panama 1990	1.6	1.4	1.9	1.3
Peru 1990	2.0	1.9	2.4	1.6

Source: UNCHS (1996)

The quality of housing also varies substantially between cities within the same country. In Colombia, for example, the quality of housing construction in low-lying cities like Quibdó and Buenaventura is far worse than in highland cities such as Medellín or Manizales (Giraldo, 1997). But, it is not only the quality that varies; it is also the form of housing. Cities like Bogotá and Medellín have large numbers of families living in rental housing, whereas Cúcuta or Valledupar have large numbers of families living in their 'own' home in land invasions.

### ***Social and Economic Inequality Manifested in Poor Housing***

The seriousness of the housing problem clearly varies by social class. Most rich families live in spacious and well-serviced accommodation. Among the poor, housing quality depends upon age, income and personal circumstances; some poor families are adequately housed, many are not. Any generalisation about housing conditions has to take account of social class.

In Colombia, in 1993, 43 percent of urban families earning less than two minimum salaries per month faced some kind of housing problem, compared to 8 percent of those earning more than 10 minimum salaries. 51 percent of the estimated total housing deficit was made up by the 33 percent of families earning less than two minimum salaries (Giraldo, 1993a, 1993b).

Table 6 underlines how the urban poor face special difficulties by demonstrating how dramatically service delivery in Lima varies with income.

**Table 6: SERVICE DELIVERY BY INCOME GROUP IN LIMA, 1990  
(Percentage with service)**

Service	Bottom 10%	Top 10%	All Lima
Water in home	57.3	91.3	70.0
Water truck	20.0	4.4	8.6
13 hours or more of water per day	19.0	23.5	18.6
Sewerage	63.5	93.2	71.5
Electric light	87.5	98.6	90.5
Cook with kerosene	87.8	12.8	55.7

Source: Glewwe and Hall (1992: 30)

Certain groups of the population, of course, are more likely to face economic hardship and these families have special housing needs. Women-headed households are especially at risk because they tend to be poorer. Similarly, the growing cohort of old people in Latin America has a special set of housing problems.

### ***Housing Improvement or Deterioration?***

According to Nieto (1999) the region's housing deficit "has been growing year after year". With the single exception of Chile, which has managed to reduce the size of its housing deficit over the last ten years, housing deficit figures regularly suggest that the housing situation in Latin America is deteriorating (UNECLAC/UNCHS, 2000: 30). Similar observations have been made throughout Latin America during the past fifty years.

Table 7 ostensibly supports the interpretation that the housing situation has deteriorated by demonstrating how the incidence of self-help housing has increased over recent decades in several of the region's principal cities. Many interpret the rise of self-help housing as the corollary of a rising housing deficit. Because the formal sector has been incapable of providing sufficient shelter, poor families have been forced to provide their own accommodation through their own devices. The

consequence of this situation has been the inexorable rise in the number of shantytowns, land invasions and illegal subdivisions in Latin America.

**Table 7: GROWTH IN THE NUMBERS OF SELF-HELP HOMES BY CITY, 1952 TO 1991**

City	Year	City Population (000's)	Population in Self-help Barrios (000's)	Percentage
Mexico City	1952	2,372	330	14
	1966	3,287	1,500	46
	1970	7,314	3,438	47
	1976	11,312	5,656	50
	1990	15,783	9,470	60
Lima	1956	1,397	112	8
	1961	1,846	347	17
	1972	3,303	805	24
	1981	4,608	1,455	32
	1989	6,234	2,338	38
Caracas	1961	1,330	280	21
	1964	1,590	556	35
	1971	2,200	867	39
	1985	2,742	1,673	61
	1991	2,966	1,238	42
Bogotá	1955	917	367	40
	1965	1,782	766	43
	1975	3,069	921	30
	1985	4,123	1,278	31
	1991	4,824	1,254	26

Source: Adapted from Gilbert (1996: 74-5)

The problem with this table, and indeed with much thinking about the housing problem in Latin America, is that it is implicitly based on the false assumption that the quality of self-help construction is universally bad. In practice, most self-help housing improves rapidly through time. Many owners of flimsy shacks gradually turn their homes into two or three-storey houses. The authorities gradually provide irregular settlements with infrastructure and services. As such, the beguiling figures presented in Table 7 are largely meaningless. In terms of the quality of the accommodation, it matters very little whether or not housing begins life in an informal settlement.

Other kinds of evidence also suggest that housing quality may actually have improved over time. On the brave assumption that the figures presented in Table 8 are broadly accurate, the quality of

services and infrastructure nationally has improved in most Latin American countries. There are two reasons why such an improvement may well have occurred. The first is that an enormous amount of investment has gone into the provision of infrastructure and services in the region over the last forty years. Major foreign loans and a lot of domestic investment have brought about significant improvements in the servicing situation. If it can be argued that most of the increased electricity and water capacity was intended for industrial and commercial use, much of the increase in production has been used for servicing residential developments (Gilbert and Ward, 1985). The second explanation for the general improvement in servicing is the process of urbanisation. One of the big advantages of urbanisation is that it concentrates people into a smaller area. It is generally much easier to provide water and electricity to a city than to a dispersed rural population. And, given the evidence of Table 4, urban areas are much better serviced than rural areas.

**Table 8: HOMES WITH ELECTRICITY, WATER AND SEWERAGE PROVISION IN SELECTED LATIN AMERICAN COUNTRIES, 1970-98 (percentage)**

Country	Year	Piped water	Sewerage disposal	Electricity
Bolivia	1970	39.3	21.6	34.3
	1980		22.7	59.3
	1990	57.5		55.5
	1997	65.0	28.6	
Brazil	1970	32.8		47.6
	1980	54.9	27.7	68.5
	1990	80.9		
	1997	91.1	40.6	
Chile	1970	81.6		
	1980	81.4		84.6
	1990	87.9	69.9	88.1
	1998	92.3	77.3	
Colombia	1970	67.8	51.4	62.6
	1980	70.5	59.4	
	1991	86.2		
	1998	87.5	79.5	
Guatemala	1970	42.3		28.5
	1980	52.3	18.6	37.2
Mexico	1970	61.0		58.9
	1980	70.7	43.7	76.5
	1990	79.4	52.2	87.5
	1998	72.1	60.5	
Peru	1970	29.6	22.1	32.1
	1980	37.9	28.9	44.9
	1990	46.7	40.0	54.9
Venezuela	1970	72.4	40.3	76.8
	1980	85.3		88.6
	1990	92.1		
	1998	92.9	73.7	

Sources: For piped water and sewerage: 1970-1980 Wilkie, Alemán and Ortega (eds.) (2000: table 829); 1990-97 UNECLAC/UNCHS (2000: tables A-9 to A-12); for electricity: Wilkie, Alemán and Ortega (eds.) (2000: table 829).

Finally, many consider the form of residential tenure to be an important dimension of housing quality. Since most Latin Americans express a strong preference for home ownership (see below), the proportion of households who own their own home is often regarded as a sign of housing improvement. Certainly, most governments in the region have strongly favoured policies that encourage home ownership. By this standard, therefore, there can be little doubt that housing conditions have improved in the region. Even in the largest cities, where rates of ownership tend to be lower, Table 9 shows that there has been a truly dramatic increase in home ownership during the last half century.

**Table 9: THE DEVELOPMENT OF OWNER OCCUPATION  
IN SELECTED CITIES SINCE c1950  
(Percent of households owning their home)**

City	1947-52	1970-73	1990-93
Mexico City	25	43	70
Guadalajara	29	43	68
Bogotá	43	42	54
Medellín	51	57	65
Santiago	26	57	71
Rio de Janeiro	33	54	63
Buenos Aires	27	61	72

Source: Gilbert (1998: 92) based on census data.

### **Understanding the Housing Problem in Latin America**

In describing the current housing situation in Latin America, it is already clear that there is no satisfactory way of defining quite what the housing problem is. Like beauty, bad housing is in the eye of the beholder. The first difficulty in coming to any kind of sensible definition lies, as in debates about most social issues, with establishing an acceptable minimum housing standard. Any attempt at definition runs into a whole gamut of different cultural, ideological and economic assumptions. One person's interpretation of a reasonable minimum is most certainly not the next person's. The second difficulty is that even if we could come up with an unambiguous definition of what is acceptable, providing that solution in practice would incur costs that few societies would be able, let alone be prepared, to pay. Consequently, the process of defining the housing problem is highly politicised. Governments are tempted to reduce the numbers of people defined as living in inadequate accommodation, while lobbyists and opposition groups tend to increase the numbers in need.

#### *A) Identifying Those with a Housing Problem in Latin America*

Clearly, those people who have no roof over their head face a major housing problem. But in Latin America, indeed in most parts of the world, the vast majority has access to some kind of shelter. The problem is not generally one of homelessness but of poor quality shelter. But what is poor quality

shelter? Attempting to define the nature of poor quality shelter leads us into the difficult world of standards and expectations. Definition is difficult because culture, class and power all intrude into our efforts to determine what is normal and what is unreasonable. For example, if we use the word ‘slum’, we have to recognise that the quality and physical shape of a slum in La Paz or Tegucigalpa is likely to be very different from a slum in Zurich or Bonn. Even within La Paz or Tegucigalpa, what is considered to be a slum will depend on who is looking at it. But, in addition, slums are not homogenous; there are many different kinds of slum. Slums include the over-populated rental housing units in the centre of the city as well as the flimsy shanties that accommodate many families throughout Latin America. Slums also include more substantial shelter that lacks adequate services, particularly water, electricity and sewerage. The term also embraces shelter that is serviced but is located in a dangerous place: near to rivers that are prone to flood, on unstable hillsides, in earthquake zones, etc. That illustrative list of slum characteristics demonstrates how difficult it is to define a slum. Defining the housing problem is as complicated as defining illness. How sick do you have to be to be sick? In defining the housing problem, architects, engineers, planners, politicians and ordinary people all come up with different answers. The different answers derive from the fact that we all have different opinions about what a ‘proper’ and ‘affordable’ home is, about the appropriate size and nature of the household unit, and about the role that housing should play in people’s lives.

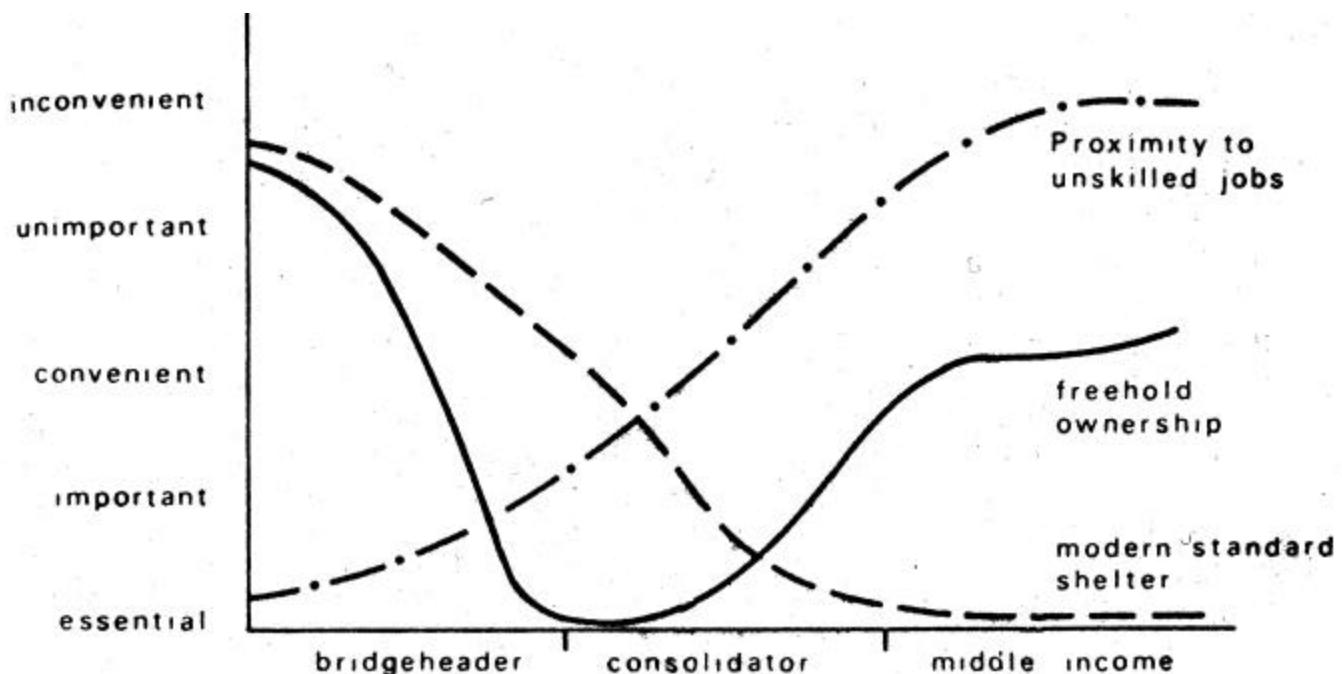
The difficulty involved in defining inadequate housing becomes clear when we consider other people’s efforts to define what kinds of housing are acceptable and unacceptable. Three definitions follow: One offered by the Chilean Ministry of Planning (MPC); a second one taken from the New Venezuelan constitution; and, a third one of my own.

MPC (1996: 163) ‘*Para que la vivienda responda a sus funciones debe cumplir con un mínimo de requisitos materiales y de acceso a redes de servicios básicos e infraestructura de equipamiento comunitario. A nivel social, el parque habitacional debe permitir a cada familia satisfacer estas necesidades, en condiciones mínimas, no menos importante, con autonomía residencial, lo que implica que cada hogar requiere una vivienda independiente, por lo que deberán existir en cantidad suficiente para que todos los hogares puedan acceder a una casa.*’

Venezuela (2000): “*Artículo 82. Toda persona tiene derecho a una vivienda adecuada, segura, cómoda, higiénica, con servicios básicos esenciales que incluyan un hábitat que humanice las relaciones familiares, vecinales y comunitarias.*”

Inter-American Development Bank (1993): People live in bad housing conditions when any of the following conditions apply:

- More than 1.5 persons are living in each room;
- the house offers no easy access to potable water;
- the house lacks adequate sanitary facilities;
- the house lacks a reliable and safe electricity supply;
- the physical fabric of the home fails to keep out the rain;
- the accommodation is physically unsafe; and
- secure tenure is threatened either by eviction or by the household’s inability to pay for the accommodation.



**The housing priorities of middle-income groups, consolidators, and bridgeheaders, according to J. F. C. Turner (1972)**

The differences between these three definitions are interesting but each emphasises the fact that minimally acceptable shelter requires that housing be provided with services and should not be overcrowded. All three assume that any housing lacking those features is inadequate housing. However, that is not the opinion of all experts in the field. For example, some writers have long argued that physical definitions of the quality of housing are often irrelevant to policy, at least in the short-term. The key issue is what role housing plays in people's lives.

John Turner (1968a, 1968b) long ago demonstrated there is little point providing a poor family with a fully serviced, three-bedroom house if the family cannot afford the rent or mortgage payment. He once offered a comparison between the housing situations of two families, one living in formal accommodation the other in a shack in the backyard of relations (Turner, 1976). While the living conditions of the first family were clearly far superior to those of the second, the housing expenditure of the first were far above than they could actually afford. Turner argued that given the circumstances of the two families at the time, the flimsy shack offered more appropriate accommodation to the three-bedroom house.

This argument constituted part of his long established thesis that housing priorities change through time. This is summarised in his famous diagram (Figure 1), which shows the priorities at different stages of the family cycle. The needs of the newly arrived migrant, the 'bridge header', are for temporary accommodation close to places of work; tenure and quality of accommodation are secondary considerations. By contrast, the more established migrant with a growing family, the 'consolidator', wants more space and is less worried about location and the quality of the architecture. The last is unimportant because the aim of the household is to improve the quality of the accommodation over time. What the family most needs at this point in time is security of tenure and access to some basic services. Only when people's incomes rise, do families begin to covet the kind of housing that is customary among middle-class families. At this time, a 'suitable' home always has solid walls and sometimes a 'better class' of neighbour.

Turner's argument is not meant to justify the continued existence of poor quality accommodation. He is not saying that poor people want to live in bad housing. He is merely pointing out that governments should recognise that poverty forces families to choose between what the more prosperous among us regard as absolute necessities. Because low incomes cover only some essentials, it is necessary to prioritise. For a starving person, housing is low down on the list of priorities relative to food. Even for a potential entrepreneur, living in a decent house may take second place to investing in a business.

Unfortunately, few housing experts have been very understanding of what poor people need and criticism of their 'expertise' goes back a long way. It certainly predates today's acknowledged gurus of self-help housing like Abrams, Koenigsberger, Mangin and Turner. According to Harris (1998: iv): "During the late 1940s and early 1950s... Thomas Crane acknowledged the importance of self-help as an element in community-building; he expressed scepticism about the knowledge and assumptions of self-styled housing experts; he affirmed his faith in the capacity of families to understand their own housing needs, and in their ability to meet them; he argued that governments should enable, not direct." No doubt, people in Athens or Rome were making similar complaints about their architects!

#### *B) The Politics of the Housing Problem*

The previous section has indicated that it is extremely difficult to define the nature of the housing need. But, even if we could define housing need in a satisfactory technical manner, would this actually help policy makers? The answer is probably no for the following reasons:

First, any public statement of the housing problem is always determined by political reality and by what politicians are trying to achieve. By this I mean that what governments are prepared to do depends on the pressure that they come under and how close they are to elections. Their priorities depend on the power of the housing lobbies, the nature of those lobbies and on the other demands for government action. In normal times, governments accept that there is a housing fire but take only limited action to resolve it because they have too many other fires to deal with. It is only when the housing fire threatens to get out of control that the housing issue is given higher priority. At such moments, the form and definition of the housing problem changes. At times, the key housing problem has been to prevent land invasions. At other times it has been to hold down the level of rents. Sometimes, it has been to improve shelter conditions in irregular settlements. Not infrequently, housing has received priority as a way of generating employment. In practice, therefore, the housing problem is always defined politically.

Second, like health and education, there is only a limited amount of action that governments can actually take to resolve the housing 'problem'. This is because the ability of any government and society to resolve its social problems depends on the economic situation. Poor housing, like poor health, is a problem that most afflicts the poor. As such, the real solution to the housing problem is to raise living standards by increasing incomes, improving employment opportunities, and introducing appropriate social welfare policies. The root of the housing problem, and any potential solution, lies well beyond the housing arena.

Third, the art of politics, at least the art of winning elections, is about making promises. In general, politicians like to promise people things that they think people want. The dilemma has been apparent in South Africa since the ANC took power in 1994. As Simkins (1997: 331-2) describes it: "On housing, we are very reluctantly making the transition from the mass state housing approach to assisted self-build... The state, particularly politicians, is reluctant (to shift).... Politicians would prefer a three-bedroom house for everybody; the electrified shack settlement, a possibility which is starting to exist, does not give people a warm glow, so there is uneasiness about the housing policy at present." The same dilemma seems to be facing current Bolivarian thinking about the housing question in Venezuela.

In making their electoral promises, politicians raise expectations and, through time, especially when economic conditions are improving, our estimates of the minimum acceptable quality of shelter rise. As such, any definition of a slum today includes much shelter that would once have been considered perfectly satisfactory. Expectations are also modified, usually upward, by television programmes and seeing how people live in other places. As such, the '*vivienda digna*' that so many Latin American constitutions deem to be a right of the people, is a very unclear concept. Of course, most of those constitutions were written almost two hundred years ago so that even if they tried to define the nature of a decent house, it would be surprising that any such definition would be appropriate in today's conditions.

Attempts to define the minimum quality of housing, like definitions of poverty lines and minimum wage levels, are subject to rising expectations. The more successful we are at improving housing conditions, the more the basic standard rises. Insofar as housing is culturally determined the housing problem can never be solved. If we manage to improve housing conditions, we redefine the minimum upwards. How many families living in three-bedroom houses do not want a four-bedroom house? When our expectations rise, we automatically increase the housing problem that we have managed to lessen. As such, the housing problem is insoluble. The only meaningful goal is to try to improve the quality of Latin American housing over time.

### ***The Housing Deficit Approach***

Thinking in terms of housing deficits became common at a time when governments believed in demolishing slums and rebuilding the housing stock. Such an approach proved unsuccessful even in highly affluent countries. While such an approach continues to be popular among some in the construction sector because it offers them work, it rarely constitutes a sensible way forward in most of Latin America. First, housing deficits are based on a highly dubious method of analyzing the housing problem. To define a housing deficit it is necessary to classify all housing as being either satisfactory or unsatisfactory, usually on the basis of physical criteria. It assumes that those homes failing some minimum standard need to be replaced. In Latin American cities, this is a dangerous way to think because many homes fit uneasily into the satisfactory: unsatisfactory dichotomy. Insofar as many homes provide inadequate accommodation, it is because they lack certain facilities, say, running water. Most homes and their servicing can be improved over time. Defining part of the housing stock as 'inadequate' encourages the idea that all needs to be replaced. This form of thinking needs to be avoided.

Second, housing deficit calculations tend to neglect whether the population, or indeed the government, can afford to pay for the ostensibly better solutions. Any long-term answer to the housing question requires a matching of demand and supply. There is little point increasing supply if there is too little effective demand. In Colombia, a vast number of houses that were constructed during a housing boom in the middle 1990s remain empty because of a lack of demand. The stock of housing has increased but the local population cannot afford to live in it.

Third, deficit calculations always produce targets that few national governments can possibly achieve. With the notable exception of Chile since 1990, no Latin American country has managed to build enough housing units to even keep up with the increase in new households. Thinking in terms of deficits produces impossible goals; it is more likely to paralyse action than to stimulate it.

### ***The Demand for Title Deeds***

Much is made of the way poor people invade land in Latin American cities and in some cities it has become the customary way of obtaining a plot. Most low-income housing areas in the cities of Peru, the Caribbean coastal areas of Colombia and Venezuela have been formed through invasion. In other places, land invasions have only occurred at particular times, usually when the government authorities have been prepared to turn a blind eye to the process. Such has been the case in certain Brazilian cities, in Santiago (Chile) before 1973, and in parts of Mexico. Sometimes governments have been among the principal actors in encouraging land invasion. In Lima, for example, the invasion of public land on a large scale was first stimulated by the Odría administration in the 1940s (Collier, 1976). Similarly, in Venezuelan cities, the main political parties have directly encouraged the invasion of public land over many years (Ray, 1969; Gilbert and Healey, 1985). In Chile, land invasions were encouraged by every political party in the build up to the strongly contested and highly politicised 1970 election (Kusnetzoff, 1987; 1990).

However, invasions are not the normal way in which poor people obtain land in most parts of Latin America. In most of Colombia and Ecuador, in the south of Brazil and in Mexico, most self-help settlements are founded on land for which the families have paid money (Doebele, 1975; Gilbert, 1981; Gilbert and Ward, 1985; Beijaard, 1995). These settlements are illegal not in the sense that the land has been taken from the owner. The housing is illegal only in the sense that it offends the planning regulations. The illegality consists of a lack of services, something that can be easily resolved by the provision of infrastructure. Elsewhere, perfectly decent and well-serviced homes simply lack properly registered title deeds; they are illegal only in a technical sense. In Mexico, the situation has traditionally been more complicated because much urban growth has occurred on ejido land. Because the agrarian communities that controlled the land could not legally sell it, it was difficult for the authorities to issue title deeds to the occupiers (Azuela, 1989; Jones and Ward, 1998; Fernandes and Varley, 1998).

Many of these illegal forms of land development provide the occupiers with plots from which they will never be removed. Despite the regular calls for legal title, most purchasers of land in illegal subdivisions know perfectly well that they are the owners from the day that they pay their deposit to the illegal sub divider. Such owners proceed with the building of their house unconcerned about the dangers of eviction. The occupiers of invaded land are less certain about their tenure rights but where they have the backing of powerful political patrons, they too know

that they are safe. It is only settlements that threaten powerful vested interests, for example, because of their geographical proximity to elite residential areas, which are likely to be removed. Most of the notorious eviction programmes, in Caracas, Rio de Janeiro, Mexico City and Santiago de Chile, affected communities that were located close to the city centre or to elite suburbs (Coulomb and Sánchez, 1991; Dwyer, 1975; Hardoy and Satterthwaite, 1981; Scarpaci, Pio-Infante, and Gaete, 1988; Valladares, 1978). The other common denominator underlying evictions was that a military or authoritarian government was in power; over the years democratic governments have tended to be more reluctant to send in the troops.

In settlements not threatened with removal, illegality seems to have little effect on the willingness of poor people to build. The majority are prepared to build without holding title to their land (Varley, 1987). Insofar as they have doubts they are reassured when the authorities provide services to the settlement. Once water and electricity are available, there is no real barrier to self-help construction. Two- or three-story buildings will appear despite the lack of a legal title. As Skinner, Taylor, and Wegelin (1987: 236) conclude their favourable review of upgrading programmes across the Third World: “Their impacts generally tend to benefit low-income communities, which are stimulated to make substantial individual home improvement investments, largely due to the increased *de facto* land tenure security brought about by such programs.”

Nevertheless, most self-help settlers appreciate the extra security of a title deed, a feeling that many Latin American governments have recognised by mounting massive land-titling programmes (see below). In addition, the lack of a title clearly complicates the process of buying and selling property and obtaining credit. Indeed, writers like Hernando de Soto believe that the lack of a legal title is absolutely critical to improving living conditions for the poor (De Soto, 2000).

According to de Soto (2000), the poor have accumulated considerable amounts of savings most of which is concentrated in real estate. The problem is that they do not have legal title to this real estate: “The poor inhabitants of these nations – five-sixths of humanity – do have things, but they lack the process to represent their property and create capital. They have houses but not titles; crops but not deeds; businesses but not statutes of incorporation” (De Soto, 2000: 6-7).

He is not wholly wrong. There is a problem when people lack title deeds. According to the World Bank’s 1993 Housing Policy Paper: “The registration of property rights in squatter settlements is... important in making land and house transactions possible and giving occupants legal protection. It encourages the buying and selling of housing and makes it possible for households to move to a dwelling that suits their needs and their budgets. It also increases the choice of tenure available to households, allowing them to own or rent as they see fit” (World Bank, 1993: 117). Some evidence to support this argument is provided by Lanjouw and Levy (1998) on the basis of work in Guayaquil, Ecuador. However, in my opinion, their most significant conclusion is that titling programmes are likely to impart the most significant benefit in “more recent and disorganized squatter communities” and to “the most vulnerable families within such communities.”

In practice the degree of vulnerability of informal settlements varies considerably. It depends on a multitude of factors including the identity of the original owner, the location of the land, the alternative uses of the land, the nature of the government and whether or not an election is near.

If the authorities have been among the agents promoting land invasion and different forms of illegality, they have sometimes also been eager to remove that illegality. Indeed, many governments, both legitimate and illegitimate, authoritarian and non-authoritarian, have sought popularity by giving out titles to large numbers of illegal settlers. The military government in Chile gave out more than 500,000 land titles between 1979 and 1989, and the two democratic governments that succeeded it, distributed a further 150,000 titles by 1998 (Rugiero, 1998: 31 and 51). In Peru, the new Commission to Formalise Informal Property (COFOPRI) managed to register some 1,134,000 urban land titles from 1996 to 2000 (Calderón, 2001). So common has this practice become that the real fear is that it is not being done to help the poor. Some have argued that the real motive behind titling programmes has been to expand the property tax base and to start charging for services (Ward, 1989). Others have pointed out that land titling is relatively cheap, especially when the beneficiaries are charged for the service, and always represents a housing strategy that is far more economical than providing either proper homes or even infrastructure and services (Fernandes and Varley, 1998).

There are even some writers on the political left who argue that issuing legal title is dangerous because it lead to down-raiding by higher income families, the displacement of tenants because of rising rents, and the introduction of service charges and property taxes (Burgess, 1982). But not much evidence supports these arguments and the real debate about title deeds is whether they really make much difference to the lives of the poor. A number of questions are relevant to this issue.

First, does the issue of legal title accelerate the process of housing improvement? In practice there is plenty of evidence that settlers improve their homes without possessing anything resembling a title deed (Payne, 1989; Razzaz, 1993; Varley, 1987). As Payne (1989: 44) puts it: "Perceived security of tenure is more critical in releasing investment for housing consolidation than legal status as such, and clearly the provision of public utilities is regarded by residents as strong evidence that they are officially accepted and enjoy de facto security of tenure." The perception of security is the key and Razzaz (1993: 349) argues: "Empirical evidence points to a continuum of security in illegal settlements that depends less on the exact legal status and more on occupants' perceptions of the probability of eviction and demolition (enforcement); as well as the availability of services and passage of time." In Bogotá, settlers build homes when all they have is a receipt for their payments for the plot of land. These people have been prepared to build because they had confidence that their tenure was secure. Although there is no doubt that the granting of legal title sometimes gives previously insecure settlers reassurance and thereby unleashes investment, it is sometimes spontaneous investment that brings about title deeds (Hirschman, 1984). On the basis of experience in Jordan, Razzaz (1993: 350) questions the direction of causality and points out: "it is housing consolidation and investment which contributes to secure tenure".

Second, does the issue of a legal title open the doors of banks and lenders to the informal settlements? In practice, formal financial systems face various difficulties in reaching the poor.

“Regulations governing mortgage lending are usually biased toward completed owner-occupied housing, making it unattractive or impossible for financial institutions to lend for rental housing or condominium housing, or for house improvements or unfinished core houses on serviced sites” (World Bank, 1993: 118). In addition, “mortgage lenders have difficulty verifying self-employed income and developing an accurate estimate of self-employed income from analysis of tax returns” (Ferguson, 1999: 187) and many lenders do not believe that poor people will repay their loans (UNCHS, 1996: 370). Finally, formal lenders are put off by the low profitability of lending to the poor. Admittedly, recent experience in Lima suggests that titling can lead to an increase in formal sector loans. Of the approximately 200,000 families awarded legal titles in 1998 and 1999, some 23.8% had taken out loans to expand or renovate their homes (Calderón, 2001; Conger, 1999; Panaritis, 2001). This impressively high figure makes Lima appear very different from Bogotá where many fewer families seem prepared to borrow against the title of their house and where lending agencies seem to be less convinced of the virtues of land titles (Gilbert, 2000). However, Calderón points out that the vast bulk of the lending came from state institutions and that “there is no connection between the official registration of property and access to loans from private banks”.

Third, it may not even be true that the poor are desperate for loans. Certainly among the beneficiaries of housing subsidies in South Africa, “beneficiaries who said they did not want a mortgage loan outnumber those who did by three to one” (Tomlinson, 1999a, 1999b: 1357). For many very poor families, repaying a loan is a burden that may endanger the household’s whole financial viability. As Rogaly and Johnson (1997: 119) put it, lending “can harm as well as enable poor people. Financial relationships, especially those of debt, are one way in which the powerlessness of groups of poor people is entrenched.” Many poor families are less than enthusiastic about borrowing from formal lending agencies or indeed from anyone else.

### ***Essential Aspects of Ownership***

Throughout Latin America, governments have sought to encourage owner-occupation. They have subsidised middle-class mortgage holders, provided cheap public housing for privileged groups, given subsidies to the poor to allow them to buy homes and perhaps, most significantly, have allowed the poor to occupy land informally. The proliferation of self-help housing has greatly increased access to home ownership in Latin American cities. Not untypical is the entry in the recently produced Venezuelan constitution which asserts that *‘El Estado dará prioridad a las familias y garantizará los medios para que éstas y especialmente las de escasos recursos, puedan acceder a las políticas sociales y al crédito para la construcción, adquisición o ampliación de viviendas’* (Venezuela, 2000). Latin American governments like to encourage home-ownership and have done little or nothing to encourage or even support rental housing (see below).

In fostering owner-occupation Latin American governments have been following the practice in many developed countries (though not in Germany and Switzerland) (see Harloe, 1985, 1993; Ball, Martens, and Harloe, 1986). Governments have been keen to encourage owner-occupation because they believe such a policy is popular and because they believe that a society in which most own their own home is likely to be more stable. This belief is hardly new. Long ago, Bellman (1927: 54) pointed out that “the man who has something to protect and improve - a

stake of some sort in the country - naturally turns his thoughts in the direction of sane, ordered and perforce economical government. The thrifty man is seldom or never an extremist agitator. To him revolution is anathema." And, it seems that this kind of belief is older still. In the United States "the belief that, compared with renters, homeowners are better citizens, better neighbors, and even better persons... can be traced to the very beginning of American culture. The dominant view of the colonists was that property ownership was a good indication of a person's moral worth. In fact, tenants were not allowed to participate in federal elections until 1860" (Rohe and Stewart, 1996: 38).

In Latin America, there can be little doubt that most families aspire to owner-occupation (Gilbert and Varley, 1991; Selby, Murphy, and Lorenzen, 1990). Certainly, few in the low-income settlements of Bogotá seem to doubt that ownership is a good thing. During interviews in 1997, one owner spoke proudly of the "glory of the house" and another celebrated that "he who has a house is a king".

Their wish to become owners helps to explain the shift towards home ownership in so many Latin American cities (Table 9 above). This desire to own seems to hold irrespective of class and income. Studies of what poor Colombians, Mexicans and Venezuelans want, leave little doubt that one day they all wish to be home owners (Gilbert and Varley, 1991; Gilbert, *et al.*, 1993). Not only do they say that they wish to be home-owners but their actions demonstrate that they strive to fulfil this goal. Surveys show that while most home-owners were once tenants or sharers, very few tenants were once owners (*ibid*; Jacobs and Savedoff, 1999).

Why do people wish to become homeowners? In Britain and the United States, and among the more affluent in Latin America, capital appreciation is undoubtedly a factor in the equation. It makes economic sense to buy a house. Poor Latin Americans think similarly. When poor Bogotanos were asked whether ownership was a good investment, few interviewees had any doubts (Gilbert, 1999). One said outright that "it was the best investment that I have made" and virtually everyone else thought it was a sensible buy. Many of the owners believed that the value of their property had risen over time and would continue to do so. There is reason to doubt that their economic calculations are always accurate (see next section) but it is clear that they believe that home ownership is a good investment.

Arguably, however, other factors are even more important. Certainly, when a group of owners living in consolidated self-help housing areas of Bogotá were asked why they valued ownership, two answers dominated the replies. Ownership gives you something to leave to the children and provides some form of security for your old age. Leaving property to the children is clearly something that most household heads felt was part of their duty as parents. Although few had made wills or were very clear about the possible complications involved in inheriting property, there was little doubt about the sincerity of their feelings. Similarly, the role of ownership in guarding against the risks of old age was vitally important. As one owner put it: "for those with nothing, to have a secure roof for oneself and the children is a good investment". Some way behind, but accounting for 19 percent of the total answers, was the advantage of not having to pay rent (see, Gilbert, 1999).

In short, ownership provides a way of safeguarding the family against an uncertain future. As one homeowner in Oaxaca put it: "No matter what happens to me or my job, I know I will have a place to live" (Murphy, 1994: 212). The poor throughout Latin America are neglected in many ways by the state. They have only partial access to infrastructure, services, health care and education. Most informal sector workers have little expectation of any kind of pension. When people are unemployed there is almost never any kind of state payment to help them feed their family. The subsidies that have been on offer in Latin American societies to support social expenditure, such as transport, infrastructure and food, have been severely reduced in recent years as a result of the debt crisis and structural adjustment. The new emphasis on social targeting as a basis for directing subsidies has sometimes been successful in helping the very poorest families but has severely reduced the number of poor families that are receiving help. In such an environment, the urban poor have been forced to provide their own safety net. Ownership of the house constitutes an important part of that safety net.

### ***The Home as Capital Asset***

In many developed countries, households are encouraged to buy because the purchase of a home is perceived to be a good investment. In Britain, Saunders (1990: 117) argues that "home owners tend to buy in the first place out of financial considerations", and his calculations show that their judgement is correct. Similarly, in the United States, Rohe and Stewart (1996: 44) contend that homeowners "hope to build wealth through property appreciation", and Megbolugbe and Linneman (1993: 660) report that "about 80 percent of Americans view owning a home as a good investment".

Of course, not every commentator is convinced that every homeowner makes money. Even in the United States, "low- and moderate-income families are likely to gain less and risk more through homeownership" (McCarthy, Van Zandt, and Rohe, 2001: 1). Timing is critical and home-ownership may well cost the unfortunate buyer a great deal of money in the short term. In the Netherlands, home prices plummeted in the early 1980's, in Britain the late 1980's was not a good time to buy with a mortgage, and the wonderful investment that housing offered in Bogotá in the early 1990's changed character in the second half of the decade. The possibilities for accumulating capital are also highly dependent on location. While homes in some areas rise in value, others do not (Edel, Sclar, and Luria, 1984; Smith, 1987). Similar factors operate in Latin American cities. In Bogotá, calculations by Jaramillo and Parias (1995) show that the housing boom of the 1990's mainly benefited people living in the affluent north of the city. Even there, however, prices between 1989-96 were stable in real terms. Since then house prices have plummeted by around 40 percent.

If many rich and middle-income people have sometimes lost money in real estate, it is possible to argue poor people have very rarely made capital gains from home ownership. The reason why is simple. Research in Santiago, Chile, and Bogotá, Colombia, shows that owner families almost never move house and that the market for used housing is very limited. Very few low-income families move in Santiago even though they have formal title and the houses have been built by the formal sector (Gilbert *et al.*, 1993: 92; Richards, 1994: 136; Crespo *et al.*, 2000; Pérez-Iñigo González, 1999). A survey conducted in the city in 1995 remarked on the extremely limited residential movement among the middle and lower classes and on the "virtual absence of a

housing market" (CADE Consultores, 1995: 2). Although a considerable number of families would like to move, most people seemingly remain in the accommodation 'forever'. Indeed, the problem had become so severe by the middle 1990's, that the government of Eduardo Frei introduced a special programme to encourage housing mobility (Held, 2000; Pérez-Iñigo González, 1999; Almarza, 1997; 2000).

The mobility of owners in consolidated low-income settlements in Bogotá is also extremely limited. The average tenure of owners living in four settlements more than twenty years old was 19 years (Gilbert, 1999). This average, of course, is an underestimate of residential stability insofar as most of the families will continue to live in the same dwelling, perhaps for many years. Only four owners, out of 276, had moved into the settlement during the last year and only 14 had moved in during the last five years. Similar signs of immobility are found in Caracas and Mexico City (Gilbert, 1993) and the World Bank Housing Indicators Study shows that by international standards mobility within the large cities of Latin America mobility is very limited (Persaud, 1992: 46-7).

Of course, at times the sale of property in self-help settlements accelerates. In two invasion settlements in Valencia, Venezuela, for example, most of the inhabitants had bought plots: 23 percent of the total settlers had bought a house, 32 percent had bought a lot with shack and 11 percent had bought a lot (Gilbert and Healey, 1985: 122). It will be noted, however, that the two settlements were relatively new and few of the buyers had bought much that was substantial. The problem is not the lack of demand for consolidated housing but that there is little effective demand. The limited availability of credit in the informal settlements is a critical factor. Without credit, people can afford to buy plots or flimsy houses but they will be unable to purchase the two- or three-story homes that are available in the consolidated self-help areas at prices somewhere between US\$20,000 and US\$50,000. As such, self-help home-owners can sell quality homes only with great difficulty and/or at a very low price (Gilbert, 1999).

### ***The Home as a Source of Income***

If there are reasons for doubting whether the self-help home is a significant source of capital appreciation, there is no doubt that poorer Latin Americans frequently use their homes to generate income (Strassman, 1987; Gilbert, 1988). Many owners operate businesses from the premises: shops, small workshops, kindergartens, cafes and restaurants. In addition, some rent out space for other people to run a business. Although home businesses are more common in the self-help settlements, plenty of shops and commercial activities can also be found in low-income formal housing estates as well. Home-based enterprises are particularly important for one group of people: "home-bound women" (Moser, 1996: 47).

By far the most common source of income from the house is rent from lodgers. Evidence is now available which shows that the vast expansion in rental housing that has occurred in Latin American cities in the last few decades has been generated in the consolidated self-help settlements. In four consolidated self-help settlements in Bogotá, between sixty and seventy percent of the houses have tenants and on average those houses have two tenant families each. In these settlements, there are actually more tenant families than owners. Letting rooms is a substantial source of income for many although it is a dominant source for few.

In sum, therefore, self-help home-owners may not make capital gains from their homes but their homes are useful in helping them to supplement their income.

### ***The Role of Rental Housing***

The general image of rental housing in most countries across the globe is not a positive one. Only the Germans and the Swiss seem to regard rental housing as an acceptable housing alternative (Harloe, 1985). Elsewhere, public opinion seems to be that landlords charge excessively high rents, evict their tenants, force people to live in unsanitary conditions and are generally exploitative. Tenants would do anything to move out. Only their poverty keeps them in rental accommodation. No doubt this image of rental housing is sometimes well-earned but it is hugely exaggerated. It is also arguably irrelevant. However much people want to live in their own homes, many cannot achieve this goal immediately. Indeed, although home-ownership is on the increase across the globe, the proportion of tenants seems to be rising in cities such as Bogotá (Colombia), Quito (Ecuador), Kumasi (Ghana), Cairo (Egypt), Delhi (India), La Paz (Bolivia) and Benin (Nigeria) (Beijaard, 1995; Klak and Holtzclaw, 1993; Korboe, 1992; Wikan, 1990; Ozo, 1993; Wadhva, 1993). Even in those cities where home ownership is increasing dramatically the absolute number of tenants is also rising. In Mexico City, for example, while the proportion of homeowners increased from 27 percent in 1950 to 70 percent in 1990, the number of households without their own home rose from 484,000 to 932,000; the majority of these being tenants. Given these kinds of numbers, it is vital to understand how the rental sector operates in low-income areas of Latin American cities and to rectify the highly negative image of the sector.

#### **A) *Does Every Family Want to Own Its Home Immediately?***

Even though there is a widespread preference for ownership, many households remain in rental or shared accommodation even though they have the resources to acquire their own home. This is particularly true of the poorest half of the population in less-developed countries. Evidence from Mexico shows that many tenants have clung to crowded rental accommodation despite having the money to become self-help homeowners (Gilbert and Varley, 1991). Their reluctance to move into ownership is based on the fact that self-help ownership involves a great deal of hardship, a period living without infrastructure and services, and much more travelling since new self-help settlements are nearly always much farther away and tend to have worse bus services.

When tenants say that they want a home of their own, they may not mean that they are prepared to build their own house. They want to own, but they want ownership of a custom-built house; ownership to them does not mean living in a shack. Other tenants, who aspire to owner-occupation, may not want that tenure right now. The young, the mobile and new arrivals may all be happy to rent for the time being (Gilbert, 1993).

#### **B) *Is Renting is Unpopular?***

Conventional wisdom holds that tenants hate landlords and detest paying rent. Reporting on a survey in Oaxaca, in Mexico, Selby *et al.* (1990: 160) suggest “renting is viewed as very unsatisfactory by urban Mexicans.... Of all the bills that the poorer people of urban Mexico dislike, (paying the rent) is the most detested.” My own research suggests that while tenants

would like to become owners and that one of the motives for becoming an owner is to put the money that would have gone in rent towards something of one's own, dislike of landlords is not widespread.

Survey results show that while there are conflicts between landlords and tenants, strife is relatively infrequent (Beijaard, 1992; Gilbert and Varley, 1991; Gilbert *et al.*, 1993). The majority of conflicts occur in central areas where there are large numbers of absentee owners and where maintenance is at a minimum. When the landlord lives on the premises or close by, the frequency of conflict seems to be much lower. Experience in South Africa seems very similar (Gilbert *et al.*, 1997; Watson and McCarthy, 1998).

#### *C) Is Renting an Insecure Tenure?*

Nor is renting always an insecure tenure. In nineteenth century England it was an insecure tenure because rooms were let on a weekly basis. However, in many Latin American cities tenants do not move all that frequently. Indeed, in the public housing stock and in private property covered by sitting tenant legislation, the problem is the reverse, tenants are too secure and do not move often enough.

If security of tenure is supposedly one of the main advantages of ownership, many families in Mexico and Santiago seem to achieve this goal perfectly satisfactorily through renting. For tenants with guaranteed tenure living near the centres of Cairo, Delhi or Mexico City, for example, renting may offer just as much security as ownership (Gilbert, *et al.*, 1993; UNCHS, 1989). In Delhi and Cairo, tenancy rights can even be passed onto one's children. Elsewhere, tenure is less secure but in cities like Caracas, Guadalajara or Santiago, few tenants change home frequently and, in some central areas, households stay in the same house for a very long time. A survey conducted near the centre of Mexico City, showed that tenancies in the last two homes averaged seventeen years and eight years respectively with 73 percent having lived ten years or more in the previous house. Even in the consolidated settlements well beyond the central areas and where rent controls do not operate, tenancies averaged three years in the present home and five years in the previous one. If security of tenure is supposedly one of the main advantages of ownership, many Mexican families seem to achieve this goal perfectly satisfactorily through renting.

The converse of stable security for the tenant is, of course, that at certain times ownership becomes unstable. When economic volatility causes prices to rise rapidly, incomes to fall or unemployment to rise, many 'owners' lose their homes because they cannot cover their mortgage payments. This became a major problem in Britain at the beginning of the 1990's and in Colombia in 1999 (Camacol, 2000).

#### *D) Are Rents Always Too High?*

The cost of renting relative to incomes varies considerably between cities. In Santiago (Chile), rents appear to be high constituting 30 percent of household income whereas in Mexico City the average rent constituted less than ten percent of the average household income (Gilbert *et al.*,

1993). At the low end of the market, the explanation for such variation is related to the cost of acquiring a plot of land. In some cities purchasing a plot is expensive, elsewhere land can be invaded or bought cheaply. Whereas invading land has long been precluded in Santiago, cheap plots are still available on *ejido* land in many Mexican cities and land can still be obtained free through invasion in some Colombian and Venezuelan cities. Rent levels are closely linked to the cost of ownership options and, where rents are cheap, many tenants are content to remain in rental accommodation. In Santiago, where rents are very high, tenants cannot wait to escape (Gilbert *et al.*, 1993).

*E) Do Rich People Own While the Poor Rent?*

Tenant families do seem to be poorer than owner families in Quito, Santiago and Mexico City (Gilbert *et al.*, 1993; Klak and Hotzclaw, 1993: 270). It is important to distinguish, however, between household incomes and per capita incomes. Because tenant families are much smaller, they often have higher per capita incomes (Gilbert *et al.*, 1993). Indeed, the most needy families in certain Latin American cities are those living in owner-occupation. They have moved into the 'ownership' of flimsy self-help accommodation because they cannot afford to rent. When the very poor have the option of invading land, and thereby ceasing to pay rent, they may well take the chance. In Caracas and Mexico City, this process has led to most settlers in invasion settlements having lower household and per capita incomes than those of tenants living nearer the centre of the city (Coulomb and Sánchez, 1991; Camacho and Terán, 1991).

*F) Is Renting an Inequitable Tenure?*

Landlords in Latin American self-help settlements seem to be rather similar to other owners in the settlement and not much different from their tenants. In Caracas, Mexico City and Santiago while landlords are generally more affluent than other owners they have similar per capita incomes to those of their tenants. They are all from the same social class. The main distinguishing feature of landlords is that they are older than most other owners and much older than most tenants. Because of their age, landlords are much more likely to be retired, live in larger properties than other families and have lived longer in their current home.

Research also indicates that few Latin American landlords operate on a large scale or in an inequitable way. While the typical landlord in the nineteenth and early twentieth centuries owned a lot of property, most commercial landlords have long since departed from the scene. In Bogotá, Bucaramanga, Caracas, Guadalajara, Guatemala City, La Paz, Mexico City, Santa Cruz and Santiago, the typical landlord is now a former self-help builder (Beijaard, 1992; Coulomb, 1985; Edwards, 1982; Gilbert, 1983, 1993, 1999; Gilbert and Varley, 1991; Green, 1988; Rodas and Sugranyes, 1988; Van Lindert, 1991). Many reside on the same property as the tenants and few have more than a couple of properties. In the consolidated periphery of Santiago, seven out of ten landlords rent only to one tenant household, in Mexico City three-quarters, and in Caracas two-thirds. Even in the central areas of these cities, most landlords operate on a small-scale. In Mexico City, subdivision of property through inheritance has gradually reduced the level of property concentration.

The rationale behind renting out rooms has as much to do with saving for the future as anything else. Landlords are not greatly concerned about the low rents they receive because their main reason for building is to own property. Apart from giving them a certain social status, renting offers a form of saving that they trust. Compared to banks or other forms of financial investment, saving through bricks and mortar is something that they understand.

#### *G) Are Living Conditions Better in Owner Occupied Homes?*

In Latin America, many tenants are better housed than poor owners. While tenants generally occupy less space than new owners, the quality of that accommodation is superior. The reason is simple. Poor owners live in new settlements on the periphery and are likely to suffer from poor living conditions for several years. Services take some time to reach them. Many young families are forced to live in settlements with inadequate water, electricity and education services. Transport can also be problematic. By contrast, tenants gather in accommodation that is well-established and the proportion of tenants rises with the age of a self-help settlement (Gilbert, 1999; Gilbert and Ward, 1985; Van Lindert, 1991). If much rental housing hardly constitutes good accommodation, in Latin American cities it usually comes with services.

#### *H) Does Anyone Invest in Rental Housing?*

In the past, rental housing was usually a good business to be involved in, indeed one of the only really safe businesses available. In Latin America, rental housing was something in which anyone with true commercial flair would seek to invest in. Even the Church and the revolutionary leaders of Mexico put their money in rental housing (Perló-Cohen, 1979; Kowarick and Ant, 1988; Scobie, 1974; Violich, 1944). Most accounts of rental housing emphasise that this is no longer the case; investment in rental housing is now unprofitable. The combination of income and property taxes, rent controls, requirements to maintain the property and an inability to evict the tenant means that any law-abiding landlord is bound to lose money. At the very least, the rate of return on rental housing investment is well below that found in other kinds of activity.

If the commercial landlord is disenchanted with rental housing as an investment, other groups in the self-help settlements are building rooms for rent. Why is the behaviour of the self-help builder so different? Perhaps the principal reason is that self-help landlords are following a different kind of economic logic. While all self-help landlords are interested in generating some kind of income, it seems that few are profit maximisers. Many have little idea how much profit, if any, they actually make. It may be just this lack of commercial acumen that explains the expansion of the rental housing stock. Most landlords in Caracas and Santiago recognise that renting does not produce a large income, especially given the hassle involved (Gilbert *et al.*, 1993).

The rationale behind renting has little to do with profit. Landlords are not greatly concerned about low rents because their main reason for building was to own property, many did not even build to rent. They built for their family but now the older children have left home. As they have spare rooms, they may as well rent them out (Gilbert and Varley, 1991; Camacho and Terán, 1991). If older children want to return then the family ceases to rent the accommodation. In Mexico City, housing is used very flexibly. It may accommodate the family, be rented when the children have left

home, or be used to put up members of the extended family or *paisanos* when the need arises (Coulomb and Sánchez, 1991).

Whatever the motivation, there is a great deal of small-scale investment going into rental housing in Latin American cities despite the total neglect of this sector by the authorities (see below).

### **Shaping a Housing Policy**

Governments should formulate a policy for the housing sector just as they formulate policies for health, education or employment. Such a policy should recognize that housing is both an economic and a social sector. The housing sector has two legs: It contributes to production as well as consumption. It is an economic sector in the sense that housing construction contributes to the alleviation of poverty through the generation of jobs for poor people working in the building industry. Housing also contributes to employment insofar as large numbers of people earn their living in their homes (see above); people do not just live in their homes; many also work there. As housing construction also requires long-term finance, a strategy for housing needs to consider the role of the financial sector. The housing question is also an economic issue insofar as the form of housing solution adopted by the government has implications for the type of urban growth that occurs. A low-density residential development strategy, for example, results in urban sprawl with important implications for transport and servicing.

Housing is equally clearly a key ingredient in social policy because it is a key ingredient in the living conditions of ordinary households. Poverty reduction must include a housing component, particularly as housing is so important to the lives of groups so often most in need, such as women and children. Appropriate housing improvements are a good way of providing poor people with assistance because housing is closely associated with the incidence of social problems such as poor health and environmental pollution (Hardoy and Satterthwaite, 1990; Hardoy, Mittlin, and Satterthwaite, 1993; Harpham *et al.*, 1988; UNCHS, 1996).

If it is obvious that governments should develop a shelter policy, it should be equally clear that there is absolutely no way that they can solve most housing problems. As Tables 1 and 2 suggest, most Latin American countries suffer from far too large a housing problem for any government to be able to resolve it. All any government can seek to do is to formulate a strategy that will permit some measure of improvement. In doing so, it should, of course, establish clear targets against which progress can be measured.

Government targets in housing policy need to be established in consultation with the wider society because governments do not have the resources to do a great deal on their own. They need to work in harmony with the private sector and with the civil society.<sup>2</sup> No doubt, there will often be differences about the main issues that policy should address. Nevertheless, it would be surprising if there was not some agreement on attempting to achieve the following: (1) to improve living conditions, particularly for the poor, women and children; (2) to increase employment and incomes through housing investment; and (3) to raise the quality of the urban environment.

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<sup>2</sup> I am using the term civil society in a very loose sense in this paper to denote the huge contribution that non-remunerated and non-profit making activity can make to housing questions. Such non-profit making activity includes self-help construction, community participation and NGO's.

Governments should not concentrate on particular elements of the housing problem to the neglect of the rest of the sector because such neglect may backfire. For example, there is little point developing a policy to remove low-income housing shortages if the middle class cannot find adequate homes (World Bank, 1993). Under such circumstances, government action will simply lead to down raiding. As such, governments should try to ensure that the middle class has access to a decent housing-finance system and that legislation does not discourage investment in rental accommodation. The recent emphasis of the multilateral lending agencies on policy reform is basically sensible.

### ***The Role of the State in the Housing Sector***

There has long been a major ideological debate about the appropriate role of the state in social and economic policy. The differences between the ECLA school of import substitution and those advocating export orientation were one reflection of that debate as was the discussion about the appropriate lessons to be drawn from the East Asian development model. From the 1950's to the middle 1970's, market failure was seen as the principal cause of underdevelopment in Latin America. During the 1980's, the blame shifted to government failure. Only, since the early 1990's, has the debate become a little more balanced. Today, most authorities accept that there is an appropriate role for both the market and the state and the issue today is about the balance between the two. Inter-American Development Bank (1999a: paragraph V) indicates that "the 'Washington Consensus' of private markets and minimalist states will not be sufficient to deliver the kind of broad-based growth the region needs."

Debates about housing and urban policy have tended to follow similar lines, albeit with some differences in chronology brought about by disciplinary blinkers and the segmentation of knowledge. Too many housing experts, primarily architects, engineers and planners, have been unaware of wider debates in the social sciences and few social scientists have shown much interest in housing. When they have come into contact mutual distrust or simple disbelief has often been the outcome! But, what has been happening in the wider developmental field has found strong parallels in the housing arena. In the industrialised countries during the post-war years, and in Britain even earlier, housing policy was dominated by a belief that the principal cause of shelter problems was market failure. Millions lived in poor quality housing because it was unprofitable for the market to provide them with adequate accommodation. The origins of this form of thinking go far back, certainly as far back as Marx and Engels (Engels, 1892). Governments in these countries, and particularly those in Western and Northern Europe, responded to this problem of market failure in a fairly consistent way. They set up public agencies to build houses. In Britain public construction was a major component in the housing supply and by 1979 accounted for approximately 30 percent of the housing stock (Daunton, 1987). In Glasgow, public housing accounted for half of the housing stock in the 1970's. Public housing estates were the architectural parallel to Keynesian economic thinking and where the shelter problem was greatest, the state intervened most to resolve that problem. When Thatcher's revolution hit the British public sector, half of the public housing stock was sold to the occupants. More than a decade later, the private sector plays the major role in housing Britain's poor. Times change, and opinions with them.

Latin American countries followed a not dissimilar route. In the interwar years, many public agencies began to build houses for the poor or at least for the more powerful unionised groups among them (the military, police, dockers, and power workers). The Colombian government established ICT in 1939, Venezuela set up the Banco Obrero in 1928 and in Mexico the Dirección de Pensiones Civiles began building homes for its affiliates from 1926. By the 1950's, few Latin American countries lacked at least one public housing agency and many had a number of specialised housing institutes. Such agencies were particularly important during the period of Alliance for Progress, when institutions like the Inter-American Development Bank poured money into the region, a substantial chunk of it for housing. Major housing estates such as Ciudad Kennedy in Bogotá and Isabelica in Valencia (Venezuela) were constructed during that time. Most Latin American cities bear the strong mark of government building programmes; public housing constitutes around 15 percent of the housing stock in major cities, such as Bogotá, Caracas, Mexico City and Santiago, and even larger proportions in new 'planned' cities such as Brasília and Ciudad Guayana.

In developed countries, most public housing was leased to the beneficiaries and was highly subsidised. No doubt this tenure choice reflected the belief that public housing should be a temporary solution. But it was also consistent with the dominant form of tenure of the time; the vast majority of poor and even middle-income families in the 1930's and 1940's were tenants and were to remain so for many years. Unfortunately, in operating rental housing many governments soon found that they were ineffective landlords. Rents were initially set very low and failed to rise in line with other prices. Maintenance of housing estates was poor and many rapidly turned into new kinds of slum. In Latin America, the experience was probably worse. In Mexico and Venezuela, most tenants did not even pay their rents. Since governments were reluctant or unable to evict non-paying tenants, public housing agencies ran into severe financial problems. The history of governments acting as social landlords in Latin America is not a happy one (UNCHS, 1989; Gilbert and Varley, 1991).

In the light of this problem, most Latin American governments decided to sell the existing rental housing stock to the inhabitants and in future to build public housing for sale. As public housing was still ostensibly aimed at the poor, the homes were highly subsidised. Unfortunately, this approach also ran into a number of problems.

First, because the units were heavily subsidised, poor governments could afford to build only small numbers of housing units. As a result, the numbers of families housed represented only a small part of those with shelter problems. When governments tried to reduce the cost of public housing both to increase the supply and to make it more affordable to the poor, the quality of construction suffered. Many public housing agencies were accused of building official slums. Second, because of the imbalance between supply and demand, long queues developed for the public housing units. Allocation systems were developed which were usually quickly bypassed or corrupted. Political clientelism soon infiltrated the distribution mechanisms. A few governments tried to find fairer ways of allocating the housing and, either in despair or in wildly populist manner, ICT in Colombia resorted briefly to a lottery system in the late 1980s. Whatever the system employed too few really poor people obtained subsidised public housing and too much housing went to households that were not among the poorest (Klak, 1992a; Mayo, 1999). Third, because public housing was constructed directly by government companies or by private companies under contract, too little housing was

produced efficiently, in sufficient quantity or at the right quality. As in most forms of public works contract, corruption was rife.

Mayo (1999: 41) criticises public housing projects in the 1960's because they "were small in scale, largely unaffordable by the poor, poorly targeted, and largely inefficient. Moreover they followed the typical paradigm of government housing programs at the time – relying on government to design, produce, and allocate the housing 'solutions' which contributed little to addressing the needs either of the poor or of the broader economy." By the 1980's, paralleling broader economic thinking about government failure, the whole concept of public housing agencies in Latin America had come into disrepute. In 1993, the World Bank (1993: 90) was explicitly recommending that: "privatization of housing production should go hand in hand with the overall privatization of public sector enterprises" (World Bank, 1993: 62). At the same time, USAID was criticising "centralised bureaucracies" and praising the virtues of the market (Kimm, 1993: 49).

The new paradigm that was intended to replace public housing construction had its origins in Chile and was a direct outcome of the introduction of Chicago school economics into public administration in that country (Valdés, 1995). The Pinochet government's approach was diametrically opposed to the 'socialist' policies of his predecessors, which had attempted to build public housing in massive quantities through state companies.<sup>3</sup> Despite its neoliberal economic agenda, the Pinochet government was prepared to continue the Chilean tradition of subsidising housing for the poor. However, the new system would be market led and would be embedded in much more competitive economic and financial systems (Arellano, 1982).

On the supply side, public housing would no longer be contracted by the state but would be built by the private sector responding to market signals. Instead of builders producing what the public sector asked for, they would have to compete to produce what consumers wanted. Private enterprise would produce cheaper units than under the public contracting system and provide a choice of housing for the poor.

On the demand side, subsidies would be given to poor families who would use the subsidy to buy housing on the market. The allocation system devised to allocate the subsidies would guarantee that the recipients were both poor and prepared to help themselves. The test of the latter was their preparedness to accumulate savings over a period of time; the longer their savings record and the higher their savings, the more likely they were to get a subsidy. The public housing ministry would issue guidelines and applications forms that would explain how people would become eligible for a subsidy. Because the rules for allocating subsidies would be manifestly open and transparent, corruption and political favoritism would be impossible.

From 1977, with numerous modifications to its structure, the new demand-side subsidy mechanism was consolidated into Chilean practice. It was not an immediate success and some years passed before it began to function properly; ironically, its best results were achieved under the democratic governments of the 1990's. The *Concertación* governments began to boast that Chile was now the only Latin American country that was managing to cut its housing deficit.

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<sup>3</sup> On the Allende experience see Kuznetsoff, 1990. Given the political, economic and social conflicts of the time, the socialist experiment was not surprisingly less than successful.

Gradually, the influence of the Chilean housing subsidy model spread to other Latin American countries. Costa Rica, Colombia, Ecuador, Panama all adopted subsidy models strongly influenced by Chilean practice (Held, 2000; Pérez-Iñigo González, 1999) and there was considerable interest elsewhere in Guatemala, Paraguay, Uruguay and Venezuela. Institutions like the World Bank, the Inter-American Development Bank and particularly USAID were influential in different ways in diffusing the Chilean ‘housing model’. By 1993, a Chilean-type model had become the acknowledged ‘best practice’. In principle, the model embraced three elements that were highly approved in the new development environment: explicit targeting at the poor, transparency and private market provision (World Bank, 1993: 126).<sup>4</sup>

The Chilean model also helped fill another part of the World Bank’s new housing tool kit, the need for an overall change in the organization of housing finance and administration. Without the right economic and housing environment, any effort to provide the poor with social housing would fail. As the World Bank (1993: 53) puts it: “Projects that have been unable to deal with the overall regulatory, institutional, and economic environment have had a small or negligible impact on overall housing conditions.” Future Bank lending should embrace an “enabling approach to housing, in which the primary policy goal is to create a ‘well-functioning housing sector’ that serves the needs of all key stakeholder groups” (Mayo, 1999: 39).

The World Bank’s (1993) Housing Sector Paper is the base from which most thinking about housing now takes place. Its influence is clear in the Inter-American Development Bank’s (1995 and 1999b) own operational guidelines for housing and in the Bank’s commissioning of the main author of the World Bank’s paper to write a technical report on subsidies in housing in 1999. The key guidelines for housing policy as recommended from Washington are intended “to redirect developing-country governments from engaging in building, marketing, financing, and maintenance of housing units toward facilitating expansion of the private sector’s role in such activities” (World Bank, 1993: 62). In order to facilitate private sector engagement, governments need to work on “property rights development, mortgage finance, targeted subsidies, infrastructure for urban land development, regulatory reform, organization of the building industry, and institutional development. Figure 2 provides an outline of what the policy encourages and what it discourages.

Around the globe few governments have argued against this approach for three principal reasons. First, it is accepted that the tradition of public housing provision was highly flawed (although it should be recognised that not every housing experience was a disaster, for example, British inter-war council housing and the Ciudad Kennedy project in Bogotá were not unsuccessful programmes) (Ward, 1985). Second, thinking among government economists is consistent in recommending that greater reliance be placed on market forces, that there is a need to raising productivity and that in a globalising world, the key to success is to become more competitive. If greater efficiency through the market is the goal across the board, it is clearly not sensible to continue funding inefficient public housing agencies or even to permit specialised forms of housing finance. Third, under the new rules of global competition most governments believe that

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<sup>4</sup> Chile never managed to implement the whole policy and although the World Bank liked the principles on which the policy was based it was distinctly less enthusiastic about the experiment in practice (Persaud, 1992; Renaud, 1988). USAID have always seemed to be much happier about the model (Kimm, 1993).

they should keep taxes low and limit government expenditure. Under such a strategy, there is little or no room for public construction or housing finance.

Of course, there are already signs of a shift in this paradigm. Current economic performance in Latin America certainly casts doubt on the efficacy of the market-led model. Recently, the model does not seem to have created many success stories; indeed the economic growth record of the 1990's while better than that of the 1980's is distinctly less impressive than that of the 1950's, 1960's or 1970's (Table 11).

**Table 11: ECONOMIC GROWTH BY DECADE IN SELECTED LATIN AMERICAN COUNTRIES SINCE 1950 (ANNUAL GROWTH IN GDP)**

Country	1950-59	1960-69	1970-79	1980-89	1990-98
Argentina	2.4	4.4	3.0	-0.6	5.9
Brazil	6.5	6.2	8.6	2.9	2.5
Chile	3.8	4.5	2.0	3.2	7.7
Colombia	4.7	5.0	5.7	3.7	3.9
Guatemala	4.0	5.2	5.9	0.9	4.0
Jamaica	n.a.	n.a.	-1.1	1.6	0.9
Mexico	5.9	7.1	6.5	2.1	3.1
Peru	4.9	5.6	4.0	-0.2	4.9
Venezuela	8.3	5.4	3.2	-0.8	2.9
Latin America	4.9	5.7	5.6	1.7	3.1

Source: UNECLAC (1998) and Inter-American Development Bank (1999a).

In addition, the new global rules of the game seem to have undermined the long-established developmental assumption that economic growth would automatically improve the distribution of income (Kuznets, 1955, 1966; Jha, 1996; Rostow, 1960). Although there is no doubt that economic growth is a requirement for reducing poverty, the experience of the 1980's and 1990's suggests that across the globe, inequality is increasing (Iglesias, 1992; Londoño and Szekely, 1997; UNECLAC, 1996; Mittelman, 1994). Indeed, inequality seems to have increased in Latin America both during the debt crisis, when per capita income was falling, and more recently under more positive circumstances. It seems therefore that the nature of the development model has changed. As such, a case is increasingly being made that a step should be taken backwards towards more 'hands-on' forms of government intervention (Giddens, 2001; Giddens and Hutton, 2000; Ocampo and Sarmiento, 1987).

## Annex 1

### The Do's and Don'ts in Enabling Housing Markets to Work

<b>INSTRUMENTS</b>	<b>DO</b>	<b>DON'T</b>
Developing Property Rights	<ul style="list-style-type: none"> <li>✓ Regularize land tenure</li> <li>✓ Expand land registration</li> <li>✓ Privatize public housing stock</li> <li>✓ Establish property taxation</li> </ul>	<ul style="list-style-type: none"> <li>✗ Engage in mass evictions</li> <li>✗ Institute costly titling systems</li> <li>✗ Nationalize land</li> <li>✗ Discourage land transactions</li> </ul>
Developing Mortgage Finance	<ul style="list-style-type: none"> <li>✓ Allow private sector to lend</li> <li>✓ Lend at positive/market rates</li> <li>✓ Enforce foreclosure laws</li> <li>✓ Ensure prudential regulation</li> <li>✓ Introduce better loan instruments</li> </ul>	<ul style="list-style-type: none"> <li>✗ Allow interest-rate subsidies</li> <li>✗ Discriminate against rental housing investment</li> <li>✗ Neglect resource mobilization</li> <li>✗ Allow high default rates</li> </ul>
Rationalizing Subsidies	<ul style="list-style-type: none"> <li>✓ Make subsidies transparent</li> <li>✓ Target subsidies to the poor</li> <li>✓ Subsidize people, not houses</li> <li>✓ Subject subsidies to review</li> </ul>	<ul style="list-style-type: none"> <li>✗ Build subsidized public housing</li> <li>✗ Allow for hidden subsidies</li> <li>✗ Let subsidies distort prices</li> <li>✗ Use rent control as a subsidy</li> </ul>
Providing Infrastructure	<ul style="list-style-type: none"> <li>✓ Coordinate land development</li> <li>✓ Emphasize cost recovery</li> <li>✓ Base provision on demand</li> <li>✓ Improve slum infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>✗ Allow bias against infrastructure investments</li> <li>✗ Use environmental concerns as reason for slum clearance</li> </ul>
Regulating Land & Housing Development	<ul style="list-style-type: none"> <li>✓ Reduce regulatory complexity</li> <li>✓ Assess costs of regulation</li> <li>✓ Remove price distortions</li> <li>✓ Remove artificial shortages</li> </ul>	<ul style="list-style-type: none"> <li>✗ Impose unaffordable standards</li> <li>✗ Maintain unenforceable rules</li> <li>✗ Design project without link to regulatory/institutional reform</li> </ul>
Organizing the Building Industry	<ul style="list-style-type: none"> <li>✓ Eliminate monopoly practices</li> <li>✓ Encourage small-firm entry</li> <li>✓ Reduce import controls</li> <li>✓ Support building research</li> </ul>	<ul style="list-style-type: none"> <li>✗ Allow long permit delays</li> <li>✗ Institute regulations inhibiting competition</li> <li>✗ Continue public monopolies</li> </ul>
Developing a Policy & Institutional Framework	<ul style="list-style-type: none"> <li>✓ Balance public/private sector roles</li> <li>✓ Create a forum for managing the housing sector as a whole</li> <li>✓ Develop enabling strategies</li> <li>✓ Monitor sector performance</li> </ul>	<ul style="list-style-type: none"> <li>✗ Engage in direct public housing delivery</li> <li>✗ Neglect local government role</li> <li>✗ Retain financially unsustainable institutions</li> </ul>

This kind of reaction is presumably what is now moulding the ‘post-Washington consensus’. Is this not the reason why more money is being poured into poverty alleviation and in establishing social safety nets? And, while approaches such as those documented in Inter-American Development Bank (1998) and the latest World Development Report (World Bank, 2000) are certainly not incompatible with free-market models, they do pose some interesting dilemmas about government expenditure and the holy ordinance of fiscal balance. They certainly seem to question the neo-liberal orthodoxy of removing specialised funding windows and reducing the scope of public involvement. Don’t the social emergency and investment funds and the new programmes to help the poor, in health, schooling, etc. represent just such a reaction (Inter-American Development Bank, 2000: 83; Jorgensen, Grosh and Schacter, 1992; and World Bank, 1999; 2000).

Has this process not already begun to occur also in the housing field? Have not special housing programmes and special public housing agencies not begun to re-emerge, at least at a municipal level, in numerous slum-upgrading programmes? Is there not even a sign that the public sector is now being permitted to intervene in the land market? Do not the Inter-American Development Bank’s current operational guidelines for housing already allow such a shift? “Governments can set up special programs for the provision of low-cost serviced lots to facilitate access to serviced land by low-income households when it is demonstrated that the private sector cannot be persuaded to supply this market” (Inter-American Development Bank, 1999b: 8).

Such a move is hardly revolutionary. Today’s consensus, that the public sector should limit itself to a facilitating role, is not about to be overthrown. Given the limits of government resources and the extent of the shelter problem, there is no doubting that responsibility for solving the housing problems of Latin America rests primarily with the private sector and civil society. In any case, no one has ever had any doubt that government intervention of some form or another is essential. So-called ‘merit goods’ and ‘public goods’ require the intervention of governments if they are to be provided at all. Land markets do not work satisfactorily without some kind of government intervention. The new reaction is simply a belated recalling that some form of government intervention in urban matters is essential. The issue is not whether, but how? As Dowall and Clarke (1991: 1) put it, the trick is “to find the proper balance, or division of labor, between the public and private sector regarding urban land and management. Striking this balance will not be easy.”

Also relevant to discussion about the appropriate role of the public sector is a parallel debate that has been under way for many years about the appropriate role of technology, of top-down approaches to development and of ‘indigenous’, people-based knowledge. This debate has revolved around discussions of modernism and its tendency to monopolise knowledge and denigrate local experience. Development thinking has been premised on similar assumptions about the superiority of western practices and technology. As Escobar (1995: 52) puts it: “Development fostered a way of conceiving of social life as a technical problem, as a matter of rational decision and management to be entrusted to that group of people - the development professionals - whose specialized knowledge allegedly qualified them for the task”.

In the housing field modernist and developmentalist thinking has long been criticised by architects and planners like Abrams (1964), Turner (1967; 1968a; 1968b) and Colin Ward

(1976). Their criticisms of public housing estates and the way that modern skyscrapers alienate families with young children or rancho dwellers running businesses are based on long-established lines of anarchist thinking. Most ordinary people, they suggest, understand their own needs much better than technicians ever can. Whether the housing in question is in Britain or Peru, people should be given a much greater say in determining how they are housed and what they need. The whole debate about intermediate technology is linked into this whole discussion (Schumacher, 1973; ISCD, 1991). Horrific experiences in Latin America like the removal of slum-dwellers from the hillsides of Caracas to the modern, clean superblocks of '*23 de enero*' added grist to their mill (Dwyer, 1975).

The housing policy issues raised in the rest of this paper cannot be understood without cognisance of these wider debates. But, limited space prevents me going further into the many issues that these debates raise.

### ***Key Issues in Helping the Poor Through Housing Policies***

The following should also be read in conjunction with Inter-American Development Bank operational practice. These are laid out in Inter-American Development Bank (1999b) and summarise policy at the bank over the period since 1995 when it re-entered the field of housing investment. The following should also be read in conjunction with the World Bank's (1993) Housing enabling paper and its recent statements about urban poverty alleviation (World Bank, 1999 and 2000).

#### **A)      *Urban Land and Services***

No form of housing development, whether in the formal or informal sector, can take place without land. No housing project can provide adequate new shelter without access to serviced land. Unfortunately, a shortage of serviced land has always been a major headache in shelter programmes in Latin America and is likely to continue to be so. There are two fundamental problems: Latin American land markets are distorted in a number of ways and the ability of the authorities and/or the market to service land almost always lags behind demand. The result of these problems is that the price of serviced land rises rapidly, makes formal housing too expensive for most poor families and encourages poorer groups to occupy cheaper, non-serviced land. Faced by large-scale demands for land, the authorities in most Latin American countries have tended to turn a blind eye to informal kinds of land occupation: land invasions or illegal land development.

In an ideal world, the authorities would direct urban development towards areas that are easy to service, establish patterns of urban development that would generate few external diseconomies (for example, urban sprawl and some forms of ribbon development) and respond to reasonable demands for infrastructure and services ahead of settlement. In practice, they do none of these things very effectively and sometimes make matters worse by trying to regulate urban development in ways that distort the land and housing market even further. Because of past market and non-market failure, the authorities are constantly in a game of trying to put right what has already occurred. Instead of anticipating where services will be needed, they are constantly trying to catch up with the spread of housing. This makes providing infrastructure and services much harder. The task facing the authorities in Latin American cities therefore is two-fold: First, they have to remedy the problems

caused by past failures and, second, they have to anticipate future demands to prevent past failings occurring again.

### i) *Illegal Land Development*

There is now broad agreement that *in situ* upgrading schemes are far superior to slum removal projects (Abrams, 1964; Skinner and Rodell, 1983; World Bank, 1993; Van der Linden, 1994). First, upgrading maintains existing social and economic networks. When families are removed from their existing neighborhoods, essential community support mechanisms or ‘social capital’ are likely to be destroyed. Move businesses and they are liable to fold (Rodríguez and Icaza, 1993: 68; Valladares, 1978; Perlman, 1976). Second, upgrading is relatively cheap and government spending undoubtedly reaches the poor. As Lee (1994: 1) puts it: “The living environments of low-income settlements can be substantially improved at relatively modest per capita cost through the provision of basic infrastructure such as piped water supply and sanitation systems as well as services such as garbage collection and primary health care. The cost constraints of making such facilities and provisions seem to have been overstated, while the willingness and ability of poorer groups to pay for improved services appears to be underestimated...”

Although most slum-upgrading programmes aim to keep families in their homes, many writers have expressed fears that the market mechanisms unleashed by this approach may have the opposite effect (Harms, 1982; Durand-Lasserve, 1997; Payne, 1989). By providing legal titles, improving infrastructure and by linking settlements to the rest of the city through better transport facilities, low-income communities may attract middle-class households. The latter will buy out the existing owners, transforming the settlement and destroying the community. In practice, the dangers may have been exaggerated. In reviewing a number of such schemes, Baken *et al.* (1991: 21) concludes that: “in most cases informal neighbourhood consolidation does not lead to displacement.” Recent figures support the idea that few owner-occupiers in Latin America’s self-help settlements ever move home (Gilbert, 1999).

If there is a genuine fear about the effects of upgrading on mobility, it relates less to the impact on owners than to that on tenants. The danger is that improvements in the quality of settlements and the subsequent charges levied on owners will lead to rents being raised. No problem is posed when tenants are able to pay the rent increases and can benefit from the improved conditions. The problems come when poor tenants are forced to move. The only clear benefit of upgrading for the poor is that owners will increase the amount of rental accommodation available in improved settlements. As Skinner *et al.* (1987: 230) put it: “Upgrading mechanisms ... have generally been found to contribute to improved quality and quantity of housing... improvements consisted to a large extent of adding rooms or otherwise increasing the amount of sheltered space at the disposal of the households, thus contributing significantly to the expansion of the housing stock.”

The possibly negative effects on tenants, however, tend to be outweighed by the generally positive effects of upgrading programmes. Certainly the Inter-American Development Bank and the World Bank have financed upgrading programmes for a number of years. Insofar as they have reservations about the approach it has nothing to do with its potential to improve people’s lives. As an Inter-American Development Bank evaluation of three of their loans puts it: “Sites-and-services and slum upgrading approaches have made important contributions to providing low-income households with affordable, practical solutions to their housing needs” (Inter-American Development Bank, 1998).

The problem has more to do with replicating these projects on a citywide and nationwide basis. The first problem is that because slum upgrading is a relatively complex operation too many governments have proved themselves to be less than adequate to the task (Werlin, 1999). While there are some notable success stories, the circumstances that have permitted these projects to be successful are not found everywhere.

A second problem with upgrading programmes has been the familiar one of cost recovery (Inter American Development Bank, Office of Evaluation and Oversight, 1998: 4). As Mayo (1999: 41) puts it: "It was concluded that after more than a decade of lending for such projects, and despite many successes 'in the small', goals of cost-recovery and replicability, two watchwords of sites and services and slum upgrading projects, had largely not been achieved. Subsidies were often on the order of two-thirds or more of resource costs in typical projects, making large-scale implementation unimaginable for most governments, and private resources were not leveraged to any significant degree." Despite this problem, both the World Bank and the Inter-American Development Bank seem to be actively continuing with upgrading programmes. Indeed, in the latter case such programmes seem now to have embraced non-physical forms of slum improvement.

### *ii) Preventing Future Forms of Illegal Development*

In most Third World cities, there is no realistic alternative to self-help or progressive housing because most poor people cannot afford the price of a finished house. This point is shown clearly by Colombian and South African experience where, even though subsidies are being offered, most families can only buy the cheapest social-interest house if they are prepared to devote an excessively high proportion of their income to the mortgage repayment (Gilbert, 1997; Tomlinson, 1998). If they cannot afford a house, then they must be given the opportunity to buy a serviced plot, with or without a 'core' house that they can improve over time.

Although it is decades since this argument was first made, there are still many reluctant to believe it. Many politicians and most people connected with the building industry argue against self-help housing. They argue strongly that such housing does not represent a decent home, the *vivienda digna* that most constitutions in Latin America decree as the right of every family. Most Latin American governments permit such housing in practice while deplored it in principle. In Chile, the housing subsidy programme was premised initially on the basis of formal sector construction for all receiving help from the state. The option of progressive housing was not introduced until 1990 and has never been popular among many in the construction sector or even in the Ministry of Housing (Poduje, 1997). The argument against self-help housing is two-fold. First, it provides accommodation that forces people to live in unacceptable living conditions for a number of years. Second, self-help housing is inefficient; unlike the formal sector there is little opportunity to take advantage of economies of scale.

Outside Chile, however, most Latin American governments are prepared to support different forms of progressive housing if only because there is no real alternative and because so much evidence now shows how successfully most families improve their shelter even under the most adverse circumstances. There is also evidence that people are prepared to accept this kind of shelter

option.<sup>5</sup> The fundamental problem remains, however, of how best to permit poor families to do this.

The obvious answer to this question is through ‘sites and services schemes’; an approach that has been accepted and financed by the development banks for several decades. Sites and services are the natural corollary to slum upgrading. They anticipate and prevent the formation of slums by providing the poor with a way to develop their housing incrementally in an ordered way. Such an approach saves on servicing costs because some services are installed before settlement. It is even acceptable to provide plots without services providing the layout of the settlements permits services to be installed cheaply after the population has begun construction (Jacobs and Savedoff, 1999: 32). Anticipating urban development by providing organised areas for settlement should also help prevent the occupation of hillsides or of low-lying land liable to flood both of which are dangerous for the settlers and expensive to service. Building advice can be given to the settlers through technical assistance and some economies of scale can be obtained through wholesale provision of building materials. In an imperfect world, the logic underlying a ‘sites and services’ approach is impeccable.

Unfortunately, relatively few such schemes have been developed in Latin America, particularly in the largest cities, and few governments have backed such an approach in a big way (Van der Linden, 1994). Ironically, given the logic of the argument, the essential problem has been that the cost of such schemes has been too high (Daniere, 1999). Costs have been high for two reasons.

First, neither governments nor the funding agencies have often been prepared to reduce minimum standards sufficiently to keep costs low. Inter American Development Bank projects have typically insisted that all beneficiaries have full legal title to their property and that a full range of infrastructure and services is provided before occupancy. The problem with this policy is that any shelter solution is immediately priced beyond what many poor families can afford. The danger of such a policy is clearly spelt out by Moavenzadeh (1987: 101-2): “Failure to recognise that the sites-and-services projects are in many ways designed for the convenience of the institutions that finance and manage them rather than the people who live in them could result in a landscape dotted with well serviced sites that are empty of residents and surrounded by shantytowns and squatters’ settlements bustling with families and small businesses.” A principal weakness of most sites-and-services projects in Latin America has been that they have offered the poor what they do not really want. They have offered “too much security” at a price the poor could not afford (Johnson, 1987). By contrast, illegal developers have offered the poor a much inferior product but one that is popular insofar as it fits their budget.

The second major problem is that there has been insufficient land available on which to establish progressive housing developments in suitable locations. Commenting on World Bank experience, Werlin (1999: 1523) blames “the problem of finding relatively unoccupied land suitable for self-help building” for the fact that the “Bank’s sites and services projects generally

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<sup>5</sup> In a survey conducted in the early 1990’s in Colombia’s five major cities, for example, 45 percent of families eligible for a government subsidy said that they were looking for a serviced lot and a further 10 percent were looking for a plot that could be serviced in the future. By contrast, only 11 percent were looking for a core house and 13 percent for a basic housing unit (Information provided by DNP and Camacol).

affected far fewer people than its slum upgrading projects.” The Bank itself accepted this explanation at a time when it had already begun to phase out this approach. “Site and service provision in principle is a replicable approach to the poor’s shelter problem. But, the difficulties public land-development institutions face in operating commercially have limited the effectiveness of such projects in most countries. Land has been difficult to acquire, and the operations have been subject to political pressures” (World Bank, 1992a).

The great challenge for governments in Latin America, therefore, is to make serviced or at least serviceable land available at prices the poor can afford.

### *iii) Public Intervention in the Land Market*

Some would argue that land markets work inefficiently the world over. “The imperfect knowledge of buyers and sellers, the ‘uniqueness’ of each site and building, the strong preference of establishments for existing sites, the unwillingness of some owners to sell despite the certainty of monetary gain, the absence of easily recoverable investment in costly and specific developments, the immobility of resources once they are committed, the possible loss on initial investment, the time-absorbing and costly process of transferring property, the length and legal rights of property interests, the influence of conservationists, the slowness of the construction industry to respond to changing demand, the monopoly power of planning authorities, property companies, mortgage institutions, sellers of property and design professions - these are some factors which prevent land from transferring smoothly to its most profitable use” (Balchin, Kieve and Bull, 1991).

Whether or not that is true of every developed country is debatable, but few would deny that land markets work particularly badly in many Latin American countries. They work badly because a large proportion of the urban area lacks legal title and the occupiers therefore have difficulty in using the property as collateral or even in selling it (De Soto, 1989). In addition, the concentrated pattern of land ownership on the periphery of many cities raises the cost of new housing and within the urban perimeter many plots are held for speculative purposes. A further problem is that the relative cost of serviced land is raised by the inadequacy of service provision; land which has been urbanised is much more expensive than if infrastructure and services were more widely available. Finally, unnecessarily complicated planning regulations and convoluted legal procedures make land transactions slow and expensive. Some of these problems are caused by market failure, others by government failure. Both need to be remedied.

Effective government intervention in the land market is desirable if it can reduce some of the problems of market failure. The case for intervention, and the problems that have afflicted attempts to intervene, are provided in a number of publications (Dowall and Clarke, 1991; OECD, 1992; Payne, 1989; McAuslan, 1985; UNCHS, 1996) and will not be repeated here. However, two particular points are worth examining briefly: the issue of land banks to make cheap land available to the poor; and the need for measures to prevent the accumulation of vacant land for speculative purposes.

**Land banks:** In a review of government intervention in land markets in developed countries, OECD (1992: 65) argues that public land banking has often been highly successful in “easing bottlenecks in the supply of land required for development and widening accessibility for land

acquisition.” Although they warn that such an approach has to be carefully managed and is “not relevant in already ‘overheated’ areas where the public purchase of land would only ratify the results of speculation” (p. 69), they have little doubt that this is a form of intervention that can be very effective.

By contrast, any reading of the literature about public land banking in Third World countries is generally dismissive of the usefulness of the concept (Dowall and Clarke, 1991; World Bank, 1993; Rodwin and Sanyal, 1989; Chatterji-Mitra, 1990; UNCHS, 1996: 253). According to Dowall and Clarke (1991: 30) “public land development rarely works... because land development is extremely complex and risky. Inspection of successful land developers reveals that they are small, highly entrepreneurial, pragmatic and staffed by highly skilled personnel willing to take risks. Most public agencies don’t have these characteristics.” One of the World Bank’s proscriptions in its housing enabling strategy (see Figure 2) is “to nationalise land” (World Bank, 1993: 46).

This form of conventional wisdom is founded on the dismal performance of public land banking in India, Indonesia, Nigeria and Pakistan where administrative incompetence and the creation of excessively large land banks distorted the supply of land and led to land prices increasing rapidly (UNCHS, 1996: 253; Dowall and Clarke, 1991). Experience was little better in Brasília where the government was given a monopoly over development land (Acioly, 1994: 245). It seems that public land banking on a large scale does not work; it is subject to “administrative delays, corruption, the use of inappropriate standards, and the risks of squatting” (Rakodi and Devas, 1993: 276-7).

Nevertheless, public land banking can play a useful role providing that the intervention is small-scale and providing that land development agencies limit themselves to “only trying to do what the private sector cannot – assemble land for redevelopment projects..., provide costly infrastructure to suburban areas..., or construct low-cost rental housing for well-targeted users (small non-profit housing cooperatives and NGO’s)” (Dowall and Clarke, 1991: 30). There is no reason why a special agency, perhaps a mixed enterprise, should not be established to handle a land bank. Only in this way can land be made available for sites-and-service schemes and other forms of low-income shelter. Establishing a small public land bank is particularly opportune when public works projects will raise the cost of land and the local authority lacks the means to recoup the valorisation brought by those works. If governments buy land before they install services, or even announce the public works project, they can acquire the increases in the value of the land that their own projects will induce. At present, society tends to pay twice over. The public pays for the public works and then pays private landowners more for the land as a result of the public works program. There are other ways of capturing the betterment value but they don’t seem to work very well.

As there is *prima facie* evidence that governments in at least one Latin American city has been able to run a small land bank effectively, this represents a high priority for policy.

**Reducing the amount of speculative land holding:** Land prices seem to be rising very quickly in Latin America and in cities like Bogotá, Rio de Janeiro and Santiago there are frequent complaints that it is impossible to find land on which to build low-cost formal housing (Allen, 1989; Fedelonjas, 1988; Trivelli, 1987; Smolka and Sabatini, 2000). Of course, there are times

when land prices fall but over the past fifty years such moments have been comparatively rare (Gilbert, 1996: 88-9). The reason for land price inflation is that “under conditions of sustained high urban growth, urban land has enjoyed a level of demand well in excess of formally sanctioned supply, guaranteeing a good rate of return on investment. The relative weakness of urban administrative structures in preparing and maintaining land ownership records, regulating land title transfers or implementing land taxation procedures, enables land investors to operate with relative impunity, thereby further increasing profit margins without a consequent increase in risk” (Payne, 1989: 45). In addition, most Latin American cities suffer from the hoarding of urban land. In São Paulo, for example, it has been estimated that up to 30 percent of the land within the urban perimeter is vacant for this reason (Kowarick and Campanario, 1986). A more recent study found that perhaps one third of the land in Buenos Aires, nearly one-quarter in Quito, and a staggering 44 percent of land in Rio de Janeiro remained vacant (Clichevsky, 1999: 2).<sup>6</sup>

Despite the fact that so much vacant land is being held for speculative purposes few Latin America cities have instituted policies to deal with the problem. Even where the authorities do manage to distinguish between vacant and developed land in their tax systems, as in Buenos Aires and Quito, owners of vacant land are protected from higher taxes “through a series of loopholes and ‘exceptions’” (Clichevsky, 1999: 2).

If land were to be made available for low-income housing development, it would be sensible to start charging substantially higher property taxes on vacant land.

#### *iv) Influencing the Pattern of Urban Development*

“Urban areas have instituted many different planning regulations.... Such regulations are usually justified on the basis of principles of physical design or on aesthetic, health, or safety grounds. ... Despite the obvious public benefits...they have a number of inadvertent consequences that may impose large costs on society and subvert their original intent” (World Bank, 1993: 81-2). In practice, of course, such regulations are rarely applied in low-income areas, a situation that Inter American Development Bank housing officers, Jacobs and Savedoff (1999: 32), regard as “fortunate” because “enforcement would result in a more distorted, less efficient, market, which would directly harm the poor.” While they accept that the “*de facto* policy of unenforced regulations is no more than a clumsy second best”, it is superior to applying the kinds of standards that are used in developed countries.

Both development banks, therefore, are arguing along the same lines as De Soto (1989) that there are too many regulations in most Latin American cities and that most people would benefit from their removal. No doubt, Turner would rally to the cause because he long ago argued the case for more ‘prescriptive’ as opposed to ‘proscriptive’ regulations; policies that tell people what they ought to do rather than what they should not do.

Certainly, governments should speed up and simplify the planning process. Too often, regulations are opaque and procedures are incomprehensible to the average citizen. Guidelines should be written in a simple and straightforward way. It should be made clear how long planning permission

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<sup>6</sup> Vacant land was defined as “currently unused land located within the urban limits and excluding parks, plazas or ecologically protected areas destined for public use.”

will take and that the time period involved should be much less than it is now.

A more efficient system of land transactions would be helpful to poor families because it would allow them to buy and sell property more easily and cheaply and help them borrow money on the basis of their property title. It is in few people's interest that land is difficult and expensive to buy or sell. Technically there is no convincing reason why land titles should not be computerised with each record containing the history of the plot, the taxes paid and unpaid, and the planning permissions granted and turned down. When computer records are completed, the task to convey land should be very simple.

But there is also a need to lower the standards applied to make them relevant to the societies in which they are being applied. There is no point pretending that *limeños* live in Geneva. "Unnecessarily high planning standards with respect to reservation of land for access and public uses and minimum plot sizes exacerbate shortages" and should be removed (Rakodi and Devas, 1993: 276-7).

However, a word of caution is in order in our hurry to create more efficient land and housing markets. Getting rid of regulations does not always solve the problems. In Chile, the authorities removed strict land-use controls on the urban periphery of Santiago in 1979 (AUCA, 1979). The intention was to create a free market in land, freeing the private sector from state controls and thereby allowing competition to lower the price of development land. Unfortunately, many consider the experience to be a failure because land prices continue to rise very rapidly (Smolka and Sabatini, 2000). One explanation of this paradox is that a few private companies had established a monopoly over the limited amount of serviced land available in the city. In the absence of sufficient infrastructure and services, companies holding land were able to raise the price of serviced plots (Trivelli, 1987).

Experience in Santiago suggests that although encouraging the land market to work more efficiently is essential, it will not by itself improve the quality of the housing stock. Unless there is an adequate expansion of services and infrastructure, the efficient market will merely produce higher prices for serviced land. Arguably, Latin American governments are presently placing too much confidence in the inherent virtues of an unfettered land market.

## B) *Strengthening the System of Housing Finance*

### i) *New Housing*

The need for a well-functioning housing finance system is not in dispute. Given the high cost of housing relative to their incomes most buyers require long-term mortgage finance in order to buy a home (Buckley, 1996; Pugh, 1994; World Bank, 1993). In countries, such as Britain and the United States, the vast majority of homeowners acquire their home with the help of a mortgage (Curtice, 1991). And, if some would question the effectiveness of the housing finance systems that have emerged in those countries, few would question the value of having a decent mortgage system (Boleat, 1985; World Bank, 1993). Unfortunately, few Latin American countries have adequate mortgage systems so the majority of households have found it difficult to obtain a formal sector house (Persaud, 1992).

Even when formal housing finance systems develop they are not always well designed, they often favour certain groups in society and they are frequently less than stable. To help resolve some of these reasons, the World Bank has been active over the last decade or more in persuading Third World governments to modify their finance systems. Indeed, this has been at the core of their urban and housing strategy. As Buckley (1996: 176) puts it: "Since the early 1980s all Bank-supported urban projects, not just the shelter projects, have moved towards greater reliance on finance."

Two main arguments have encouraged this approach. First, encouraging more money to flow into the housing sector is likely to encourage the amount of construction. Second, a healthy housing finance system is likely to improve the efficiency of the financial system as a whole. Encouraging the development of private mortgage finance will reduce the need for governments to intervene; an important goal given the aims of structural adjustment to reduce government expenditure and the poor record of so many state mortgage systems. As Buckley (1996: 160) puts it: "...If mortgage interventions are well designed, a functioning, competitive housing finance system can also reduce the need for government subsidies to all but the very lowest income groups." The reform of housing finance systems has formed an integral part of the structural adjustment packages offered to, and sometimes imposed upon, Third World governments.

Encouragement for the development of mortgage finance has also been motivated by the wish to create larger numbers of owner-occupiers. Government after government has sought to gain popularity and political quiescence by arranging for more families to have a stake in the system. Whether or not that is an effective electoral tool, it is widely believed to be so by most of the world's politicians (McLaverty and Yip, 1993; Rossi and Weber, 1996; Saunders, 1990; Krueckeberg, 1999).

### *ii) Used Housing*

As cities get older, new housing tends to form a smaller and smaller share of the total stock. This is increasingly the case in Latin America especially now that the pace of urban growth has slowed so notably (Gilbert, 1998; UNECLAC/UNCHS, 2000). In the region's largest cities, the relative importance of housing more than five years old is increasing. As Smolka (1994: 179) points out for Rio de Janeiro: "Even in a so-called 'boom' year no more than 5 percent of new housing will be added to the existing stock. As a result about two-thirds of transactions in the Rio housing market refer to second-hand units." In cities like Rio de Janeiro, finance is not only necessary for the acquisition of new housing but also to permit the buying and selling of existing housing.

In most developed countries, it is as easy to obtain finance to buy used housing as to buy new. This is not the case in most Latin America countries where little or no finance for this kind of housing has been available until relatively recently (Gilbert, 1998). In Brazil, for example, the massive National Housing Finance System (SFH) was established "to finance both the production and consumption of **new** housing: the financing of **second-hand** dwellings was irrelevant" (Valença, 1992: 43). Many finance systems favour new homebuyers because it is in the interest of the construction sector to direct resources to this segment of the market. New homes mean

business for the building industry whereas used homes only provide indirect opportunities for work.

A shortage of lending for the buying of used housing makes it extremely difficult for existing owners to sell property. This reduces residential mobility, possibly leading to overcrowding and making it difficult for households to move home when wage earners change their jobs (Gilbert, 1999). In addition, the lack of mortgage finance makes it difficult for owners to make capital gains from their property, seemingly one of the principal goals behind home ownership in most developed countries (Saunders, 1990).

There is no good reason why the buying and selling of older property in the formal housing stock should not be financed in the same way, and at the same cost, as that of new property. The only additional complication in Third World cities is to provide lending facilities to cover the special circumstances relating to consolidated self-help housing. In this respect, the state should guarantee that reliable housing surveys are obtainable cheaply by purchasers and borrowers alike. Interest rates charged on the loans should be similar to those on loans for new housing and the lending periods should also be similar. The paperwork involved in selling a consolidated self-help house should be simplified. Governments should also regularise self-help settlements, removing “undeveloped systems of cadastral registration, ill-defined property rights, and cumbersome foreclosure procedures” (Mayo, 1999: 37). Mechanisms need also be designed for vetting the eligibility of informal sector purchasers. Perhaps some kind of government insurance scheme should be established to cover participants against cases of misconduct.

### *iii) Housing Finance for the Poor*

One of the principal arguments why governments have been providing the poor with title deeds is to encourage more lending to the poor. Hernando de Soto's Institute of Liberty and Development has been very persuasive in arguing that a massive titling program would not only enhance the value of the informal housing stock, but would also provide collateral for bank loans (De Soto, 1989). The World Bank (1993: 117) echoes this sentiment when it states that “the registration of property rights in squatter settlements is... important in making land and house transactions possible and giving occupants legal protection. It encourages the buying and selling of housing and makes it possible for households to move to a dwelling that suits their needs and their budgets.” Such an approach has also found favour among those attempting to reduce gender bias. As Almeyda (1996: 41) has argued: Legalisation “would also help overcome discrimination against women” who “often lack a registered property title”. With this kind of argument behind it, and with lots of poor families anxious to get their hands on title deeds, many Latin America governments have been active in distributing property titles.

Despite constantly arguing that the poor need access to housing finance, this has rarely happened. Formal sector financial mechanisms have been very ineffective in reaching poor families. Numerous efforts by Third World governments have often proved embarrassing because most funds have ended up in the hands of middle-income groups or favoured labour groups (Bhattacharya, 1990; Daniere, 1999; Laun, 1976; Persaud, 1992; Rakodi, 1995a; Struyk, 1989; Datta and Jones, 1998). Nor, has the commercial banking system done any better

(Ozuekren, 1998; Siembada and López, 1998; Bond and Tait, 1997; Goodlad, 1996; Tomlinson, 1998; Rojas, 1995; World Bank, 1993).

Formal financial systems face various difficulties in reaching the poor. First, “regulations governing mortgage lending are usually biased toward completed owner-occupied housing, making it unattractive or impossible for financial institutions to lend for rental housing or condominium housing, or for house improvements or unfinished core houses on serviced sites” (World Bank, 1993: 118). Second, “mortgage lenders have difficulty verifying self-employed income and developing an accurate estimate of self-employed income from analysis of tax returns” (Ferguson, 1999: 187). Third, despite evidence to the contrary, many lenders do not believe that poor people will repay their loans (UNCHS, 1996: 370). Finally, private lenders are put off by the prospect of low profits: “The small loans required by these households are much less profitable to commercial financial institutions than larger loans” (Ferguson, 1999: 187).

More surprisingly, the recent surge in micro-lending programmes has also failed to make much impression on the poor’s need for housing finance. As Almeyda (1996: 128) puts it: “The current supply of NGO micro-enterprise credit is characterized by small loans primarily for working capital.” Micro-finance has tended to follow the practice of the Grameen Bank and built up the lending portfolio on the basis of frequent small loans; an approach that is not possible in the case of housing which requires much larger sums of money. Ferguson (1999) claims that few NGOs or micro-lenders have ever provided money for housing extension and improvement, although the same author is now rather more optimistic and lists a number of embryonic efforts in different parts of the Third World (Ferguson and Haider, 2000).

Of course, the wish to build up micro-lending institutions rests on the assumptions that the poor are desperate for housing credit and that a principal task for governments and banks is to devise ways of reaching them. While there is every reason to believe that many among the poor would like access to formal sources of credit, there are numerous exceptions. Certainly, evidence from the beneficiaries of housing subsidies in South Africa suggests that many poor families do not want to borrow: “beneficiaries who said they did not want a mortgage loan outnumber those who did by three to one” (Tomlinson, 1999a: 1357). For very poor families, repaying a loan is a burden that may endanger the household’s whole financial viability. As Rogaly and Johnson (1997: 119) put it lending: “can harm as well as enable poor people. Financial relationships, especially those of debt, are one way in which the powerlessness of groups of poor people is entrenched.” Many poor families are less than enthusiastic about borrowing from formal lending agencies or indeed from anyone else. They trust banks and mortgage companies as little as those institutions trust the poor. Given their unstable economic circumstances, many families worry about getting into debt; they are prepared to take out loans only as an action of last resort.

Given the current scarcity of formal or even micro-finance how do low-income families find the funds when they need to buy property, to extend their home or to use it to generate income? Although we do not have a great deal of information, the current consensus seems to be that most finance construction from their personal savings and obtain additional funds from informal sources (Boleat, 1985; Renaud, 1987; World Bank, 1993; Macaloo, 1994; Napier, 1999; Ozuekren, 1998; UNCHS, 1996). According to Ferguson (1999: 189) such informal sources “include individual and group savings, windfalls, fabrication of their own building materials,

sweat equity, small loans from neighbourhood money lenders, barter arrangements and communal self-help, and remittances from family living abroad. These funding sources share a common problem. They dribble in unevenly and, often, slowly because they remain unconnected to formal institutions and markets. The overall result is that much of the built environment in cities improves unevenly and slowly.”

The self-help settlements of Latin America will hardly disappear if more housing credit does not reach them but the quality of life will improve if it does. Certainly, if governments want to take housing finance seriously, facilitating lending to self-help builders is an important matter. Capital housing subsidies and formal housing construction alone are not enough. More lending is necessary if the process of self-help construction is to be encouraged and if more rental accommodation is to be generated. More credit is also essential if one of the major attractions of home-ownership is to be satisfied; without credit successful self-help consolidators will be unable to sell their homes and therefore to make capital gains. Would it not be ironic if, having struggled for years to build self-help homes, these self-help consolidators are robbed of the opportunity to cash in their principal capital asset and even to move house?

### C) *The Role of Subsidies*

As the Inter-American Development Bank’s Operational Guidelines for Housing (1999b: 10) puts it: “Subsidies are a controversial issue. ... Project teams should work on the premise that subsidies are a policy tool whose use must be considered only after other means of attaining the objectives have been explored.” Even when subsidies are acceptable, they “should not be considered as permanent.” “Subsidies should be seen ... as part of an enabling approach to housing, in which the primary policy goal is to create a ‘well-functioning housing sector’ that serves the needs of all key stakeholder groups.”

Despite these warnings, the Bank’s practice since 1993 has been to incorporate a subsidy element into most of its housing loans. Like subsidies for health or education, housing subsidies can be justified “on the basis of their status as merit or public goods, or because of market or ‘non-market’ failures, or because of their capacity to increase the ability to generate income and wealth. This is especially the case regarding ‘public features’ of housing such as basic infrastructure services and property rights associated with secure tenure and transferable rights. Improving basic services and the status of property rights improves the flow of current ‘housing services’, enhances the future flow of those services, increases property values and hence household wealth, and generates actual or potential income” (Mayo, 1999: 39).

#### i) *Who should receive subsidies?*

A key issue with respect to subsidies is to determine who should receive them. Housing beneficiaries are frequently selected as groups on political grounds. Rent controls are maintained because grateful tenants are far more numerous than angry landlords who pay the direct cost of the subsidy. Typically, however, it is homeowners who gain most from subsidies. In Britain, the annual cost of mortgage tax relief during the late 1980s reached US\$12 billion, the equivalent to some 3.5 percent of total public expenditure. By contrast, the annual cost of providing housing benefit payments to six million poor households in 1990/91 was estimated at only US\$7.2 billion

(Bramley, 1993). Richer homebuyers were obtaining more help than poor tenant households. In the United States, the pattern was similar (Megbolugbe and Linneman, 1993: 673). Not only is this form of tax relief expensive, U.S. federal government income tax relief on mortgage interest in 1989 amounted to somewhere between US\$50 billion and US\$109 billion, it is also counterproductive because such subsidies are partially capitalised in higher prices (Bramley, 1993: 26). There is now general agreement among economists that income-tax relief on mortgages should be phased out. Even if most politicians have difficulty reducing subsidies from homebuyers, during the 1990's the British government has been gradually removing this tax benefit.

In Latin America most subsidies have typically gone to homebuyers and, beyond the effects of rent control, tenants have gained nothing. This same tendency has been continued in the new demand-led subsidy programmes because Latin American governments have strongly favoured the interests of homeowners over those of tenants. In most parts of the developed world, subsidies are much more likely to go to tenants (Conway *et al.*, 1996: 5).

### *ii) Directing Subsidies to the Poor*

Current policy in Latin America is to direct housing subsidies to the poor. In doing so, governments are making a critical assumption; that subsidies for housing are preferable than subsidies for other purposes. Some would argue that the best way to help the poor is to supplement their income rather than providing goods in lieu of income. In South Africa, many people are beginning to argue that five years of offering housing subsidies to the poor merely proves that providing formal homes for people without jobs is counter-productive (BESG, 2000; Thurman, 1999; Tomlinson, 1999b). Certainly, such an argument is likely to win support from both free marketers and believers in public intervention insofar as income supplements directly increase the rights of individual families to choose what is best for them.

Nevertheless, housing subsidies continue to be offered to the poor and pose the question of how best to allocate subsidies among those in need of housing assistance? In establishing their demand-based subsidy programme, the Chileans targeted subsidies at poor families. Families could only apply for a housing subsidy if they could demonstrate that they were poor and could demonstrate that need during a home visit. The Chilean government established a completely new system for calculating the extent of family poverty (Castañeda, 1992). Once they had established their eligibility, families were ranked in a system which awarded points based on the number of people in the family, the time that they had accumulated savings in a designated account and the quantity of those savings (Rugiero Pérez, 1998). The award of new subsidies was announced every few months. The pointing system has changed through time and varies according to the type of subsidy but the common elements are transparency in the allocation process and the desire on the part of the authorities to encourage families to demonstrate some commitment to contributing to their own housing need. The Colombians adopted a similar kind of system when they introduced demand-based housing subsidies in 1991. Subsidies were given only to non-owners who were earning less than four minimum salaries. Families were only eligible if they had a savings account. The points system has changed several times. Although the basis of calculation is quite sophisticated, it has nonetheless run into a number of problems.

Both Chile and Colombia have used prior savings as one component in the classification system. In Chile, qualification through a savings record has long been one of the fundamental planks of the housing subsidy system. It is argued that the savings requirement has increased the sense of responsibility among Chilean families, raised the savings rate and legitimately controlled people's expectations of when they might obtain government help (Etchegaray, 1992; Persaud, 1992). A prior savings requirement also has the advantage of providing potential lenders with a guide as to whether or not the family is credit-worthy. Encouraging regular savings in order to qualify for housing credit and/or subsidies seems now to be common practice among both NGO's and formal institutions (Datta and Jones (eds.), 1998; Patel and Burra, 1994; Siembada and López, 1997; Smith, Romanovsky, and Mpetsheni, 1995: 10; Vejarano-Alvarado, 1997: 25). The weakness of a prior savings requirement, of course, is that it is likely to exclude those families who are most in need, those who are too poor to save. This is why the South African government did not embrace a savings element in its housing subsidy programme, despite considerable pressure from the World Bank and USAID.<sup>7</sup> In Chile, the problem of the very poor has been partially mitigated by awarding points for the time over which families have been saving as well as for the actual amount accumulated.

Despite the careful design of the allocation systems and the use of prior savings requirements, it has not proved easy to identify the poor or to exclude the better off from obtaining subsidies. During the first few years of the subsidy programme in Chile, many subsidies went to middle-income families (Ducci, 1997; Rojas and Green, 1995). In Colombia, the subsidy programme faced a similar problem during its first three years. Although the very poor obtained a substantial proportion of the subsidies awarded, many were unable to use them. Those who managed to use their subsidies had much higher incomes than those who did not. As Giraldo (1994: 48) concluded in March 1993: "The present distribution of beneficiaries is the inverse of those in need: the largest and poorest section of the population participates least; the less numerous and the less poor participate more."

### *iii) Subsidies for Demand or Supply?*

Current practice in most of Latin America is moving towards the Chilean-type approach, to give subsidies for demand rather than supply. Mayo (1999: 40) provides the justification for this approach: "Subsidy programs that provide housing directly to beneficiaries as a result of either direct government construction or government-contracted construction are extremely inefficient – converting only half or less of resources expended into benefits to end-users. Thus so-called supply-side programs are usually best avoided as part of an overall housing strategy. The alternative is demand-side subsidies such as the one-time capital grants provided by governments in Chile, Costa Rica, Paraguay and Uruguay or rent/housing allowances such as those provided in many industrialized countries. Such subsidies are generally far more efficient and are more equitably distributed than supply-side subsidies."

The other advantage of up-front capital subsidies for homebuyers is that the government knows what it is liable to have to pay out in subsidies during the coming year. Many other forms of subsidy, particularly those that subsidise the interest rate, suffer from the weakness that the amount of subsidy varies from year to year. It is more difficult to calculate what is being paid out and is

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<sup>7</sup> A view elicited from several interviews in March/April 2001 with those involved in constructing South Africa's housing policy.

much less obvious to the beneficiary. Governments are naturally averse to giving subsidies to families when it is less than clear to the beneficiaries what they are receiving.

*iv) How Big Should the Subsidy be?*

“Deciding the size of subsidies is a complex problem for which no standard solution exists. Approaches that set subsidies on the basis of making minimum housing ‘affordable’ do not yield the best results because they usually lead to large subsidies that are unaffordable for most governments” (Inter-American Development Bank, 1999b: 10). And yet without large subsidies, governments are forced to provide subsidies that fail to provide the ‘decent homes’ that the politicians have promised. The South African government is beginning to pay the electoral cost as voters recognise how little the actual subsidy actually buys in the market place (Tomlinson, 1998; 1999a). Any shortfall between the size of the subsidy and the price of the housing solution can supposedly be remedied by taking out a loan.

If capital grants allow governments to establish precisely how much they will have to spend on housing subsidies in the following year, it does not eliminate the highly charged question of how much that should be! The basic weakness in most subsidy programmes is that governments have too little money to provide enough subsidies to reach the majority of the poor. This is made clear when the numbers of families who are attempting to obtain a subsidy is compared with the number of subsidies available. In Chile, where somewhere around 120,000 subsidies are issued each year, a staggering 1.5 million families have opened a savings account. Assuming that each of these families is eligible for a subsidy, it will take 13 years to clear the current queue. In Colombia, there is a less marked but similar problem developing. What makes the problem worse is that Latin American governments seem to be gradually cutting the amount of money that they are prepared to give away in annual housing subsidies (see next section). Now that they can calculate the cost of their programme, some governments have decided that they are spending too much (Cominetti and Ruiz, 1997).

Transparency is also leading governments or development banks to ask whether or not subsidies should be given for many goods and services that have traditionally attracted them. Certainly, the World Bank introduced a covenant in the first housing loan to Chile requiring that the government should eventually eliminate ‘all subsidies to housing’. Although, such a clause was “obviously unenforceable since no country has ever eliminated all subsidies to the housing sector” (Renaud, 1988: 4), the fact that the covenant was written into the project was symptomatic of the way in which housing economists were thinking as early as 1984. More recently, it has been argued that property titles should be allocated to the poor on a cost-recovery basis. If the poor benefit from the receipt of title deeds they will pay for them in the same way that they have shown that they are prepared to pay for services. The World Bank’s entitling project in Peru represents a compromise position on this issue but the principle of cost-recovery is clear insofar as user fees are being levied to cover a small part of the cost (World Bank 1998).

*v) How Much Should Governments Spend on Housing?*

During the 1990’s, Latin America devoted between five and six percent of its gross domestic product to construction, the majority of which was on housing (Table 12). But, while some

economies like the Dominican Republic and Peru regularly spent over ten percent of their GDP's on construction, others like Costa Rica, Guatemala and Nicaragua averaged less than three percent.

**Table 12: VALUE ADDED IN CONSTRUCTION  
(Percent of GDP)**

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999p
Argentina	4.4	5.1	5.4	5.6	5.6	5.1	5.2	5.6	5.8	...
Bolivia	3.3	3.4	3.7	3.7	3.6	3.7	3.8	3.9	5.1	...
Brazil	7.8	7.4	7	6.9	6.9	6.7	6.9	...	...	...
Chile	6.2	5.7	5.8	6.8	6.4	6.4	6.5	6.6	6.3	5.6
Colombia	4.9	4.9	5	5.6	6.3	6.1	6	5.8	5.3	...
Costa Rica	3.2	2.9	2.8	3	3.1	2.8	2.7	2.8	2.9	3.1
Dominican Republic	11.2	9.8	11.2	12	12.3	12.5	13.2	14.2	15.8	17.2
Ecuador	4	3.8	3.6	3.4	3.4	3.2	3.3	3.2	3.4	3.4
El Salvador	3.5	3.7	3.7	3.5	3.7	3.7	3.7	3.8	3.8	3.8
Guatemala	2	1.9	2.3	2.2	2.1	2.2	2.2	2.3	2.4	2.5
Honduras	5.1	4.9	6.2	7	5.9	5.2	4.5	4.2	4.3	4.8
Mexico	3.9	3.9	4.1	4.1	4.3	3.5	3.6	3.7	3.7	3.7
Nicaragua	2.8	2.6	2.8	2.9	3.2	3.6	4.1	4.2	4.5	6.4
Panama	1.1	2.3	3	4	3.9	4	3.7	3.8	3.9	4.2
Paraguay	5.5	5.5	5.7	5.6	5.6	5.6	5.7	5.6	5.7	5.9
Peru	8.7	8.4	8.9	9.6	11.2	12.2	11.4	12.8	12.9	...
Uruguay	4	4.3	4.6	5.2	5.3	4.8	4.3	4.2	4.5	...
Venezuela	4.5	5.4	6.8	6.4	5.4	5	5	5.2	5.1	...
Latin America	5.8	5.7	5.8	5.9	5.9	5.6	5.7	5.3	...	...

Source: IDB Statistics and Quantitative Analysis Unit calculations based on official statistics of member countries.

Note: Totals reported for Latin America are based solely on the available country data reported.

<sup>1</sup>Percentages calculated using Constant 1990 US Dollars.

Government expenditure on housing has been much lower and averaged only one percent of GDP during the early 1990's (Table 13). Again, however, there was considerable variation; a few countries consistently spending more than two percent of their GDP on housing while others were spending little or nothing. What is common throughout the region, for good or bad, is that government expenditure on housing is very limited relative to that devoted to education or health. In 1997, public expenditure on education averaged 3.6 percent of GDP and over the period 1990-98 public expenditure on health averaged 3.3 percent of GDP (World Bank, 2000: tables 6 and 7). The highest spending governments averaged between five and seven percent on education and between four and eight percent on health.

The fact that governments have been prepared to spend only limited sums on housing suggests that a hidden agenda underlies the adoption of policy lending in the housing sector and the adoption of targeted subsidies. The hidden agenda is one of cutting government expenditure. In fact, Table 13 provides only partial evidence to support such a hypothesis. For while it is true that in Chile the

Pinochet government spent much less on housing than its socialist predecessor, in Costa Rica the adoption of targeted subsidies has raised housing expenditure. There is no apparent correlation between government expenditure and the nature of government housing policy. Some ‘reformed’ countries spend significant sums on housing whereas some ‘unreformed’ countries spend very little.

**Table 13: PUBLIC SPENDING ON HOUSING BY COUNTRY, 1980-1995**

Percentage of GDP	Country (period)
Above 2%	Costa Rica (1986-94: 3.2% in 1989), Mexico (1992-94) Dominican Republic (1987-92), Venezuela (1980-2)
1-2%	Argentina, Brazil (1980-92), Chile (twice went lower), Ecuador, Mexico (1984-91), Nicaragua (1981-85), Panama (1980-84), Venezuela (1983-90)
0.5-1%	Colombia only twice went over 1%, Costa Rica (1980-85), Guatemala (1993-95), Honduras (1983-89), Mexico (1980-83), Nicaragua (1986-7), Panama (1985-94)
0.2-0.5%	El Salvador (1980-84), Honduras (1981-2, 1990-95), Paraguay, Dominican Republic (1980-86), Uruguay
Less than 0.2%	Bolivia, El Salvador (1985-94), Guatemala (1980-92), Nicaragua (1990-95), Peru (1981-90)

Source: Cominetti and Ruiz (1998: tables 3 and 7)

What is of more concern is that despite extensive reforms in housing policy, some governments have continued to give much more in subsidies to middle-income families than to the poor. Admittedly, this has seldom been a deliberate policy. More often, it has arisen as a result of the failure of banking and finance systems. In Chile, billions of dollars were given to banks and their borrowers to resolve the financial crisis of 1982 (Meller, 1991). Similarly, a financial bail out in Colombia last year diverted US\$2.5 billion in debt relief to 800,000 mortgagees of middle-income housing (*Semana* 7 June, 1999). When it is recalled that the Colombian government was providing housing subsidies to poor families (those with incomes of less than two minimum salaries) of only US\$75 million annually, the distorted pattern of targeting becomes obvious.

#### D) Promoting Rental Housing

Millions of families in Third World cities live in rental housing most of which has been created in older, consolidated self-help housing areas. Most self-help developers eventually rent rooms to supplement the family income (Gilbert, 1993; Kumar, 1996; Rakodi, 1995b). Governments should carefully consider the ways in which it might help stimulate production and improve the quality of rental housing (UNCHS, 1989; 1993). Since the incomes of most landlords and landladies differ little from those of their tenants, equity is not a significant issue. Since rental housing tends to offer

tenants better location, services and infrastructure than does self-help housing (Lemer, 1987), support for rental housing promises to improve the quality of shelter in most cities. Finally, direct investment in rental housing will help to increase housing densities, thereby reducing suburban sprawl and illegal forms of land occupation.

To date, of course, government intervention in rental housing has tended to be counterproductive. Summarising the findings of a major economic investigation into the effects of rent control, Malpezzi and Ball (1991: xiii) state that "rent control fails to meet the goals sought by its advocates", particularly because "it restricts the supply of housing." All too often it also fails to redistribute income, partly because landlords are not much better off than tenants and partly because the tenants who benefit are more affluent than the tenants who lose out because of the consequent supply constraints. Building regulations have had a similar effect (Gilbert and Varley, 1991). In addition, few governments have attempted to increase the rental housing stock. Virtually no Latin American government has built housing for rent in the past twenty years and few have given any incentive to private companies interested in building rental housing.

Apart from a general desire to remove rent controls, there appears to be little in the way of a rental housing policy emerging in most Third World countries. This seems to be a major gap in housing reform given the huge numbers of tenants living in the region's cities; some four million households, for example, live in rental accommodation in Mexico City alone (Coulomb and Sánchez, 1991). In addition, there is evidence to suggest that whatever households say about the desirability of owner-occupation, many refuse this option even when they have the resources to buy a self-help home (Gilbert and Varley, 1991). Finally, rental housing should be encouraged because it is a cost-effective shelter strategy. As Hansen and Williams (1988: 316-7) argue: "Increasing the supply of rental units by encouraging homeowners to rent out rooms and add rental units may be the most efficient way to increase shelter in third world cities. Two factors underlie this argument. First, adding rental units to existing housing means that no additional land costs, which can account for 50 percent of total dwelling costs, are incurred. Labour and materials are the only major inputs. Second, as a result of higher density development, homeowners and renters combined on the same lot can better afford basic services such as water. Thus the prospects for cost recovery of infrastructure investment are greater than in less dense, low-income communities."

The first priority in assisting rental housing is to establish tenure-neutral housing policies. Too many governments provide generous incentives for owner-occupation and too few attempt to maintain, let alone, increase the rental housing stock. There are strong reasons why rental housing should receive equality of treatment from government *vis-à-vis* that afforded to owner-occupation. Effective ways of encouraging rental housing in the formal sector include targeting credit towards landlords, reducing rent controls, offering tax relief to landlords on rental income, and establishing an efficient arbitration service between landlords and tenants (UNCHS, 1989). But, the real potential for expanding the supply of rental housing lies in the self-help sector. Since the poor are a majority in many Latin American countries, there is really little alternative.

In such areas, it is necessary to build rental incentives into upgrading programmes (UNCHS, 1993; Johnson, 1987). The provision of water, electricity and schools, the improvement of transport links, and the integration of self-help settlements into the urban fabric are a virtually guaranteed way of increasing the supply of rental housing. Studies from many countries have demonstrated that tenants

wish to move into improved neighborhoods and that landlords respond by creating more shelter. Not only does the upgrading of self-help settlements improve the quality of owners' lives, it also increases their opportunities for renting rooms. Unfortunately, official projects all too frequently ignore the effects of upgrading both on the existing tenant population and in terms of the opportunities for generating more rental accommodation. At the very least, officials in charge of such programmes should be made aware of the presence of tenants and there seems to be little reason to prohibit the renting of property in upgraded settlements, something that has often occurred in the past. In addition, legalisation of ownership is likely to encourage many of the new owners to begin to rent out rooms or even to let their whole property. Possession of a legal title at least reassures owners that tenants cannot claim the property, something that has worried a few owners in Caracas and Mexico City (Coulomb and Sánchez, 1991; Camacho and Terán, 1991). Legal titles may also encourage banks and finance companies to lend to these micro-entrepreneurs.

#### *E) Stimulating Micro-Enterprises Operating from Home*

Investing in shelter is a one way in which families can increase their incomes. This possibility has been much neglected in the literature and very little attention has been paid to the ways in which the home is used to supplement the family income (McCallum and Benjamin, 1985; Gilbert, 1988; Strassman, 1987; Raj and Nentied, 1990). Perhaps it is because so little is known about the small-scale retailer, producer and landlord, that virtually nothing has been done to help them. Yet, helping small businesses is certainly compatible with what the World Bank is pushing in its urban productivity strategy: "City governments should pay particular attention to the regulations and infrastructure deficiencies that impede the growth of productivity of urban entrepreneurs - particularly in the informal sector - and should provide greater incentives and improved services that will enable entrepreneurs to take advantage of opportunities within the urban economy" (World Bank, 1992b: 3-13). Helping small builders, landlords and shopkeepers clearly fits most governments' development priorities and would provide direct help to a particularly deprived group, female-headed households. Since 'home-bound women' are prominent among the small-scale business people in many Latin American self-help settlements and often make up a majority of the landlords, helping home-based enterprises is critical (Moser, 1996: 47; Gilbert and Varley, 1991).

One way to help self-help entrepreneurs and landlords is to remove the regulations which are intended to stop them operating. Baken *et al.* (1991: 29), for example, recommend that many "building regulations and codes" should be removed when they "constrain the development of low income settlements. Apart from the restriction of lot sizes for economic activities, two other factors hamper the economic development of planned settlements: the limited proportion of plots for commercial use, and the regulatory framework which often prohibits mixed residential-commercial land-use." It should not be too difficult to persuade the authorities to remove sanctions that they almost never apply.

More proactively, more credit should be made available to these small businesses, the only difficulty being the usual one, how to encourage formal sector enterprises to lend to them. Few formal sector banks are prepared to lend to small-scale businesses, at least those run by minority groups and immigrants, even in the United States (Ratner, 1996: 136). My perusal of the literature even suggests that the micro-finance sector is reluctant to embrace lending for renting

(Inter-American Development Bank, 1997; Ferguson, 1999). Lending for housing seemingly offends some of the basic rules of micro-finance, which recommend that loans should be small and be offered only for short periods because the circulation of funds is critically important in establishing a record of reliability in repayment. The problem with applying this principle to lending for housing is that housing loans tend to be larger and need to be repaid over a much longer period. A particular problem is rental housing for which the Inter-American Development Bank's micro-enterprise unit has never lent money.<sup>8</sup> This is surprising insofar as such landlords clearly fit the Bank's (1997: 5) decrees that micro-enterprise projects must "create or expand profitable, sustainable enterprises that result in increased income and employment for low-income families". Lending money to build an extension is not like lending money to buy a formal sector home that may require a loan of 30 years; loans of 2-5 years would be quite sufficient.<sup>9</sup>

## Conclusion

It would be satisfying to end concisely and decisively, but the argument of the paper does not allow for such a neat conclusion. What I offer instead are a few forthright and sometimes subjective observations that I believe emerge from the preceding paragraphs. I have no doubt that some readers will disagree with my sentiments but that is not an entirely bad thing. For the purpose of this paper has been to encourage future discussion of the issues involved. Too often, the real issues facing housing strategists are hidden behind the technical language of economists and engineers, within ideologies pretending to be truth or under bureaucratic statements produced by those reluctant to tread into politically sensitive areas. As this is a discussion paper intended to form the basis for a training module, there is additional reason for not holding back from expressing my own opinions.

- 1) No sensible national government would ever admit to having solved its housing problem. Even very rich countries have difficulties. There is not much poverty in Japan, but housing conditions in that country are far from what most Europeans or North Americans would regard as ideal. Clearly, national wealth makes a difference as a comparison of housing conditions in Argentina and Bolivia shows. But, even in extremely wealthy countries, rising expectations mean that there is always a problem. The point is that looking for a housing 'solution' is much like looking for the Holy Grail, a very challenging but ultimately futile pursuit.
- 2) Sensible governments will attempt to design policies that may improve the housing situation but they should be aware of their limited ability to achieve their objectives. Most of the difficulties afflicting the housing sector do not originate in the sector itself. Many begin with the poverty of so many people in the region and it is no coincidence that poor people generally live in bad housing. If we were to reduce the amount of poverty, the housing situation would improve automatically. If we do not reduce the amount of poverty, it is difficult to do much about housing. This is particularly worrying in these days when poverty and particularly inequality no longer look as though they are temporary phenomena that will be washed away by the trickle-down benefits of economic growth. So long as there is poverty, the housing 'crisis' will remain.

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<sup>8</sup> Interview with Marguerite Berger of the Inter-American Development Bank.

<sup>9</sup> See Hoffman *et al.*, (1989: 5.9) for a list of the requirements for lending to informal sector landlords to work properly.

- 3) If it is not possible to solve the housing problem, and given the persistence of poverty even to reduce it substantially, that does not mean that governments cannot do a great deal to make things better. If they are to do so, however, then they have to think a little more clearly than now, be prepared to eschew populist solutions and be willing to adopt a few policies that will be less than popular among some very influential groups in society. This is not an easy set of tasks but it reminds us that in the housing arena there is no panacea on offer.
- 4) Most governments in Latin America try to introduce policies that will generate economic growth and create jobs. They should continue to do so. Unfortunately, their policies often ignore the housing sector. This is a pity because both economic growth and work can be generated through the housing sector. Building homes in both the formal and the informal housing sector creates work, indeed, much of it labour-intensive work. In addition, many Latin Americans earn part or all of their living from their home. Typically, however, homes are considered only to be residences and not as workplaces. Governments need to rethink that assumption and incorporate incentives for new forms of home-based work into their employment and development programmes.
- 5) Governments need to work in conjunction with the private sector and civil society to improve housing conditions. In this respect the argument for ‘enabling strategies’ is a correct one. However, perhaps because we are emerging from an era of ‘government failure’, conventional wisdom has gone too far in the direction of praising the virtues of the market. The market does not always work well, and land and housing markets often work much less well than other markets. Governments should not eschew intervention when it is necessary and the current conventional wisdom has probably also gone too far in damning government incompetence. Not all government agencies perform badly. And, now that the state has been ‘rolled back’ and many of the more inefficient state operations closed down, there is an urgent need to establish some efficient state agencies. There are plenty of examples across the world, even in the housing arena, to show how it can be done.
- 6) The key to improving housing conditions is to make sure that the major inputs to housing provision are available. Currently, too many are in short supply. Too much land is kept out of the market for speculative reasons. There is not enough serviced land because the service agencies lack resources and sometimes the competence to do an adequate job. Drinking water flows through the pipes and out of them before it reaches its destination. Building materials are too expensive, particularly for those in the self-help sector. Credit is not available to poorer families to buy housing, even when they have enough resources to justify a loan. These deficiencies reflect both market and government failure.
- 7) Latin American societies should question some of the foundations on which their urban areas are being built. Certain tendencies, not confined to Latin America, are contributing to a distinctly problematic future. Among these tendencies are: the drive to universal home-ownership, a goal that is impossible to achieve; the growing dependence on the private car, which encourages urban sprawl, causes traffic congestion and makes infrastructure provision hugely expensive; and an increasing failure to invest sufficiently in public goods and amenities. Changing any of those tendencies would help to improve the housing situation in a variety of ways.

- 8) Some of the necessary policies demand major reforms in society and require brave and determined leadership. However, many changes that can make a difference are very simple. Proper maintenance of the housing stock is important, along with the infrastructure and services that support communities and neighbourhoods. Today, Latin America is not very good at maintenance, and the public sector often fails to budget for it at all. It is no good building new homes if those homes are not looked after properly. Britain discovered this when its public housing estates turned into slums and Chile is beginning to face a similar problem even though its social housing is in private hands. Improving the maintenance of services that families depend on in their homes will also yield great benefits. Cutting down on water leaks and improving the reliability of the buses would be a good start. Small sums spent now on maintenance usually save large sums later.
- 9) Many regard experience in Chile to be among the best housing practice around. But those Chileans who have been invited to apply that experience to other Latin America countries have usually returned somewhat chastened. What they have realised is that it is not their housing model that needs to be exported so much as the way that Chilean society as a whole operates. What has allowed the Chilean housing model to work, as imperfectly and as well as it has, is a society that has espoused certain worthy codes of behaviour. These include a fairly honest and efficient civil service, a tax system that has fewer loopholes than most, a political system that maintains some degree of continuity both within and between administrations, and a reasonable system for identifying those living in poverty. Of course, there are plenty of failings in Chile, too, but the point is that housing, like anything else, requires systemic action if it is to improve. In this regard, the argument of the housing enabling strategists is absolutely right. Where they perhaps err is in not recognising in explicit terms that an efficient market is not enough on its own. Certainly, creation of a less inefficient market for land and housing would help. But, one of the problems with market solutions is that they rely on businesses responding rationally to effective demand. No doubt, in a totally equal society the market would work very well indeed. Unfortunately, Latin American societies are far from equal and the tendency is that they, like most societies in the world, appear to be getting even more unequal. In such a context, the danger is that the creation of efficient land and housing markets will lead to even greater inequality than before. Improving the quality of housing, therefore, certainly requires reforms within the housing sector, but it also requires a great deal else.

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