



# Executive Summary



**An expanding informal settlement on the periphery of Lima, Peru, serves an active community.**

**D**wellings in informal settlements generally lack formal legal titles, and they may exhibit irregular development patterns, lack essential public services such as sanitation, and occur on environmentally vulnerable or public land. Whether they are built on private or public land, informal settlements are developed progressively over many years, and some have existed for decades.

Such settlements often become recognized legally as part of the regular development of the city—through either official actions or the accretion of rights over time. Accordingly, the definition of informality is imprecise and multidimensional, covering physical, socioeconomic, and legal aspects. Differences in definitions lead to noncomparable metrics across space and over time, yet it is accepted

that informality comprises a significant share of urban development in large Latin American cities, ranging from one-tenth to one-third of urban residences.

A key aspect of informality is the lack of *de jure* or formal title, although many urban residents feel secure with *de facto* property rights of ownership based on customary practices. Residents in informal settlements developed on private land often have bills of sale or related documents, and these properties are bought and sold regularly.

Informality is attributed to many causes, including low income levels, unrealistic urban planning, a lack of serviced land and social housing, and a dysfunctional legal system. It generates large costs for residents, including insecurity of tenure, lack of public services,



discrimination by others, environmental and health hazards, and inequitable civil rights. It also poses both high direct costs for local governments when they undertake upgrading programs and substantial indirect costs when coping with other impacts of informality, such as public health, criminal violence, and related social problems.

Policies to regularize informal settlements have been attempted in most Latin American countries, and experience demonstrates that regularization programs need to be designed carefully to avoid either making conditions worse for the low-income residents the programs are intended to help or stimulating the development of new informal settlements. While the financial costs of regularization programs vary widely, residents of regularized areas rarely contribute any payments to compensate for those costs. Overall, the lack of revenue associated with regularization has inhibited the scaling up of such programs.

Regularization programs follow two main paradigms. The first, exemplified by Peru, involves the narrow legalization of tenure through titling. This approach is inspired by Hernando de Soto's hypothesis that tenure security is a trigger for development, stimulating access to finance, economic activity, and residential upgrading. From 1996 to 2006 Peru issued over 1.5 million freehold titles at an average cost of \$64 per household. Evaluations indicate that tenure security had little impact on access to credit, yielded some investment in housing, and may have contributed to some poverty alleviation, although the causal channels for the last effect are not clear. Secure tenure did increase property values by about 25 percent, well in excess of the titling cost.

Brazil's broader regularization programs combine legal titling with the upgrading of public services, job creation, and community support structures. At \$3,500 to \$5,000 per

household, these programs are much more costly than Peru's titling system, and Brazil has had more modest coverage of households. Ironically, service upgrading occurs more often with little or no change in legal tenure status, although the number of titles is increasing. The few evaluations that exist indicate that the increase in property values associated with upgrading exceeded its cost, as in Peru, albeit at a lower rate than in new urban developments.

Recommendations for improving regularization policy and specific programs must address the following issues:

1. Evaluate the performance of regularization programs, including the collection of both baseline data before program implementation and subsequent data on program costs and outcomes.
2. Customize policies and programs, because a single approach is unlikely to work well across all situations.
3. Use appropriate titling systems (freehold, leasehold, cooperatives, land trusts, or communal ownership) to ensure the socioeconomic sustainability of the community.
4. Seek the participation of both men and women to avoid building gender bias into the process and to increase its long-term effectiveness.
5. Make regularization more self-sustaining financially through property taxes; charges on urban infrastructure and service improvements to capture part of the resulting land value increment; and equitable fiscal burdens on all segments of the society.
6. Support more research and analysis to determine if the situation is improving or worsening in particular cities and to prevent the establishment of additional informal settlements, particularly when they are thought to be caused by regularization programs themselves.