

GLOBAL OUTLOOK

INTERNATIONAL URBAN RESEARCH MONITOR

JANUARY 2002

The State of the World's Cities, 2001

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United Nations Centre for Human Settlements (Habitat)

A WORLD OF CITIES

With just under half of its population living in cities, the world is already urbanized. When measured in knowledge, attitude, aspiration, commercial sense, technology, travel and access to information, even most rural societies are, to one extent or another, woven into a global network of cities.

Globalization seriously escalated during the industrial revolution of the late 18th century. Since then, the steam engine, the telephone, the elevator, and now, the Internet and cheap air transport, have conveyed people, goods and information both horizontally and vertically at an unprecedented volume and velocity. The focal point of these activities has invariably been the city, a place of deals and decisions, take-offs and landings — a place less concerned with the rhythms of nature, where everything can be bought or sold, especially one's ideas and labor.

In today's globalized world, cities no longer stand apart as islands. They are the nexus of commerce, gateways to the world in one direction and focus of their own hinterlands in the other. Tied together in a vast web of communication and transport, cities are concentrations of energy in a global force field. In a real sense, the world is completely urbanized, as this force field has the power to connect all places and all people into a productive, constantly adapting unity.

Three billion people — nearly every other person on earth — live in cities. Today the planet hosts 19 cities with 10 million or more people; 22 cities with 5 to 10 million people; 370 cities with 1 to 5 million people; and 433 cities with 0.5 to 1 million people. By 2030, over 60 percent of



Bangkok, Thailand

the world's population (4.9 billion out of 8.1 billion people) will be urban.

Cities in developed countries are rapidly losing their place on the list of the world's largest cities. Between 1980 and 2000, Lagos, Dhaka, Tianjin, Hyderabad and Lahore, among others, joined the list of the 30 largest cities in the

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Message From Wilson Center Director Lee H. Hamilton

The Woodrow Wilson International Center for Scholars is pleased to co-publish, together with the United States Department of Housing and Urban Development (HUD), our third issue of *Global Outlook*.

A major theme of this issue is the challenge of global urbanization. For the first time in human history, during the early decades of this century, a majority of the world's population will be living in urban areas. In June, 2001, the United Nations Centre for Human Settlements (Habitat) organized a Special Session of the U.N. General Assembly in New York to begin facing the urban millennium. At the previous U.N. World Habitat Summit in Istanbul, Turkey during June, 1996, many countries committed to pursuing an ambitious Habitat Agenda to increase the availability of decent affordable housing for all, and upgrade the quality of urban governance, economic and social life, health and safety, and the environment. *Global Outlook* features the speech delivered by HUD Secretary Mel Martinez at the United Nations in New York, along with three articles by U.N. Habitat senior staff from Nairobi, Kenya — on the state of the world's cities, best practices, and urban indicators. In addition, we include related articles on low-income housing in Mumbai (Bombay), India, community economic development in Ghana, a HUD update on the Summit of the Americas, and a summary of the recent "Making Cities Work Partnership Forum" that the U.S. Agency for International Development (USAID) co-sponsored with the Wilson Center's Comparative Urban Studies Project.

We also highlight [economic development issues] through an analysis by Hernando De Soto and Robert Litan on the

importance of creating formal property rights for the majority of people in developing countries, in order to expand market values and opportunities for capital investment, financial credit, wealth creation, entrepreneurship, job growth, and homeownership. The Woodrow Wilson International Center recently co-hosted with HUD a roundtable discussion by a group of experts about these issues.

HUD's Deputy Assistant Secretary for International Affairs, Shannon Sorzano, provides a summary of this roundtable, which we held to mark the publication of *Global Outlook's* second issue.

In this issue we explore international networking and comparative research, including the Worldwatch Institute's study of sustainable development and urban livability in Brazil, Denmark, and the U.S., the Organization for Economic Cooperation and Development's (OECD) economic strategies for intermediate regions, and a description of the international conference and book on microfinance and microenterprise co-sponsored by the Fanor Mae Foundation and the Woodrow Wilson Center.

The Woodrow Wilson International Center for Scholars is delighted to forward to you this third issue of *Global Outlook*. •



GLOBAL OUTLOOK, the *International Urban Research Monitor*, is published quarterly by the Woodrow Wilson International Center for Scholars, One Woodrow Wilson Plaza, 1300 Pennsylvania Avenue, NW, Washington, DC 20004 (www.wilsoncenter.org); and the U.S. Department of Housing and Urban Development, Office of International Affairs, 451 Seventh Street, SW, Room 8118, Washington, DC 20410 (www.hud.gov).

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Opinions expressed in the articles are those of the authors and do not necessarily reflect the views and policies of HUD, the Wilson Center, or the U.S. Government.

Layout for the January 2002 issue of *Global Outlook* by David Farquharson, Prophyt Designs, Washington, DC.

Progress in the United States Toward Implementing the United Nations World Habitat Agenda

MEL MARTINEZ

U.S. Department of Housing and Urban Development

[Editors' Note: The following is the text of the speech delivered by Secretary Mel Martinez, United States Department of Housing and Urban Development, at the Special Session of the United Nations General Assembly for an Overall Review and Appraisal of the Implementation of the Habitat Agenda, New York, June 7, 2001.]

Mr. President, Madame Executive Director, Your Excellencies, Ladies and Gentlemen, it is a great honor for me to be here representing the United States of America. I am the Secretary of Housing and Urban Development, a member of the President's Cabinet — and I happen to be a refugee to the United States.

The fact that I am a refugee is not so remarkable. The United States is a nation of immigrants and refugees who, either searching for a better life for their families or fleeing oppression, came to our shores and helped build our nation. To be standing here today, however — as head of the U.S. delegation — says a great deal about freedom and the remarkable opportunities offered by participation in a free society. We call it the American Dream — the freedom to pursue success and prosperity, however the individual defines it for him or herself. But access to housing, equal opportunities in choosing a place to live, and the right to own property and pass it on to our heirs are certainly at its core.

As nations united through Habitat, we share the dream of individuals leading full and productive lives, through access to adequate housing, land, credit, and basic services. In the five years since Istanbul, we have made remarkable progress toward meeting that goal. An innovative program established in Santo Andre, Brazil, has transformed living conditions, and brought hope to 16,000 residents who live in the poorest areas of the city. Santo Andre has achieved its success through an alliance that brings together local, national, and international resources, while making citizens a key partner and ensuring they have a voice. In Thailand, the government established a unique revolving fund that provides low-interest loans for housing and other community development projects. Today, Thailand's urban poor are building networks and partnerships that are improving the quality of life for residents in 53 of the country's 75 provinces.

My government applauds these and other efforts that are translating the Habitat goals into real solutions helping real people. I am proud to say that we have also made strides here in the United States since we met five years ago in Istanbul. Today, we have more than six million new homeowners, and the number of Americans who have achieved homeownership is at an all-time high. Americans who seek housing have access to a vast network of support. Maybe I can best describe this elaborate system from the perspective of the individual who epitomizes its success: the homeowner.

The fundamental right to own property, including a home, is a foundation of our society. Two out of every three Americans own their own homes. We believe so passionately in the cause of homeownership that every year, we celebrate one week in June — this week, coincidentally — as National Homeownership Week.



Expanding the number of homeowners remains a national priority, because we understand that homeownership is at the root of good citizenship. It plays a vital role in creating strong neighborhoods by turning short-term tenants into long-term community stakeholders. In helping families build real wealth, homeownership creates financial security and peace of mind. Homeownership provides opportunities to build the economic strength of a family, to also help elevate families out of poverty. Once they have built up equity in a home, homeowners can use it to fund a child's higher education. Or they can access capital to help start a small business, with the dream of creating additional wealth — and further security. Eventually, they can pass on their wealth from one generation to the next.

Having lived in one country where such opportunities are cherished, and another in which they are denied, I have a special appreciation for the homeowner and consider the growth in homeownership to be one of the most important economic shifts of the past century. No matter where they live, no matter their income, everyone should have the opportunity to own their own home. "Everyone" includes women. In the United States, we support without question the equal rights of women to own property and receive — or give — an inheritance.

Most new homeowners did not simply write a check from a personal bank account. They had to finance their purchase. Therefore, access to credit is critical, and the first of four cornerstones of the United States housing system. Over the past 35 years, we have enacted a powerful set of laws to ensure that no American who can afford to own a home is denied a mortgage. For this reason, the secondary markets are key — perhaps the key — to the success of the U.S. housing system. By stabilizing the mortgage markets, the secondary markets provide low- and moderate-income Americans with lower housing costs and better access to home financing. They help break down the barriers to homeownership and affordable rental housing.

The federal government serves as housing's second cornerstone, although its role is specific and appropriately limited. The great majority of governmental decisions are made closest to the homeowner, on the local level. The federal government, operating openly and transparently, does offer a supportive framework within which the housing market operates. It fills in any gaps in the system by addressing issues of unequal access to credit, discrimination, and the inability of low-income families to afford housing. It provides programs and tax incentives aimed directly at bringing everyone into the mainstream housing market.

Every citizen has the opportunity to help make the rules at the local level. This is the third cornerstone of the American housing system. Through local elections, public hearings, their involvement in non-profit groups, and public-private partnerships, individuals can help determine the decisions that affect housing in their own communities.

As the fourth and final cornerstone, homeowners and renters have a strong legal system to support them, one that ensures their rights cannot be unjustly stripped away. The civil rights protections extended by our Fair Lending and Fair Housing laws prohibit discrimination in the sale and rental of housing based on race, national origin, disability, sex, and family status.

While its role is vital, we recognize that government does not have all the answers or a monopoly on compassion. President Bush is committed to working with community-based and non-governmental organizations — especially faith-based groups — to lift up the neediest among our citizens. Two days ago, I took hammer in hand and joined the President in Tampa, Florida, to help kick off Habitat for Humanity International's World Leaders Build. We support Habitat for Humanity and its faith-based cousins wholeheartedly — they are helping to instill in our citizens something that government alone cannot: a sense of hope, and a sense of pride.

The United States is in many ways defined by the opportunities it affords its citizens. This says something very powerful about the benefits of freedom. And maybe it helps explain why the American Dream compels us to share the harvests of our opportunities. Within the next three decades, more than 60 percent of the world's citizens will live in urban settings, most of them in developing countries ill-equipped to handle the housing needs of so many people. Our urban centers in the United States have faced the problems of inadequate and unaffordable housing, and we have decades of experience in creating solutions — not federal government solutions, but solutions developed in partnership by local authorities, private enterprise, and community organizations. We are eager to share what we have learned, and we continue to reach beyond our borders to form strong partnerships with our global neighbors:

The expertise we gained in establishing our secondary markets and promoting and supporting community reinvestment is now helping other countries create their own housing finance programs and ultimately expand homeownership opportunities. For 30 years, the U.S. worked with the government of Chile and its private sector to develop a

successful housing finance system. Now, through U.S.-sponsored conferences, workshops, and technical assistance, other Latin American nations are learning how to modernize their finance systems based on the Chilean model.

The lessons we learned as we breathed new life into struggling American neighborhoods are helping to create jobs and revitalize urban communities elsewhere in the world. The continued urbanization of South Asia has brought with it management challenges that my government is actively helping to solve. We successfully worked with key cities such as Katmandu to plan for and finance improvements in urban environmental management.

The knowledge we gained improving construction techniques is helping our global partners build better homes at a lower cost. In South Africa, USAID's Regional Urban Development Office is focused on energy efficient housing and the need to bring electricity to those who have historically gone without it. Our work has been key in building alliances between national and local governments and private entities.

These arrangements are hardly one-sided. Over and over again, we have been the beneficiaries when other countries developed improvements in urban management, new ways to preserve historically significant property, more energy efficient technologies, and other breakthroughs. This expertise is invaluable, because for all our progress, challenges remain for this Nation. We are redoubling our efforts to close the homeownership gap for minorities, keep the inventory of federally assisted housing strong and viable, and shelter the homeless and lead them toward self-sufficiency. We are being wise stewards of our natural resources as our cities grow beyond their original boundaries. We are building strong schools, so that "no child is left behind" in the new, global, information-based economy.

"Like stones rolling down hills, fair ideas reach their objectives despite all obstacles and barriers. It may be possible to speed or hinder them, but impossible to stop them." These are the words of one of my favorite thinkers, Jose Marti.

Despite the obstacles and barriers we sometimes find in our path, my country shares with you a commitment to the "fair idea" of secure, safe, and adequate housing for all. We have made great strides, and our progress cannot be stopped, but until democracy and freedom are truly allowed to bring out the best in all the world's citizens, we should not rest. As we work together in search of answers, let us recognize that solutions dictated by government will not work on their own. Instead, we must strive to expand self-sufficiency for individuals, strengthen families, and empower communities to shape their own futures and their own destinies. This goal is good for our countries, good for the international community, good for every individual who pursues a dream. Let it be our constant guide as we recommit ourselves to fulfilling the Habitat agenda and carrying out the important work ahead. •

Mel Martinez is Secretary of the U.S. Department of Housing and Urban Development in Washington, DC.

world. By 2010, Lagos is projected to become the third largest city in the world, after Tokyo and Mumbai. By 2010, Milan, Essen and London will no longer be listed among the world's 30 largest cities list, and New York, Osaka and Paris will have slipped farther down that list.

The current worldwide rate of urbanization (that is, the percentage, per year, that the urban share of the total population is expanding) is about 0.8 percent, varying between 1.6 percent for all African countries to about 0.3 percent for all highly industrialized countries. At the same time, urbanization of poverty is a growing phenomenon; it is estimated that between one-quarter and one-third of all urban households in the world live in absolute poverty.

Starting with the 2001 edition, the *State of the World's Cities* takes the reader through Africa, the Arab States, Asia and the Pacific, the highly industrialized countries, Latin America and the Caribbean and countries with economies in transition to understand better how shelter, society, environment, economy, and, above all, systems of governance can contribute to urban vibrancy and viability in a globalizing world.

AFRICA

By 2020, sub-Saharan Africa's urban population will approach 440 million, or 46 percent of its projected total of 952 million. Today, Africa's urban areas account for 34 percent of the total population of 611 million and are credited with 60 percent of the Gross Domestic Product (GDP). Municipalities, however, capture only a small percentage of GDP — on average less than US \$15 per capita per year — in revenue, creating disparity between the requirements for municipal governance and available resources.



Kumasi, Ghana

Global economic processes have stalled in Sub-Saharan Africa with severe consequences for its urban areas. Africa is the only region in the world without a true newly industrializing economy. The failure to industrialize can partly be explained by external factors, but a variety of domestic factors must also be taken into account, including economic policies, the effects of personal rule, historical legacy, the role of the state and low levels of literacy. Structural adjustment, which has created shortages of imported materials, reduced investment, retrenched the public sector and led to declining effective demand, has badly affected urban-based manufacturing. Large-scale manufacturing, which created an impressive volume of jobs in the Asian and Latin American regions, has generated only a small number of employment opportunities in urban Africa and, consequently, the informal sector continues to remain the largest source of employment in the region.

Nonetheless, there is a forward movement. In recent years, national governments across Africa are increasingly adopting decentralization as one of their primary strategies for development. Africa has also spawned an 'associative' sector built on local solidarity movements. Several countries in Africa have revised their constitutions and passed legislation that supports the participation of excluded and disadvantaged groups, especially women.

THE ARAB STATES

The Arab States' urban population is projected to be 260 million, or 66 percent of its estimated total of 395 million, by 2020. Today urban areas account for 56 percent of the total population of 270 million. Municipalities capture just over US \$45 per capita in revenue per year.

Overall, the Arab States comprise a great diversity of socio-economic and human settlement profiles and characteristics: from least developed through developing to oil rich countries; conflict and post-conflict situations; from very open economies to economic isolation; and from highly urbanized to predominantly rural. The region's considerable internal diversity is reflected in the conditions in its cities and has resulted in widely varying domestic needs and priorities: rehabilitation and reconstruction (Iraq, Lebanon, Palestine and Somalia); poverty alleviation (Egypt, Jordan, Syria, Morocco and Yemen); urban management and housing needs (Egypt, Jordan and Algeria); and capacity building (Gulf countries).

ASIA AND THE PACIFIC

In 20 years, the urban population in the Asia and Pacific region is expected to be 1,970 million or 46 percent of its projected total of 4,298 million. Urban areas today account for 35 percent of the total population of 3,515 million. On average, municipalities secure about US \$150 per capita in revenue per year.

Urbanization in Asia and the Pacific raises red flags, particularly because an increasing number of the region's poor live in urban areas. The size and urgency of the problem requires different ways of managing cities and their related

infrastructure and service requirements. Recently, macro-economic and financial crises have cast doubt on conventional approaches and concepts. The financial crises of the 1990s affected millions of lives and aggravated social vulnerabilities. In East and Southeast Asia, the social consequences of the financial crisis have been felt more in cities, reflected in increased poverty brought about by cutbacks in both public and private employment as well as in public expenditures for health and education.

However, the increased pace of urbanization and its linkages to economic globalization have reinvigorated interest in the process of governance and its links to economic growth. Decentralization and local autonomy are gaining more momentum, and with this, the interest in building the capacity of local governments is growing. While several Asian countries have adopted decentralization policies, excessive controls are still exercised in others on the functional, financial and administrative responsibilities of local government. As a result, there is a mismatch between the functional powers of local governments and the financial resources available to them.

HIGHLY INDUSTRIALIZED COUNTRIES

The urban population in the highly industrialized countries is projected to be 547 million, or 84 percent of their combined population of 649 million, by 2020. Today, urban areas account for 80 percent of the total population of 597 million. On average, municipalities obtain about US \$2,900 per capita in revenue per year.

In 2020, there will be 5 urban agglomerations larger than 5 million inhabitants in Europe: Paris, Moscow, London, Essen/Ruhrgebiet and St. Petersburg. Most urban populations in Europe live in small or medium-sized towns; half the urban population lives in small towns of 10-50,000 people, and a quarter in medium-sized towns of 50-250,000. Only 25 percent of the urban population lives in cities with more than 250,000 people.

Cities in highly industrialized countries no longer deal with the effects of urbanization, but rather with a combination of other demographic issues and the impacts of global trends: increasing internationalization of metropolitan regions; changes in the distribution of responsibilities between the public and private sectors; a generally stronger role for a few major cities within each country; aging populations and the related problems of access to health care and pensions; international migration; and the highly detrimental impacts of social and economic polarization.

For the past two decades, the highly industrialized countries committed themselves to economic policies aimed at encouraging macroeconomic stabilization, structural adjustment and the globalization of production and distribution. Although these policies have in general been effective in promoting short-term economic growth, low inflation and lower current account imbalances, negative longer-term societal implications are now emerging as major political

and socio-economic dilemmas. Growing political disenchantment arising from widening income gaps, declining political participation and widespread social exclusion are manifesting themselves in cities across North America and Europe alike. In the United States, for instance, racial disparity is one of the most important issues facing cities.

LATIN AMERICA AND THE CARIBBEAN

The region comprising Latin America and the Caribbean is the most urbanized in the developing world. With 75 percent, or 391 million, of its people living in cities, it has an urban-rural ratio similar to that of the highly industrialized countries. However, unlike highly industrialized countries, urban areas are not geographically scattered in terms of physical size or populations. Urbanization patterns, with the exception of Brazil, typically involves one very large city that accounts for much of the country's urban population. The urban population will approach 539 million, or 81 percent of its projected total population of 665 million, by 2020. On average municipalities capture less than US \$90 per capita in revenue per year.

The biggest challenge facing Latin America and the Caribbean is the growing urbanization of poverty. Despite general economic growth, the number of low-income people in the region rose from 44 million to 220 million between 1970 and 2000. More than one-third of the households living in poverty are headed by women. Much poverty is concentrated in urban areas; a massive 40 percent of the population of Mexico City, for instance, and a third of São Paulo's population is at or below the poverty line.

ECONOMIES IN TRANSITION

The urban population in countries with economies in transition will approach 420 million, or 78 percent of its projected total population of 541 million, by 2020. Today, urban areas account for 70 percent, or 382 million of the total population of 543 million. On average, municipalities capture about US\$ 275 per capita in revenue per year.

There are sharp differences among the various countries with economies in transition, notably in criminality, corruption and levels of democracy. Some, particularly in central Europe, have clearly started to adjust to the market economy promoted by the West. Although the *laissez-faire* model was assumed by many to be the solution, experience during the past decade indicates that this does not necessarily hold true for all.

It is now recognized that sustainable urban development in these countries will depend on the creation and maintenance of efficient land and property markets; the development of more and better housing finance options; a greater emphasis on municipal finance and institution building; strengthening of urban utility systems; a growing interest in the preservation of cultural assets and heritage; and the responsiveness to emergencies such as earthquakes and flooding.



Maria Auxiliadora, El Salvador

Policy Issues

URBAN SHELTER

More than one billion of the world's urban residents live in inadequate housing, mostly in the sprawling slums and squatter settlements of developing countries. A significant trend during the past decade has been the growing awareness of the relationships between human rights and sustainable development. In the field of shelter, this has led to a decline in human rights abuses, such as mass forced evictions. Negotiation and participation are increasingly being employed to secure the urban poor their rights to shelter.

The right to adequate housing is recognized by more than 70 percent of the world's countries. Almost all countries in Asia and the Pacific promote housing rights in their legislation, and the Arab States provide the greatest protection against eviction.

Extending urban citizenship to low-income people, through the granting of secure tenure, for example, is one of the most far-reaching decisions that can be taken in promoting a sustainable shelter strategy.

URBAN SOCIETY

Despite the potential of cities to improve living standards, the benefits of urbanization are not shared equally. All too often, cities are still divided into haves and have-nots - the established and the marginalized — and offering different life opportunities for women and men. In developing countries, the statistics are particularly disturbing: over 50 percent of the population of Mumbai and New Delhi lives in slums, while in Lagos and Nairobi over 60 percent of households remain unconnected to water.

Exclusion, as a result of physical, social or economic barriers, prevents many groups from participating fully in urban

life and services. Failure of local authorities to integrate such groups in their decision-making is often a function of inertia, along with bureaucratic and unresponsive forms of governance. Participatory governance is a prerequisite to social cohesion and inclusion. It involves strengthening civil society and supporting local populations to engage in, and benefit from, urban opportunities.

URBAN ENVIRONMENT

Apart from its effect on health and well-being, environmental degradation and pollution continue to constrain development and growth of cities. Ill health and premature death not only cause suffering, they also impose heavy costs on the economy. Ultimately, the human population cannot escape the detrimental effects of unsustainable consumption and environmental degradation.

An increasing number of countries now recognize the key principles of environmental management. One is that the environment is not an end in itself — not something to be 'protected' from development — but that it is a resource to be carefully managed on a sustainable basis. Secondly, urban development necessarily depends on the natural resource base available to the city — which in turn has an impact on the state of those resources. It is, therefore, crucial to improve understanding of the two-way relationship between the environment and development.

URBAN ECONOMY

Large cities typically produce a significant share of the Gross Domestic Product (GDP) of their countries. For instance, Bangkok, with only 12 percent of the national population, contributes 38 percent towards Thailand's GDP, more than the GDP of any of the agriculture-based economies in Africa. Yet, despite the significant economic role played by



Bhopal, India

cities, they often receive less than they might warrant for their contribution to the national economy, negatively influencing their productive potential. Key constraints to urban productivity include infrastructure deficiencies, inappropriate regulatory frameworks for urban land and housing markets, weak municipal institutions, and inadequate financial services for urban development. Strategies to combat these constraints include:

- 1) strengthening the management of urban infrastructure by improving the level and composition of investments, reinforcing institutional capacity for operations and maintenance, and seeking opportunities for greater private sector involvement;
- 2) improving city-wide regulatory frameworks to increase land and housing market efficiency and to enhance private sector provision of shelter and infrastructure;
- 3) improving the technical and financial capacity of municipal institutions through more effective application of resources and division of responsibility between central and local governments; and
- 4) strengthening financial services for urban development, ranging from microfinance to municipal bond markets.

Urban economies in the developing world are largely driven by the informal sector. Informal sector employment makes up 37 percent of the total employment in developing countries as a whole, and is as high as 65 percent in Africa. Cities can support the informal sector through the provision and maintenance of infrastructure, including adequate supply of electric power, water, transport and telecommunications networks. By relaxing rules and regulations, the informal sector can be expected to contribute further to the creation of jobs and, perhaps, eventually be integrated into the formal economy.

URBAN GOVERNANCE

Effective governance is increasingly dependent on people assuming their responsibilities as citizens and participating in decision-making and implementation. Citizens are learning to forge new alliances that strengthen their voice and make

their concerns felt in legislation. Governments at all levels increasingly recognize the value of communication, consultation, and negotiation for joint-decisions and joint-implementation of policies that meet the changing needs of society.

However, reform of governance institutions and strengthening of local citizenship are necessary prerequisites for effective governance. Some of the emerging issues and priorities that need to be addressed include: redefining the roles and responsibilities of central and local governments; promoting city-wide development strategies; regulating equitable financial transfer between all levels of government; encouraging transparency through free flows of information; effective civic engagement and participation; and strengthening leadership while promoting ethical conduct in the governance of cities.

THE KEY FINDING

A country's global success and its overall human development rest on the shoulders of its cities. For the good of all citizens, city and state must become political partners rather than competitors. If accommodation requires new political arrangements, institutional structures or constitutional amendments, it is never too early or too late to begin making changes. The nature of those changes can best be determined through empirical observation, analysis of information and political dialogue on both the condition of a nation's cities and a national strategy to improve that condition.

Each country should, indeed, prepare and publish, periodically, a report on the state of its cities, focusing especially on national and local policies and how they affect cities and their citizens. Gathering of evidence by putting in place proper information systems and diagnostic tools is a practical first step. Good information will provide the common platform for dialogue among stakeholders — an essential part of the process — as they approach a vision for the future and set priorities for conservation and change.

The main goal is to make the structures of governance more responsive to individuals, families, and communities so that both national and local authorities can better serve civil society, each through separate but complementary instruments. •

The State of the World's Cities 2001, the first in a series of flagship reports produced by the United Nations Centre for Human Settlements (Habitat), was launched in June, 2001, at United Nations headquarters in New York. This article is adapted with permission from the report's Summary. Dr. Jay H. Moor is Coordinator and Principal Editor for the series. Rasna Warah is Editor of Habitat Debate. The full report may be viewed on the Habitat website, www.unchsh.org, or a copy may be ordered from the UNCHS (Habitat) Publications Unit, P.O. Box 30030, Nairobi, Kenya. Email: habitat.publications@unchsh.org

Establishing Effective Property Rights for Economic Development

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The professional economics literature is replete with articles and books devoted to the question of how to enhance economic growth, especially in the developing world. Actual progress on the ground, however, is mixed at best. While many areas enjoyed remarkable growth in incomes and living standards during the past three or four decades—Asia being a prime example—other regions noticeably lagged. In the words of the recent, thorough World Bank study, *The Quality of Growth*, by the end of the 1990s, poverty rates in sub-Saharan Africa, Latin America, and the Caribbean remained “stubbornly high.”

If it were a matter of applying the standard neoclassical model used by many economists, solving the growth problem would be relatively easy, somewhat like baking a cake: add some capital (domestic or foreign), technology, and education to a fixed supply of labor, and assume the presence of some basic market institutions, and growth of income per capita should follow inexorably. For our purposes here, the key assumption is that market institutions—specifically, the presence of widely recognized and enforceable property rights—are well functioning. Indeed, it is fair to say that much of the professional literature on economic development, with some few exceptions, takes the presence of property rights as a given and then moves on to what apparently is the more important questions of how to promote investment, savings, and the transfer of skills and technology to the developing world. Indeed, the World Bank study of economic growth mentioned above pays virtually no attention to the role of property rights, the presence or importance of which must implicitly be taken for granted (although, to the World Bank’s credit, it has paid more attention to this subject elsewhere).

We take a much different view in this article. Building on the argument laid out by Hernando De Soto in his recent book, *The Mystery of Capital*, we identify how, in principle, the most basic representation of property rights—title to land—is fundamental, yet lacking, in many regions of the world. There is a reason for this: massive migrations of residents from rural to urban areas have simply overwhelmed the formal legal infrastructure of these countries, leading to widespread “informality.” This phenomenon is not peculiar to today’s less developed countries; the same thing happened in developed societies, notably the United States, earlier in their development. Confronted with large-scale informality—“squatting” in the vernacular—developed countries eventually made their peace with it, essentially formalizing it, although not without much opposition and delay.

We then turn to a theoretical and empirical discussion of the costs of widespread informality. We concentrate on informal residential housing because it is relatively neglected in the literature on informality and, when aggregated throughout the world, represents an enormous investment of resources.

Our argument can be summarized as follows. At the most general level, legal systems are analogous to standards and thus to features of what economists recently have come to label as network externalities: the greater is the number of people who use a network, the more valuable is it for all to be “hooked” to the network. Land titles work the same way. The larger is the number of people who recognize them as representing legal claims to a piece of property, the wider is the market in which the seller may want to transfer it. Wider markets, in turn, promote investment, while enabling the property to serve as collateral for financing.

We are careful in making our claim of the importance of tackling the issue of informality. We are not saying that the sudden formalization of all informally held property is the silver bullet that will immediately launch less developed countries on a much faster growth trajectory. Our claim is more modest: finding a way to formalize property that is now widely held informally is a necessary, but not sufficient, condition for achieving faster growth and for thwarting looming backlash against capitalism in parts of the developing world. Certainly, other policy conditions—macroeconomic stability and policies that promote the development of human and financial capital, among others—also are essential.

In the final section of the paper, we take up the critical issue of how to get from here to there—that is, what strategies should both developing countries and the international financial institutions create to assist them in speeding up the process of turning existing informally held property titles into titles that are recognized by formal legal institutions? This challenge is not as easy as it may sound. In essence, we are calling for a vast acceleration of a process that took developed countries such as the United States more than a century to accomplish. If policymakers do not want to see a widening gulf in the per capita incomes of the rich and poor countries of the world, they should have a strong interest in seeing that such acceleration takes place.

THE WIDESPREAD PRESENCE OF INFORMALITY

Informality exists when people or businesses choose to operate outside the formal law. We underscore the word

“choose”: the decision to forgo the protection and benefits of the law—access to the judicial process, protection of the police, and the ability to transact with many different parties over a wide geographic region (in principle, the world)—is not made lightly. Instead, it comes about because people rationally conclude that the costs of acquiring these benefits are simply too great to justify the time and expense of becoming formal or because individuals have insufficient information about the relative costs and benefits of being formal.

One common supposition is that individuals choose to live and operate outside the law because they want to avoid paying taxes. Although taxes represent a real cost of doing business or acquiring land through formal means, living and working extralegally typically requires the constant payment of uncertain bribes to officials, which can be more onerous and oppressive than any formal tax. More important, however, are the delays—caused by layers of bureaucratic machinery—that residents and businesses in less developed countries typically encounter in their efforts to become formal. As years of painstaking study undertaken at the ground level by researchers at Hernando De Soto's Institute for Liberty and Democracy (ILD) have documented, when it takes nearly a year to form a legal business in Peru, or nearly *two decades* to obtain formal title to land in Egypt, or more than two years to surmount the legal hurdles to lease land in Haiti for a term of just five years, it is no wonder that so much informality exists in these countries.

Table 1 tabulates the results of this research in the countries that the ILD has studied thoroughly. The evidence speaks for itself. Most of the populations, in both rural and urban areas, in these countries live in structures that have no formal legal status. Actually, the phenomenon of informality is pervasive throughout the less developed world. Extrapolating the results of table 1 to other regions, using what we believe are reasonable assumptions, yields the projections shown in tables 2 and 3. If these numbers are anywhere close to accurate—and we believe that they are as reasonable as any other projections—most of the world's population outside the West and Japan lives in structures that are not legally sanctioned.

How did this happen? The rise of informality closely tracks the explosive migration of populations from rural to urban areas. People simply have moved faster than the law. When arriving in their new urban surroundings, migrants often come up against too many formal legal obstacles to claim land formally. So they implicitly and understandably make the benefit-cost calculation already suggested: under the protection of informal, but often surprisingly well-organized, groups and associations, the new arrivals usurp land—often technically owned by the government—and then use it to construct residences, but without waiting interminably for legal permission to do so. In Peru, these informal areas have come to be known as *pueblos jóvenes*, or new towns; in Brazil, they are known as *favelas*; in other countries, they have different names. The higher incidence of informality in urban than in rural areas throughout the world, shown in tables 2 and 3, is consistent with the notion that rural-to-urban migration is driving much of the informality that now exists.

One other aspect of informality is essential to point out. Not all informals are poor, nor do they always remain informal. Many individuals who might occupy the middle class in otherwise low-income countries are informal because they make the economic calculus described here. Furthermore, that calculus may, at times, tilt in favor of formal registrations for some things, such as automobiles, but not for others, most notably land. In addition, individuals and their families may move back and forth between formality and informality, depending on the costs and benefits. But, for the most part, informals, having chosen that path, tend to stay there, unless given compelling reasons to become formal.

ARE INFORMALS DIFFERENT FROM THE REST OF US?

It is tempting to conclude that informal residents of less developed countries somehow are inherently less lawful than those living in richer countries. But such a belief would be wrong. If the residents of rich countries would look back at the histories of their own countries, they would find that their ancestors or predecessors, too, behaved in a very similar fashion.

Table 1
Informality and Dead Capital around the World

Country	Informal as a percentage of rural population	Informal as a percentage of urban population	Estimated value of dead capital (billions of U.S. dollars)	GDP in 1999 (billions of U.S. dollars)
Egypt	83	92	240	92.4
Haiti	97	68	5.2	3.9a
Peru	81	53	74	57.3
Philippines	67	57	133	75.3

Source: Hernando De Soto, *The Mystery of Capital* (2000) and World Development Indicators database, a. 1998.

The history of Western Europe, for example, is marked by official hostility to squatting and other illegal activity dating from as early as the seventeenth century by migrants from rural areas to the cities. Existing guilds, which were permitted by formal law, prevented many of the new arrivals from gainful employment. Extralegal or informal activity—in homes and makeshift shops—was the inevitable result, and migrants often were arrested, or avoided arrest only by paying bribes to corrupt officials. Arguably, the French Revolution was spawned in large part by the inability of France's bureaucratic legal system to accommodate the needs of much of the population, who were effectively forced to live outside the law. By the nineteenth and early twentieth centuries, however, most Western European countries began adapting their legal institutions to accommodate the property and labor rights of their populations.

The United States has a similar history and is worth a closer examination. Its formal legal system, of course, was inherited from Great Britain. Yet as new settlers from throughout Europe continued to arrive in the colonies, they resorted to squatting, putting down claims to property wherever they stopped. Inevitably disputes broke out over ownership to property claimed by multiple parties. Initially, colonial leaders attempted to apply the common law they brought with them from the mother country, but the common law had not envisioned a society that did not have an established and well-accepted titling system from the outset and where multiple claims to the same piece of property were frequent. Accordingly, property disputes often were resolved in open trials in which various parties testified, but where the legal niceties were ignored. The definition of property rights thus varied across the colonies, and squatting became widespread.

As in Europe, the squatting was difficult to stop. The number of extralegal settlers was too large relative to the number of colonists who were willing to evict them. Eventually, some squatting was grudgingly accepted where settlers could prove they had improved the land they were occupying by planting crops or building cabins or other structures. Virginia was the first colony to recognize such "cabin rights" or "corn rights" through the doctrine of "preemption." Other colonies copied this legal innovation.

Preemption proved to be quite limited in scope, however, after the United States was formed. Congress repeatedly expressed hostility to squatting, giving federal authorities the power to remove unlawful settlers from federal lands. At the same time, Congress awarded free land with formally recognized titles to railroads, soldiers, and certain other recipients. The resulting patchwork of property rights at both the federal and state levels, formal and informal, was just that: a system in disarray. Between the end of the eighteenth and nineteenth centuries, Congress passed more than 500 laws aimed at simplifying and reforming federal property laws, but it could not prevent squatting, which continued unabated. With the benefit of hindsight, this is hardly surprising. As in the colonial period, the ever-expanding numbers of people who were arriving in the country from

Europe, as well as the original settlers, were making claims to property at a much faster pace than the formal legal system could accommodate.

The result also was predictable, although it took decades to accomplish. Eventually, American politicians were forced to recognize the realities of extralegal migration. The settlers proved too numerous and too politically powerful to ignore. Building on the preemption doctrine developed in the colonial era, Congress enacted the first federal preemption law in 1830, renewing it in subsequent years. Furthermore, in 1862, when Congress enacted the Homestead Act giving 160 free acres to any settler willing to live on and develop the land for five years, it was only sanctioning what the settlers had already done themselves. While the population of the United States expanded by 32 million from 1862 to 1890, only about 2 million of these individuals settled on farms claimed under the act. Nonetheless, the Homestead Act is important symbolically for illustrating how formal law came to embrace legal arrangements developed extralegally in the first instance.

Extralegal property rights in the United States are noteworthy in two other ways as well. During the nineteenth century in the Midwest, many settlers formed claims associations to protect their rights against speculators or claim jumpers. Analogous to the organizations of informals in Peru and elsewhere who "invaded" unoccupied areas of land in the late twentieth century, these associations enforced their own form of strict and primitive justice: in some cases, juries of members would decide among competing property claims, while in others, settlers would resort to force, knowing that the association would protect them against reprisals. The associations had their own constitutions, their own rules for adjudicating disputes, and their own procedures for registering and recognizing claims. In essence, the associations developed their own version of the common law—outside the existing formal system of common law administered by the formally recognized courts.

Meanwhile, in California, settler self-help took the form of miners' districts—organizations of settlers who rushed to the state after gold was discovered in the mid-nineteenth century. Through their districts, miners created their own law, fixing the dimensions of mining claims and establishing guidelines for how miners would identify the boundaries of those claims. In addition, the regulations of the districts established their own recorders' offices, which kept official track of claims. In effect, then, the miners themselves filled the vacuum in federal mining law, which explicitly excluded mineral lands from federal preemption, by creating a legal structure of their own.

In short, American property evolved through occupancy, preemption, homesteading, and miners' districts. Although formal legal systems had their defenders, they were overwhelmed by the continuing population growth and migration of existing and new residents who could not wait for formal recognition of their property claims. So they took matters into their own hands, much as informal residents throughout the developing world have been doing for

several decades. But the key fact about U.S. property law is that it eventually embraced the bottom-up revolution engineered through extralegal means. Although not without a struggle, policymakers and judges at least recognized realities on the ground and thus, unknowingly at the time, set an important precedent for what needs to be done in developing countries today.

THE COSTS OF INEFFECTIVE PROPERTY RIGHTS

On the surface, it might appear that there is nothing wrong with the apparently vast amount of informality around the world. Squatting has replaced formal legal ownership, but it does not appear to have stopped the informals from investing in the bricks and mortar that make up the residences in which they live. According to rough surveys conducted by ILLD researchers, the value of real estate held by informals in developing countries and the former communist countries exceeds \$9 trillion. So what is the problem?

The problem is that the capital created by informals—the bricks and mortar that have gone into the structures they have built—is literally dead: it cannot be transferred to anyone outside the very limited circle of friends and acquaintances of the sellers, and it certainly cannot be used as collateral for a mortgage or other type of credit provided by a formal financial institution. For property to come alive, its ownership must be widely recognized. In the informal world, only personal relationships count; simple pieces of paper representing ownership—titles—do not. To use more modern analogies, informally held property is like having a computer-generated file that cannot be read by another computer or speaking into a wireless phone that cannot



Puerto Montt, Chile

interoperate with phones on another wireless system. Informals are on the outside and not part of the legal network.

It is not surprising, therefore, that the World Bank concluded in its 1996 *World Development Report*, "Property rights are at the heart of the incentive structure of market economies." The stronger is the legal protection for one's claim to property, the stronger are the incentives to invest in its creation and improvement in the first place. This elemental, but crucial, proposition has been confirmed in cross-country statistical analyses (as imperfect as they may be): the strength of property rights, as measured by various indexes, has been found to have a statistically significant positive correlation with growth. In the business sector in particular, researchers have found that investment was more constrained in eastern Europe and the former Soviet Union, following the collapse of the Berlin Wall, by the absence of effective property rights than by imperfections in credit markets.

To our knowledge, there are no equivalent statistical studies of the relationship between formal rights to residential property, in particular, and economic growth. But there are likely to be several ways in which widespread legal protection for residential property should enhance economic growth.

One link is through the financial system. In more advanced economies such as the United States, individual entrepreneurs often start their businesses with funds raised by borrowing against their homes. The people who live in informal structures cannot use their homes as collateral for borrowing from formal lenders and thus do not have the financial wherewithal to launch even modest businesses.

A second link is through the political system. Again, as the World Bank in its 1996 *World Development Report* observed, "A wide distribution of property rights can counteract any concentration of power in the political system and contribute to political stability." Or, as Richard Pipes has pointed out for the Russian and French revolutions in his 1991 book, "Private property is arguably the single most important institution of social and political integration. Ownership of property creates a commitment to the political and legal order . . . Historical evidence indicates that societies with a wide distribution of property, notably in land and residential housing, are more conservative and stabler and, for that reason, more resilient to upheavals of all sorts."

It is not an accident that countries where informality is widespread experience bouts of political instability. Unstable governments, in turn, increase the risks of investment, whether by domestic or foreign residents. Higher country risk premiums, in turn, discourage growth.

A third important benefit of broad, formally recognized residential property rights is difficult, if not impossible, to quantify, but may be the most significant of all. Although there is great evidence that capitalism and Western values made great strides throughout the world during the past two decades, there is a growing backlash against that

Table 2
Urban Dead Capital in Real Estate Worldwide, 1997

Region	Total population (millions)	Urban population (percent)	Urban population (millions)	Number of urban dwellings (millions)	Number of informal urban dwellings (millions)	Value of informal urban dwellings (trillions of U.S. dollars)
Asia	1,747	29	503	101	85	1.75
Africa	525	32	167	33	28	0.58
Middle East and North Africa	371	57	211	42	36	0.74
South America	328	78	256	51	44	0.89
Mexico, Central America, and the Caribbean	161	64	103	21	18	0.36
China, newly industrializing states, and Eastern Europe	1,611	38	619	124	105	2.16
Subtotal	4,743		1,859	372	316	6.48
Other developing countries	191	39	75	15	13	0.26
Total	4,934		1,934	387	329	6.74

Source: Hernando De Soto, *The Mystery of Capital* (2000).

a. 179 developing and former communist nations.

b. An estimated 85 percent of urban parcels are informal. They either (a) were built in violation of express laws, (b) did not comply with requirements for access to land, (c) were originally formal but became informal, or (d) were built by the government without complying with legal requirements.

progress. In developed societies, a backlash against globalization was manifested most visibly by the protests (and some violence) attending the 1999 World Trade Organization ministerial meeting in Seattle, the International Monetary Fund and World Bank meetings in Washington, DC in April 2000 and September 2000 in Prague, and the G-8 meeting in Genoa during July 2001.

Meanwhile, it is less recognized, but nonetheless significant, that a backlash against not only globalization but also market-based economies has been gathering steam in developing countries as well. In a world of modern communications, it becomes all too easy for the poor to blame capitalism in the West for their plight—they have no stake in the capitalist world they now can see so easily on their televisions. Capitalism thus has become identified with a status quo that, for the disenfranchised, is increasingly intolerable. For informals—who are essentially on the outside looking into a society and world from which they are excluded—capitalism is an alien system, one to be detested more than admired. If these views are to be reversed, then informals must be brought inside the system, and that can only be done by providing them with the formal rights of property that participants in capitalist societies already have. Leaders in both the developing and developed world have strong self-interested reasons to make this happen; if they do not, the backlash against the progress that capitalism has made will grow, and Western values and markets increasingly will be under threat.

As our condensed historical summary should make clear, property rights did not fall from the sky in the United States and Europe; they evolved only over several centuries in a process somewhat akin to osmosis: the formal regime, confronted with widespread migration, gradually and often reluctantly adopted and incorporated rights that were recognized initially only extralegally.

The challenge for developing countries today that find themselves in situations akin to those faced by developed societies a century or more ago is to find ways of *accelerating* this process of melding the informal into the formal. In short, do the systems of property rights have to take as long to evolve in the developing world as they took in developed countries? Or can policymakers in the developing world learn from the experiences of developed societies and dramatically shorten the evolutionary process? These are the questions to which we turn next.

CONSTRUCTIVE STEPS TOWARD FORMAL RECOGNITION OF INFORMAL PROPERTY RIGHTS

Just as physicians can accelerate the healing process once scientists have discovered the root cause of an illness, we believe it is possible—indeed imperative—for countries with high degrees of informality to accelerate what otherwise would be an evolutionary process that ultimately would incorporate informally protected property into formal property rights regimes. Two steps are required for this to happen: countries must first recognize the need to take action, and then they must *implement a strategy* for making the necessary changes.

The first step—recognition—would appear, at first glance, to be highly problematic in developing countries where political systems either are autocratic or have limited experience with democratic institutions. This is because the beneficiaries of any program to formally recognize informal property rights inevitably are the poorest residents and workers of the country. In societies where democracies have barely taken root, why would political leaders take the preferences of this segment of the population into account, especially when doing so might erode the privileged status of the limited amounts of property that are held formally by

the upper classes, which presumably dominate the government and its society?

Although political leaders in some countries will not come to this conclusion, others already have, and there are reasons why more are likely to do so in the future. Most leaders, whether elected or appointed, crave legitimacy and affection from their populations. Once they become aware that most, or even the overwhelming portions, of their populations are residing outside the law—and are doing so because formal legal systems are encouraging them to do so—many leaders recognize the political benefits of bringing masses of informals into not only the formal legal system but also the mainstream of political and social culture. In effect, by giving people formal recognition of where they live, the state is giving them respect as well. Any leader interested in maintaining power—atop a stable society—can find it in his or her own self-interest to be the political champion of a program that enfranchises the bulk of the population.

Leadership also can demonstrate why it is in the interest of the elites of their countries to support formalization programs. When informals have secure property rights, they invest more in their houses and in the furnishings and appliances that go into them, all the while creating business opportunities for formal construction companies and retailers. Formalization also creates demand for mortgages, insurance, and electricity—all supplied by formal firms. In short, formalization is a positive sum game for all involved, informals and formals alike.

The case for formalization can be made more compelling if political leaders are confronted with physical

evidence of the extent of informality in their country and with the role of the rigid formal legal system in bringing it about. Over the past several years, researchers from the ILD have worked with counterparts in Egypt, Haiti, Mexico, and the Philippines to compile such evidence for top officials in each of these countries. The widespread nature of informality is typically illustrated with pictures and maps, while the complications of the legal systems are carefully documented, generally through simulations involving real-life applications for title. The process, however, is time-consuming and tedious and, so far, has been completed one country at a time—and then only at the initiative of a government showing interest in the project in the first place.

One key challenge for the future, therefore, is to find ways of encouraging many other countries that surely have widespread informality in their residential sectors to recognize that their societies look very much like those shown in tables 1, 2, and 3. Ideally, it would not be necessary for separate teams of researchers to painstakingly document for each developing country (including many societies in transition from communism to some form of market-based democracy) that informality is common and that excessively rigid legal systems are the major reason why. Now that the phenomenon is understood, and in fact has existed even in developed societies like the United States and Western Europe, the recognition phase can and should be shortened.

The World Bank and its developed-country members can play a constructive role in this endeavor by educating and encouraging, through their lending and aid programs, developed-country recipients to recognize the importance

Table 3
Rural Dead Capital in Real Estate Worldwide, 1997*

Region	Rural area (thousands of hectares)	Informality as a percentage of rural area	Informal rural area (thousands of hectares)	Informal rural area in croplands (thousands of hectares)	Informal rural area in grasslands (thousands of hectares)	Value of informal rural area (trillions of U.S. dollars) ^b
Asia	489,586	44	215,164	147,798	67,365	0.59
Africa	738,639	50	368,792	88,166	280,626	0.39
Middle East and North Africa	444,665	40	177,866	59,660	118,206	0.25
South America	607,407	49	297,895	51,006	246,889	0.24
Mexico, Central America, and the Caribbean	134,541	53	71,025	20,813	50,212	0.09
China, newly industrializing states, and Eastern Europe	1,151,280	47	540,142	188,721	351,421	0.8
Subtotal	3,566,118		1,670,884	556,164	1,114,719	2.36
Other developing countries	359,926	47	169,165	56,308	112,857	0.24
Total	3,926,044		1,840,049	612,472	1,227,576	2.6

Source: Hernando De Soto, *The Mystery of Capital* (2000).

a. 179 developing and former communist countries.

b. Total value of informal rural area is \$9.34 trillion. Total row has \$2.6 trillion. A value of \$3,973 per hectare of croplands and \$138 per hectare of grassland was used.



of incorporating informals into the mainstream of their countries' societies and legal systems. But what is the best means of doing so? It is tempting to say that the answer lies simply in using the existing formal legal structures in these countries to register titles of property claimed by informals. That would seem to require investment in computers and personnel to construct and maintain the title registries, as well as surveys and maps to mark the legal boundaries of the land claimed. In other words, why is not the formalization of informally held property simply a technical problem that seems easy to solve with money—from the international financial institutions or developed-country aid programs?

To be sure, technical issues need to be resolved if the currently dead capital of the informal sector is to be resurrected and the appropriate resources are to be directed to building the requisite property rights infrastructure: the mapping, registry, and information services that are necessary to determining who owns what and where. But if the problem of informality were merely a technical problem, it could—and probably would—have been resolved long ago. The main barriers to formalization are not the absence of computers, but the inability of current formal legal systems to readily absorb masses of informals. When granting title can take years, if not decades, and requires hundreds of forms and bureaucrats to complete, why would informals bother,

especially when they may be subject to further harassment and demands for bribes while they wait for formal recognition? The short answer is that they would not.

What, then, can and should be done? In particular, how can masses of property claims be processed and recognized promptly by legal and bureaucratic systems that are not equipped to handle such a volume? We believe there is no other choice than to make use of informal mechanisms of recognizing and enforcing property rights—the informal associations, religious organizations, and other institutions that vary from country to country but that nonetheless constitute a “government on the ground” whose legitimacy is respected by the masses of people currently without formal property rights. In essence, governments must, for a time, be willing to tolerate a titling system or systems that are parallel to the one that is currently in place. Currently, informal registrars and the titles they register must be given full legal status—that is, the same rights as property registered now through the state. This includes full recognition by the courts of all property transfers and security interests, including collateral, of property registered through informal means.

To borrow an analogy from the world of computers, we are suggesting—at least in the short run—that governments recognize and give full status to the property equivalent of multiple, but *interoperable*, computer programs. Just as computers can now recognize documents written in MS Word and WordPerfect, governments and private actors throughout the economy, especially financial institutions, must be willing to recognize and enforce the rights of property recorded in multiple property registrars.

Although relatively simple in principle, the system we are advocating has many practical hurdles. The first issue requires determining which and how many informal registrars to recognize. The answer surely will vary from country to country. In some, informal property rights associations will be the right vehicles; in others, it will be churches. The process of choosing, and effectively licensing, the registries will require a combination of diplomacy, determination, and fair-mindedness. In all cases, the informal registrars are most likely to require technical and financial assistance to establish and maintain their registries. This is an area where, for modest cost, financial assistance from the international financial institutions and developed countries can make a big difference.

A second issue is to determine how much uniformity the government should impose on the dispute settlement mechanisms of the various registries. As it is now, each informal association has its own means of resolving competing claims to certain properties. Should all registries entitle those who make claims to a certain minimum amount of due process? Should the decisions of the informal bodies be appealable to the formal judicial systems in each of the countries? Our inclination is that each informal body should be allowed to operate relatively free of government-imposed standards, if only because formal enforcement mechanisms in developing countries are weak, at best. Accordingly, even though it

might seem appropriate from the perspective of a developed country for governments to impose minimum standards of due process on the various informal registries, as a practical matter these are not likely to be enforced, or, if they are, the enforcement process could quickly paralyze the functioning of the associations and thereby keep many otherwise informal claims to property in legal limbo for years—precisely the problem that the recognition of the registries is designed to address. In short, it is better for governments to be willing to sacrifice some fairness in exchange for speed, since delays in giving full recognition to property rights are at the heart of why so much informality exists throughout the developing world.

The third, and perhaps the most important, challenge will be for governments to convince private actors that the titles registered in the informal registries are to be given the same legal weight as titles now registered through more formal means. Some considerable educational effort will be required to make this happen. But the law will have to back this commitment up by prohibiting lenders and other private actors from discriminating against individuals or companies that have titles registered through officially recognized registries. We recognize, of course, that the same weaknesses in judicial administration that now plague the granting of formal titles are also likely to frustrate effective enforcement of such anti-discrimination legislation. But the very act of putting such legislation in place should have at least some educational value, independent of the enforcement effort. Meanwhile, selective, but highly visible, prosecutions of violators of an anti-discrimination law could provide powerful incentives for all private actors to begin to change their behavior.

Finally, it is important to take account of the dynamic impacts of any kind of recommendation designed to register informal land. If the parallel path is open to individuals in perpetuity, it will no doubt encourage even more migration and squatting, as individuals and their families hope to take advantage much more expeditiously of the opportunity to expand their wealth at the expense of those whose land they may be occupying, whether it be the government or other private residents. For this reason, it is almost certainly necessary to make the parallel registry system a temporary one and thus to keep open the window of opportunity for such registration only for a relatively short period—such as one or two years—and then to close it and keep it shut. Thereafter, we would expect and would want the governments to mandate that a single, formal registry be the only legally recognized way of certifying property ownership—just as has occurred in developed economies.

It bears emphasis that the new single registry need not necessarily be the existing system. If one informal system proves to be more efficient and adaptable, then it ought to replace and absorb the current system. After all, the registration function, which has elements of strong network externalities, has certain features of a natural monopoly.

CONCLUSIONS

Capitalism may have won the hearts and minds of most people living in the developed world, but this is far from the case in developing countries, where hundreds of millions, if not billions, of people are living in the equivalent of a bell jar, insulated from the rights and benefits of an economic system whose foundations rest on the recognition of private property. In an increasingly global economy, it is not only unjust but also politically dangerous to keep such vast numbers of people in that bell jar. Something must be done to lift the jar and open the way for those inside to become beneficiaries of the market system they now view from afar.

This is one of the most difficult challenges of our times. But it is not insurmountable. For clues to success, policymakers and citizens around the world need only look at the path to development that most developed economies have traveled. Each has been subject to massive migrations of peoples, which have overwhelmed existing legal systems. The response to this situation invariably has been for formal legal systems to find some ways, often grudgingly and slowly, to recognize the rights of those deemed to be outlaws or informals but who nonetheless have their own systems of assigning and protecting claims to property.

The challenge now is for developing countries to find ways of not just copying this process, but vastly accelerating. We have offered a tentative way of doing just that: allowing for—indeed encouraging—the development of multiple, but officially recognized, property registry systems that can quickly enfranchise the informals. At the same time, governments must encourage their existing formal financial institutions and other private actors in the economy to give full recognition to the rights registered in these multiple registries. In so doing, governments can promote through market forces the rapid diffusion of property rights that we believe is necessary not only for enhanced economic growth but also for political stability in most parts of the developing world. •

Hernando De Soto is Founder and President of the Institute for Liberty and Democracy in Lima, Peru, and author of The Mystery of Capital. Dr. Robert E. Litan is Vice President and Director of Economic Studies at the Brookings Institution in Washington, DC. This article is adapted with permission from the 2001 Brookings-Wharton Papers on Financial Services.

Global Outlook's International Roundtable on Homeownership and Property Rights

SHANNON H. SORZANO
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The importance of property rights and homeownership in economic development and the new global economy was the topic of a roundtable discussion sponsored by the US Department of Housing and Urban Development (HUD) and the Woodrow Wilson International Center for Scholars, which took place at the Wilson Center on May 30, 2001. The roundtable was followed by a reception, celebrating the publication of the second issue of *Global Outlook*.

Property rights are crucial elements in economic development and indeed, personal dignity. They mean much more than owning a home, for they enable a house or piece of land to be used as collateral to raise a loan. Ensuring property rights makes it easier to take advantage of economic opportunities outside one's immediate environment. Long-term transactions become feasible. Property rights act as a liberating force from corruption, bureaucracy, and informality. Their absence can condemn people to a life of uncertainty and limited opportunity.

The Roundtable panelists included experts from the U.S. government, international organizations and private entities. Panelists discussed obstacles and shared strategies to improve affordable housing and economic development opportunities and conditions in developing countries around the world. *Global Outlook* Co-Editors Marc Weiss and Alven Lam moderated the roundtable. The following excerpts come from each panelist's contribution to a very productive discussion.

DR. JOLYNE SANJAK

Land Policy Advisor, U.S. Agency for International Development (USAID)

Systems of property titling and registration are vital elements of real estate markets and essential ingredients for broader economic growth. Inadequate governance of property affects financial market development, investment, and environmental conservation. Throughout Latin America and the Caribbean, recording transactions and verifying rights are high-cost endeavors of time and money, and many properties remain outside the formal title and registration



HUD-Wilson Center International Property Rights and Homeownership Roundtable

system. Property rights are neither secure nor fully marketable, limiting homeownership. Informal and often irregular access to property contributes to the unmanageable development of cities and leaves the poor more vulnerable to natural disasters.

In 1998, the U.S. and Salvadoran Governments jointly assumed the task of implementing the Santiago Summit initiative on property registration. The Santiago initiative provides a template for modernizing and simplifying information systems that record and authenticate property rights. Information relevant to the initiative is found at the USAID-OAS summit website www.property-registration.org. Continuing this effort, the U.S. Government, with other governments of the Hemisphere, was successful in shaping an initiative for the 2001 Quebec Plan of Action. The initiative aims both to secure rights and to facilitate markets by focusing on the adequacy of legal frameworks and the tailoring of reforms to enable well-functioning linkages from title to market.

WILLIAM COBBETT

Senior Urban Upgrading Adviser, United Nations Centre for Human Settlements (Habitat) / The Cities Alliance

Urbanization is moving in parts of the developing world at an unprecedented rate, leaving many governments unprepared for the consequences. Most urban areas in Africa will

double in size over the next fifteen years. This urbanization is characterized by extreme poverty, as people exercise rational choices in seeking access to social services and economic opportunity. For the low-income urban residents, the dominant form of tenure is informal rental housing, which is generally unregulated and relatively expensive. The need for credit is a constant issue, particularly short-term credit, small loans with very short maturities.

Neither the government nor the private sector has provided urban shelter that is adequate and affordable for people living in poverty. Too many city and national governments adopt an indifferent or hostile attitude towards the impoverished, especially those in newly urbanized parts of the world. The Global Campaign for Secure Tenure, launched by United Nations Centre for Human Settlements (Habitat) in 2000, is an advocacy initiative aimed at addressing the core of this problem. The lack of secure tenure and the threat of eviction, or of arbitrary administrative action, constitutes a major social and economic constraint for the poor. As an advocacy agency, the Habitat Campaign for Secure Tenure works to mobilize the active support of global, national, regional, and local partners.

ELENA PANARITIS

Initiator of The World Bank's Urban Property Rights Program in Peru

Secure and formal property rights are fundamental to a market-based economy, as they stimulate both investment and the creation of formal and efficient markets. Because of inefficient and poorly defined institutions and often-corrupt bureaucratic systems, a majority of the world's low- and moderate-income people are not able to acquire them. In developing countries and nations making the transition to market economies, most property claims, while acknowledged informally within local communities, too often go unrecognized by government officials. As a result, informal owners lack access to the social and economic benefits provided by secure property rights.

Institutions in general and more specifically those of property work as the practical underpinnings to economic development and democratization of a country. Property rights are the defining factors of such institutional structures. Property rights enhance wealth distribution of the economy's resources promoting both economic and social benefits. In the case of transition economies and less developed countries, more than 70 percent of real property lacks effective and enforceable property rights. As a result these economies do not operate with full productivity. Such nations have large and unsustainable informal sectors that undermine social cohesion, and they lag significantly in global economic competitiveness.

The Peruvian program supported by the World Bank to establish formal and secure property rights systems applied a unique holistic approach to property formalization. Reform of the property rights system successfully focused on three fundamentals of formalization: establishing

appropriate legislation, building effective organizations, and creating suitable enforcement mechanisms. It clearly demonstrated that a functional property rights system can be organized in a developing country. Yet the holistic approach in Peru should not be recognized as a mere exercise of simple titling. The method is a cross-sector strategic approach to create a free real property market where transaction costs are minimized, rights and obligations are enforced, and trust between people and the government is established.

The issue of property rights is an interdisciplinary one that urgently requires developing an international initiative to promote existing best practices in formalization and real estate reform, including replication of the approach taken in Peru that encouraged both economic growth and good governance.

MAUREEN BOLTON

Principal Financial Officer, International Finance Corporation (IFC)

The importance of disseminating of information regarding the performance of mortgage borrowers in developing countries is crucial and must not be underestimated. Mortgage borrowers in non-U.S. markets perform far better both on a credit and a prepayment basis, which means securities backed by such mortgages would be of much more stable duration and should attract more investors than is currently the case.

It would be beneficial for global investors and mortgage-borrowers in developing countries to come together: the investors need bonds of stable duration and the mortgage borrowers desperately need a long-term funding source. To this purpose, the International Finance Corporation (IFC) is working on developing a number of products that will accelerate the development of funding sources for emerging market mortgage borrowers. A new database will capture and make available the performance of mortgage borrowers from financial institutions that originate mortgages with



Amarateca, Honduras

capital from IFC loans. The IFC also continues to encourage rating agencies to disseminate information on rated Mortgage Backed Securities (MBS) transactions in developing countries.

RICHARD CORRIGAN

Manager of Credit Review and Internal Controls, Overseas Private Investment Corporation (OPIC)

The Overseas Private Investment Corporation's (OPIC) mission is to assist in the development of emerging market economies through the support of U.S. private capital and the expertise this investment brings with it. With a fully integrated housing sector as a key component in the maturation of developing economies, OPIC seeks ways to foster involvement of businesses and the U.S. housing industry in the evolution of local housing markets. American successes can be duplicated and their shortcomings avoided in markets willing to provide the legal and regulatory environment that supports homeownership and property rights.

Seemingly disjointed efforts to foster homeownership and property rights have actually evolved into a working pattern that shows great promise, and OPIC sees the role of USAID and the World Bank in fostering this legislative and administrative development as fundamental groundwork. OPIC believes its own role, and that of its fellow international financial institutions, is to test the depth, commitment, and resiliency of international equity investment and debt markets. It can serve as a laboratory, determining what works, what needs improvement, and demonstrating to domestic markets and governments that success in this sector can have a great multiplier effect on a vibrant financial sector, their own economies, and the social order.

JENNIFER R. SERRATO

Senior Manager, International Housing Finance Services, Fannie Mae

Property rights and title registration are fundamental components of primary mortgage market development and the creation of a viable secondary market. In many emerging markets, basic infrastructure and legal gaps exist where property rights are non-existent or underdeveloped. Title and property registration, and the establishment of lien and foreclosure laws are required to build a supportive foundation to facilitate housing finance in these markets. Irrespective of geographic area or scope of the market, the core requirements of a legal and regulatory framework for housing finance remain the same. Transparency, standard processes, enforcement of laws and regulations, and public and private sector support are critical components of this sustainable framework.

Though Fannie Mae is not permitted to make investments in or guarantees of mortgage-based financial assets outside of the United States, Fannie Mae does work in international markets to help other countries develop their



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own state-of-the-art housing finance systems. Fannie Mae's International Housing Finance Services was created in response to requests from foreign governments, financial institutions, and international organizations seeking assistance in the development of primary, secondary, and capital markets.

CONCLUSION

In his address to the United Nations on June 7, 2001, U.S. Housing and Urban Development Secretary Mel Martinez articulated the importance of property rights. "Expanding the number of homeowners remains a national priority," he said, "because we understand that homeownership is at the root of good citizenship . . . In helping families build real wealth, homeownership creates financial security and peace of mind."

Homeownership and property rights are important foundations for equitable, sustainable, and socially responsible economic growth, in the U.S. and abroad. Poor people without such rights cannot participate in the legal housing market and subsequently, will have no chance to benefit from any housing finance mechanisms or government subsidies.

This roundtable discussion was an effort by HUD and the Woodrow Wilson International Center to foster an honest dialogue about these issues and other common challenges that nations face around the world. •

Shannon H. Sorzano is Deputy Assistant Secretary for International Affairs at the U.S. Department of Housing and Urban Development in Washington, DC.

The Habitat Agenda, Global Urban Indicators, and the City Development Index

CHRISTINE AUCLAIR AND GUENTER KARL
United Nations Centre for Human Settlements (Habitat)

THE GLOBAL URBAN INDICATORS DATABASE

Indicators are not abstract numbers; they are variables that simplify relevant information and make areas of interest comprehensible. Indicators are measures that summarise information about a particular subject and point to particular problems. Above all, the purpose of indicators is to assess conditions and trends in relation to goals and targets and to indicate if objectives have been reached or are likely to be reached. Good indicators allow policymakers to anticipate future trends: provide early warning information, measure the impact of policies, identify priority issues and problems, allow for comparison of places and situations at one point in time and across time.

In the particular context of the 1996 *Habitat Agenda*, partners have reiterated their need for indicators. The United Nations Centre for Human Settlements (UNCHS/Habitat) has responded by engaging itself in a review of the existing indicators system for the "Istanbul+5" World Habitat Summit. Based on the *Habitat Agenda* and on Resolutions 15/6 and 17/1 of the United Nations Commission on Human Settlements, the UNCHS has developed an indicators system that contains a set of 23 key indicators and nine lists of qualitative data as the minimum data for reporting on shelter and urban development. Indicators measure performances and trends in 20 selected key areas of the *Habitat Agenda*. They provide a comprehensive picture of cities and a quantitative, comparative base

Table 1

Key Indicators and Qualitative Data for The Istanbul +5 Review

CHAPTER 1: Shelter

Habitat Agenda Commitment / indicator:

1. Provide security of tenure

indicator 1: tenure types

indicator 2: evictions

2. Promote the right to adequate housing

qualitative data 1: housing rights

indicator 3: housing price-to-income ratio

3. Provide equal access to land

indicator 4: land price-to-income ratio

4. Promote equal access to credit

indicator 5: mortgage and non-mortgage

5. Promote access to basic services

indicator 6: access to water

indicator 7: household connections

CHAPTER 2: Society

6. Provide equal opportunities for a safe and healthy life

indicator 8: under-five mortality

indicator 9: crime rates

qualitative data 2: urban violence

7. Promote social integration and support disadvantaged groups

indicator 10: poor households

8. Promote gender equality in human settlements development

indicator 11: female-male gaps

CHAPTER 3: Environment

9. Promote geographically-balanced settlement structures

indicator 12: urban population growth

10. Manage supply and demand for water in an effective manner

indicator 13: water consumption

indicator 14: price of water

11. Reduce urban pollution

indicator 15: air pollution

indicator 16: wastewater treated

indicator 17: solid waste disposal

12. Prevent disasters and rebuild settlements

qualitative data 3: disaster prevention and mitigation instruments

13. Promote effective and environmentally sound transportation system

indicator 18: travel time

indicator 19: transport modes

14. Support mechanisms to prepare and implement local environmental plans and local Agenda 21 initiatives

qualitative data 4: local environmental plans

CHAPTER 4: Economy

15. Strengthen small and micro-enterprises, particularly those developed by women

indicator 20: informal employment

16. Encourage public-private sector partnership and stimulate productive employment opportunities

qualitative data 5: public-private partnerships

indicator 21: city product

indicator 22: unemployment

17. Promote decentralisation and strengthen local authorities

qualitative data 6: level of decentralization

18. Encourage and support participation and civic engagement

qualitative data 7: citizen involvement in major planning decisions

19. Ensure transparent, accountable and efficient governance of towns, cities and metropolitan areas

qualitative data 8: transparency and accountability

indicator 23: local government revenue

and expenditures

Table 2
Global Urban Indicators Database 2 - Sample size by region

REGION	cities	sample	countries
AFRICA	55	23.70%	30
ASIA	28	12.10%	16
ARAB STATES	16	6.90%	13
LATIN AMERICA & CARIBBEAN	53	22.80%	20
HIGHLY INDUSTRIALIZED	38	16.40%	11
TRANSITIONAL ECONOMIES	42	18.10%	22
WORLD	232	100.00%	112

Source: www.urbanobservatory.org/indicators/database

for assessing conditions and progress towards achieving urban objectives (see box below).

The resultant Global Urban Indicators Database 2 (GUID2) includes data for 232 cities worldwide. It is intended to assess urban conditions in 1998. It constitutes the main source of information for analyzing urban conditions, trends and progress to date. Results have been incorporated into *The State of the World's Cities 2001* report. Most of the results are presented in the report through data aggregated by region or by level of city development, using the City Development Index. Definitions of indicators are detailed in the Guide to Urban Indicators available at: www.urbanobservatory.org/indicators.

THE CITY DEVELOPMENT INDEX

What does the City Development Index measure?

There are a number of concepts relating to cities and urban development that are, although complex and multifaceted, meaningful and desirable to measure. These include: development level, livability, sustainability, relative disadvantage or poverty, congestion and inclusiveness. Such multidimensional ideas cannot be encompassed by a single indicator but require a combination of different indicators — corresponding to different aspects of development or city performance — to form an index. Two very useful urban measurements are City Product per person, which gives the economic output of the city (somewhat analogous to the

national Gross Domestic Product), and the City Development Index (CDI).

The CDI is a measure of average well-being and access to urban facilities by individuals and families. The high statistical significance and usefulness of this index suggests that it is measuring real things. Overall, the CDI measures depreciated total expenditure over time on human services and physical infrastructure, and is a proxy for the city's total or human and physical capital assets. Expensive infrastructure or services, such as water treatment, are more heavily weighted in the index.

The City Development Index was first developed as a prototype for the United Nations 1996 World Habitat Summit in Istanbul, in order to rank cities according to their degree of development. The CDI is used in *The State of the World's Cities 2001* report as a benchmark for comparative display of several of the key indicators from the UNCHS (Habitat) Global Urban Indicators Database. The CDI is, to date, the best single comparative measurement of the overall level of urban development.

How is the CDI Constructed?

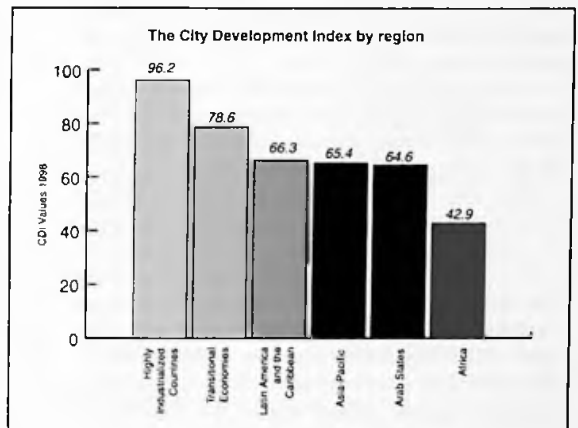
The technique used to construct the City Development Index is similar to that used by the United Nations Development Programme for their Human Development Index. Separate sub-indices are constructed and combined to generate a composite index. Thus, the CDI is based on five sub-indices — City Product, Infrastructure, Waste, Health, and Education — the values of which range from 0 to 100:

CITY DEVELOPMENT INDEX VERSUS HUMAN DEVELOPMENT INDEX

The CDI correlates well with the national Human Development Index (HDI), but because there is considerable variation between cities in any particular country, it provides a better measure of real city conditions than the nationally based HDI data.

The City Development Index is used to show how the values of indicators vary by city development quintile. Each quintile contains 20 percent of all cities in the database,

Chart 1



Graph 1

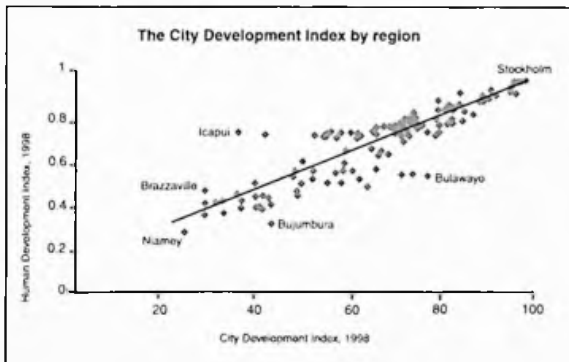


Table 3

CDI Components by Region and City

Region	CDI	City Product	Infrastructure	Waste	Health	Education
Africa	42.9	49.7	36.2	26.0	50.4	52.0
Arab States	64.6	66.5	69.8	45.9	77.2	63.4
Asia-Pacific	65.4	62.9	67.8	44.4	78.3	73.4
Highly Industrialized	96.2	90.6	99.2	100.0	94.3	97.1
Latin America-Caribbean	66.3	62.9	70.4	39.5	82.7	75.7
Transitional Economies	78.6	71.6	90.6	55.9	85.8	88.9
City						
Stockholm	97.4	93.5	99.5	100.0	94.0	99.8
Melbourne	95.5	90.0	99.8	100.0	93.7	94.1
Singapore	94.5	91.6	99.5	100.0	92.7	88.6
Hong Kong	92.0	89.4	99.3	99.0	90.9	81.3
Moscow	89.9	81.0	98.7	86.8	83.8	99.3
Seoul	86.0	65.3	98.4	100.0	88.7	77.7
Rio de Janeiro	79.4	82.3	86.2	62.6	81.9	84.3
Sofia	79.1	70.9	93.7	58.5	86.2	86.3
Hanoi	74.2	59.6	72.0	90.0	80.6	69.0
Havana	71.0	65.0	74.8	50.0	80.7	84.7
Jakarta	69.2	66.2	57.3	46.7	80.2	95.7
Ulaanbaatar	68.4	53.7	59.0	90.0	72.5	66.7
Lahore	61.1	71.1	78.5	50.0	64.9	40.8
Colombo	58.4	46.9	68.6	45.0	86.2	45.3
Bangalore	58.0	51.1	82.7	31.3	76.5	48.5
Dhaka	48.4	55.6	45.3	27.5	64.6	48.7
Vientiane	47.1	44.0	58.0	0.0	62.3	71.3
Accra	46.6	49.4	50.0	0.0	71.4	62.0
Phnom Penh	43.5	40.2	33.0	27.0	47.2	69.9
Port Moresby	39.3	69.0	18.1	10.0	59.1	40.2
Lagos	29.3	42.1	29.5	2.0	44.0	29.1
Niamey	21.7	40.0	22.0	0.0	78.3	14.9

arrayed from lowest to highest CDI values according to a scale ranging from 0 to 100. The City Development Index is a reliable predictor of its constituent variables. It is, moreover, usually a better measure than either City Product or the national HDI as a predictor of a significant range of their physical and social variables affecting urban quality of life.

The CDI also is a useful index for analyzing urban poverty and urban governance. The CDI's Health, Education, and Infrastructure components are particularly appropriate variables for measuring poverty outcomes in cities. Similarly, the Infrastructure, Waste, and City Product components are critical variables for measuring the effectiveness of governance in cities.

An interesting issue is the extent to which cities perform better or worse on the City Development Index than their income alone would indicate, suggesting that public policy and governance make an essential difference. The message is clear: cities that invest more heavily and strategically in physical infrastructure and human capital generate substantial economic and social benefits from such investment.

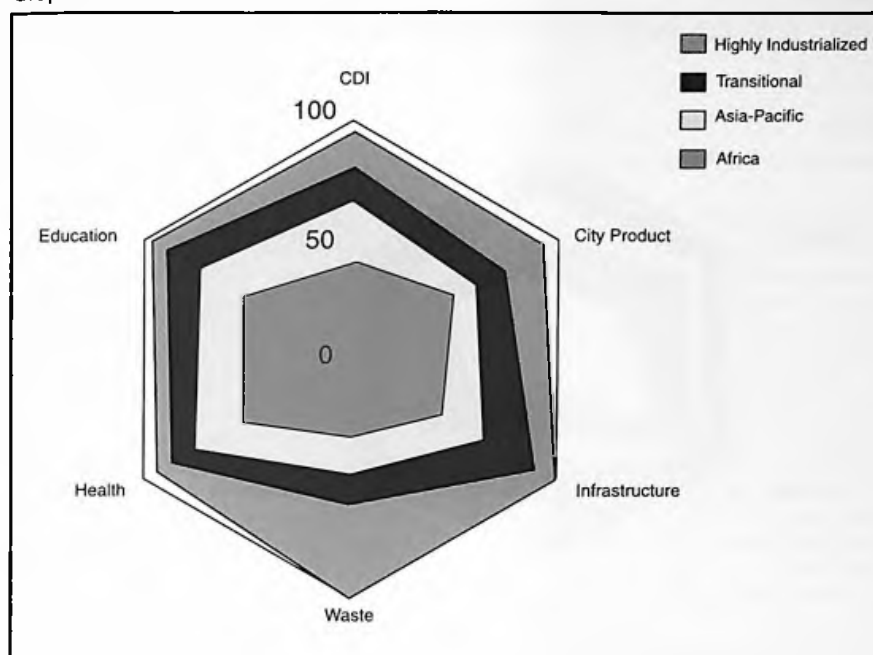
The overall City Development Index correlates strongly with the City Product measurement, which is one of its components. Generally, a high-income city will have a higher CDI. But, some cities have a significantly higher or lower CDI than would be expected from their incomes, due not only to urban policies but to the impacts of broader

regional and national geographic policies, trends, and traditions.

Graph 2 shows the comparative size of the various components of the City Development Index for four geographic areas. Although they regions are generally ordered from least developed to most developed, there are also particular elements in which each of the four regions are relatively weaker or stronger than their overall level of development. For example, the transitional economy cities perform relatively well in most social and physical infrastructure categories but are further behind in City Product. African cities, on the other hand, face particular difficulties in providing physical infrastructure. Waste disposal is a problem throughout nearly all of the developing world.

The five sub-indices of the CDI increase at different rates as the CDI increases. As this graph shows, the two best performing areas are the components that correlate with the Human Development Index: Health, and Education. Satisfactory levels of performance are reached on the Health sub-index for all but the bottom 20 percent of cities, and for the Education sub-index, for the top 60 percent. This demonstrates the important emphasis placed on these key services, and their relative ease of developmental improvement. Conversely, urban waste management is the weakest area, starting from low levels and not gaining an adequate score until it reaches the top 20 percent of cities. Many

Graph 2



otherwise developed cities score poorly on the Waste sub-index. City Product, representing the private sector or economic component of urban investment and development, has also been somewhat slower to improve for the majority of cities worldwide.

CALCULATING THE CITY DEVELOPMENT INDEX

The City Development Index is calculated according to multiple formulas. It has separate sub-indices for Infrastructure, Waste Management, Health, Education, and

City Product, which are averaged to form the CDI. Each sub-index is a combination of several indicators that have been normalized to give a value between 0 and 1.

Because the variables used to make up the CDI are strongly related to each other, there are several different ways to calculate the CDI that give almost identical results. For *The State of the World's Cities 2001* report, the weightings given to each indicator were initially calculated by a statistical process called Principal Components Analysis, and then simplified. This formulation of the CDI basically utilizes the same for-

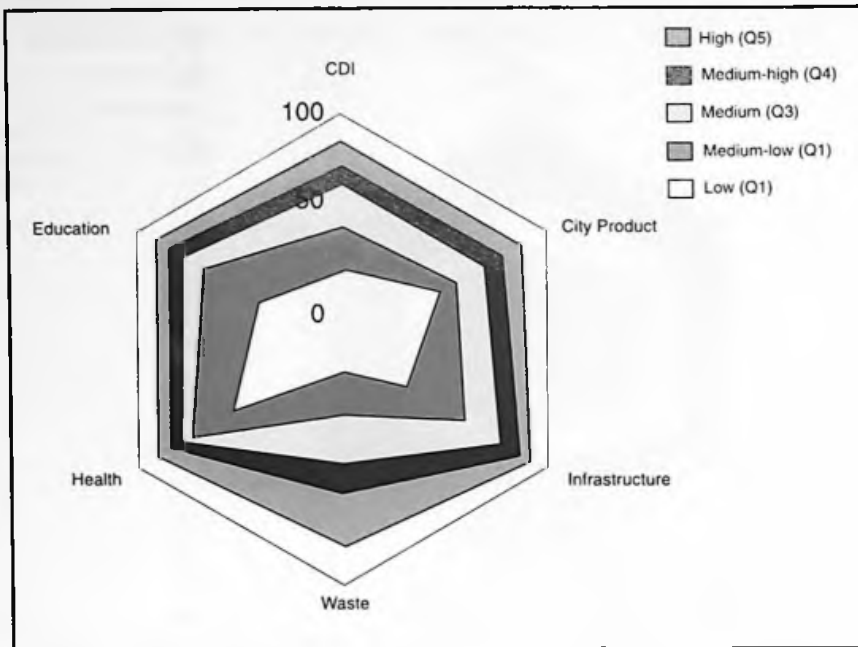
Table 4

Examples of cities with higher or lower CDI than expected from City Product

High performers		Low performers	
Cuenca	Ecuador	Lagos	Nigeria
Santo Andre	Brazil	Tangail	Bangladesh
Bourgas	Bulgaria	Conakry	Guinea
Chisinau	Moldova	Kigali	Rwanda
Seoul	Korea	Bangui	Central African Republic
Medan	Indonesia	Lome	Togo
Tena	Ecuador	Abidjan	Cote d'Ivoire
Novomoscow	Russian Federation	Baghdad	Iraq
Ulaanbaatar	Mongolia	Niamey	Niger
Hanoi	Vietnam	Monrovia	Liberia
Kumasi	Ghana	Nouakchott	Mauritania
Cajamarca	Peru	Asuncion	Paraguay
Tbilisi	Georgia	Kinshasa	Congo, Dem. Rep.
Amal	Sweden	Port Moresby	New Guinea

Note: as expressed by large differences in rank when ranking is undertaken using each variable.

Graph 3

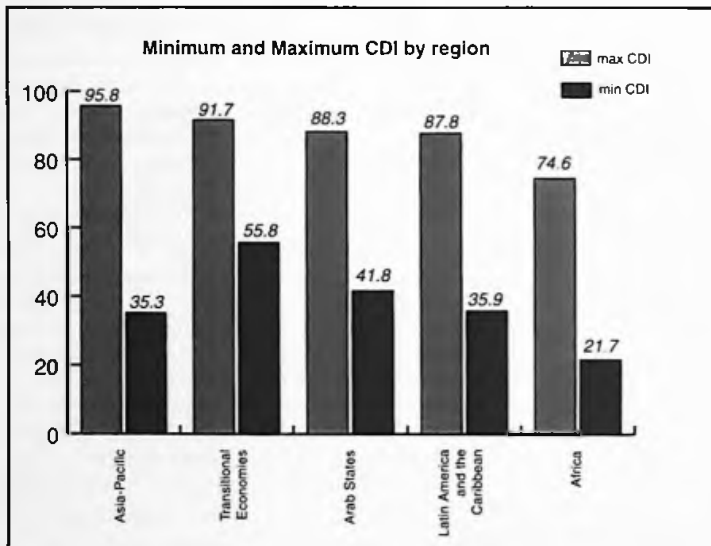


mulas as in the UNDP *Human Development Report* (1999), for the Health, Education and City Product sub-indices.

For meaningful ranking of cities, the index requires data that are essentially complete, robust and precise — thus not very many variables are suitable. For *The State of the World's Cities 2001* report, all the underlying data were thoroughly checked for accuracy and completeness. Where there were missing data or very inaccurate estimates, they were either replaced by data from another national city of similar size, by country-wide figures (or national urban data, if available)

or by figures for a nearby city or place at a similar level of development (but only if absolutely necessary). Also, Formal waste disposal or Wastewater treated is taken as zero if not provided. Where City Product was not provided, it was calculated so that $\text{City Product} \times \text{Household size} = 0.45 \times \text{Mean Household Income}$ (which is similar to the main estimation formula). For most transitional countries $0.35 \times \text{Household Income}$ was used because, in transitional economies, a higher proportion of the Gross Domestic Product (GDP) is devoted to indirect services and subsidies. The resultant City Product must be somewhere in the vicinity of the nation's GDP per person, otherwise household incomes were presumed to be incorrect and were adjusted accordingly. •

Chart 2



Christine Auclair is Indicators Advisor for the Global Urban Observatory and Statistics Section of the Urban Secretariat, and Guenter Karl is Coordinator of the Global Urban Observatory and Statistics Section of the Urban Secretariat, at the United Nations Centre for Human Settlements (Habitat) in Nairobi, Kenya. Their website is www.urbanobservatory.org.

Implementing the Habitat Agenda: Learning from Best Practices

NICHOLAS YOU

United Nations Centre for Human Settlements (Habitat)

The *Habitat Agenda* adopted by governments, local authorities and civil society organizations in Istanbul, Turkey during 1996 identified a set of strategic objectives and key instruments in support of the implementation and monitoring of action plans to meet the twin goals of "Shelter for All" and "Sustainable Urban Development". The strategic objectives are partnerships and participation, decentralization and empowerment, networking and the use of information in decision-making, and equity by gender, race, and ethnicity. The monitoring instruments are "indicators" and "documented best practices". From 1996 to 2001, UNCHS (Habitat) in collaboration with a global network of capacity building institutions and policy advocacy organizations, identified and documented over 1,100 best practices from 125 countries. Of these 441 originate from North America and Europe, referred to in this article as the ECE region. The purpose of the present article is to highlight some of the trends, emerging issues and lessons learned from the analysis of practices from this region.

RESPONSES TO THE IMPACTS OF GLOBALIZATION

The impact of globalization on urban policies has led to several positive responses and initiatives in the ECE region. Cities, and particularly urban regions, have realised that those strategies that will allow them to compete effectively are best met through social, economic and environmental policies that also benefit their citizens. In the post-industrialised countries where levels of infrastructure and services are already high, cities and regions are increasingly turning their attention to making more strategic use of their key assets, such as ports, transportation and communication hubs, and their cultural amenities, social capital and civic vitality. Numerous examples illustrate this trend. Investments in museums, cultural festivals and special events, including those that are rooted in ethnic diversity, highlight this new asset-based approach. Other practices focus on preserving and rehabilitating the cultural and physical environment including architectural heritage, watersheds, wildlife and other natural endowments. For transition economies, sectoral policies for improving the living environment are largely led by compliance with European Union norms and standards leading to better quality of life as well as improved investment climates. In North America, a competitive edge is sought by cities and regions through a combination of economic development strategies for incubating local business opportunities, human resources development, environmental policies for improving quality of life and safety.

RESPONSES TO UNEMPLOYMENT

One area which remains a major issue is structural unemployment. Despite very different macro-economic and social policies that underlie European and North American approaches, a persistent percentage of the urban population remains unemployed and socially excluded.

Several best practices provide for promising policy alternatives. In North America examples include the community-based approach to "Welfare to Work" implemented in the Waterloo Region of Canada — a region with a very substantial immigrant population. Numerous inner-city initiatives in the United States target at-risk youth, women, and minorities for job training and small business opportunities associated with neighborhood revival.

One of the impacts of globalization and an increasingly competitive marketplace is the demand for skills in information and communications technologies. Many women, particularly single heads of households, older people, and high school dropouts lack these skills and are unable to find jobs. In Europe, some of the more successful practices in dealing with unemployment focus on finding new job opportunities for youth, women, and early retirees through skills training. A good example can be found in a public-private partnership called the Open Data Centres in Denmark involving the Municipality of Naestved and the IBM corporation in assisting early retired people, youth and women to re-enter the job market through intensive training in information and communications technologies. In the Basque Country in Spain, a public-private-community initiative under the umbrella of the Bidasoa Area Development Agency was able to combine efforts in waste recycling and re-use with creating new job opportunities for socially excluded youth, women and minorities. In Tomaszow Mazowiecki, Poland, unemployment was much higher than the national average. The Employment Forum has a 65 per cent success rate in finding jobs for the unemployed through the careful matching of supply for training with industrial demand. In Bosnia and Herzegovina the Humanitarian Association uses a combination of trauma therapy, leadership and empowerment training to facilitate the re-integration of women, many of whom are widows with children, into economically productive roles in society.

CRIME PREVENTION AND PUBLIC SAFETY

Since 1996 there has been an observable trend, both in the ECE region and in other regions, in the types of policy responses to crime and social safety. Prior to 1996, community policing and community-based safety were the exception rather than the rule. No doubt owing to the political



Prague, Czech Republic

attention that is accorded to crime and social safety, there has been a growing awareness of what works, namely the necessity to involve the police, social services, the communities concerned and the architectural and urban design professions. Both in the United Kingdom and the Netherlands, police have been working together with architects and urban design professionals and Departments of Justice to issue "Secured by Design" guidelines and seals of approval. These guidelines, premised on partnerships and participation by homeowners, residents and the police, provide a checklist of items that help reduce risk and vulnerability to violence and robberies, resulting in up to 40 percent reductions in robberies and break-ins.

The gender dimension of safety is also being mainstreamed in several cities in the ECE region. The "Comite d'action femmes et securite urbaine" in Montreal, Canada mobilizes women to pressure the local authority to make the city safer for women. A key demand was the establishment of a public transit policy allowing women to get off the bus between stops at night, closer to their destinations. This practice, started in 1996 is now being adopted elsewhere in the Province of Quebec. Starting in 1998 in Pamplona, Spain, consultations between the municipality and women's groups have introduced new planning options including a Transport Plan. This plan involves differentiated times and levels of service and payment systems to improve the quality of life and safety for women and children.

ENERGY PRODUCTION AND CONSUMPTION

The Hamilton-Wentworth Region in the Province of Ontario, Canada has been actively implementing many projects as part of its Air Quality control initiative. Activities include reducing industrial and residential energy consumption, a community-based air quality monitoring system, and the development of a bicycle commuter network.

In Europe a major area of focus is on alternative means of individual and collective transport, including the recent call and mobilisation of European cities to participate in "car free" days. Muelheim an der Ruhr, in Germany, is testing the "Public Car" concept as part of its mobility management plan. A variation of the popular Car Sharing programme in Europe, the Public Car project is a public-private partnership which rents small, fuel-efficient cars to Muelheim residents for short trips within city limits, such as shopping errands and doctor's visits. Vehicles are located at two stations in the city, in close proximity to bus and tram stops. The objective is to reduce the number of car-owners in the city (Muelheim's car density — 498 automobiles for every 1,000 inhabitants) by providing an alternative, flexible means of transportation in addition to public transit.

In 1996, the executive committee of the Vaxjo Municipality in Sweden decided to stop using fossil fuels in the activities of the municipality. The reduction is to be achieved through changing behaviour and consumption patterns, increasing energy efficiency and substituting oil with bio-fuels. Industry, non-governmental organizations (NGOs) and private citizens are participating in these activities with the result that emissions of carbon dioxide from fossil fuels in the heating systems are less than half the current national average.

INFRASTRUCTURE AND SERVICES

Cities in the ECE region are among the best-equipped cities in the world in terms of infrastructure and services. As mature cities, their problems with infrastructure and basic services have more to do with maintaining old infrastructure and integrating new and improved infrastructure with environmental planning and management concerns. In Finland, Helsinki Energy's district heating system is a case in point, having resulted in remarkable energy efficiency and,

thereby, energy saving. The achievements are due to the technology based on co-generation of electricity and heat. The heat obtained in generating electricity is used for heating the city instead of the sea. Also the specific heat consumption in buildings has decreased thanks to information campaigns. As a result, air quality has improved substantially. The system has worked on market terms from the beginning. At present, more than 91 per cent of all buildings heated in Helsinki are served with district heating.

Many of the documented initiatives in infrastructure and services in North America and Western Europe seek to address the issue of social exclusion, particularly vis-à-vis immigrants and ethnic minorities living either on the periphery of cities or in inner-city slums. The main purpose of the *Integrated Plan for the Old City* in Zaragoza, Spain is to provide improved infrastructure, housing and social services to a neighborhood largely inhabited by the urban poor and an immigrant population. The Plan involves renovation of abandoned buildings in the old city for affordable housing, along with providing education, job training, and health services. There are similar initiatives in Boadilla del Monte, Santa Coloma de Gramenet, Madrid, Valladolid, Vitoria and other Spanish cities with neighborhoods of significant poverty and substantial numbers of immigrants. Their success is based on a concerted approach to social development, boosting the local economy, renewing infrastructure, improving the educational system, increasing access to health services, and enhancing environmental conditions.

The State of Pennsylvania's pioneering approach to property tax reform recognizes the important distinction between land and building values through what is now known as the split-rate or two-tier property tax. The tax is decreased on buildings, thereby giving property owners the incentive to build and to maintain and improve their properties, and the levy on land values is increased, thus discouraging land speculation and encouraging infill development. This shifting of the tax burden promotes a more efficient use of urban infrastructure such as roads and sewers, decreases the pressure towards urban sprawl, and assures a broader spread of the benefits of development to the community as a whole.

SHELTER AND SECURE TENURE

Over a quarter of the documented practices from ECE countries address the category of housing, shelter and security of tenure. Housing provision is closely linked with the issue of social inclusion especially regarding the integration of minorities and immigrants in cities in Western Europe and North America, as well as problems associated with an aging population. Care for the homeless and children is an important concern in Eastern Europe as is the issue of the privatization of housing ownership. Security of tenure remains a problem, especially with the gentrification of neighbourhoods and in some cases, the propensity of local authorities to give up on crime and high-poverty public housing estates. The FAWOS initiative for preventing homelessness in Vienna, Austria has identified debts, low incomes,

and other financial problems as the most common causes of evictions. In response, FAWOS offers a standardized procedure and rapid, efficient help to families facing eviction. Measures to help clients retain their dwellings include counseling on legal aspects, information on available financial support and client entitlement to such benefits. During the first year 250 out of 374 eviction cases were able to retain their apartments.

In Boston, Massachusetts, the South End neighborhood is a socially, racially, and economically diverse neighbourhood, where real estate speculation and gentrification in the 1980s had driven the cost of housing beyond the means of many life-long residents. In 1987, the South End Neighbourhood Housing Initiative (SENHI) was conceived through an extensive 15-month community planning process facilitated by the Boston Redevelopment Authority (BRA) to create affordable rental and homeownership opportunities for families and to protect current residents from displacement. SENHI managed to provide affordable, moderate, and market rate housing; eliminate urban blight; improve the quality of life for all residents; and promote development opportunities for non-profit and for-profit community-based organizations and minority-owned businesses. Hence over \$50 million in private and public money was invested in six development projects to build 307 units of mixed-income housing, of which 219 (71.3%) were reserved for low and moderate income households.

BUILDING CAPACITY

The *Habitat Agenda* recommends that partnerships be strengthened and participation made more effective through capacity building and improved management. Internationally, the Federation of Canadian Municipalities is pairing up cities such as Guelph, Canada and Jinja, Uganda, to improve local governance in both cities. Often, capacity building plays a crucial role in integrating otherwise marginalized groups. The Winds of Change is a movement developed by Asistencia para Latinos to address the issues of cultural isolation and language barriers presented by the new population of immigrants coming to the rural resort areas in the State of Colorado. This initiative trains individuals, advocates for fair treatment for Latinos (including the hiring of Spanish-speaking staff in public agencies, and builds bridges and coalitions between the Anglo and Latino cultures. It provides services in four areas: health and human services, education, business, and public safety/immigration. The initiative seeks to identify and build on the assets and capabilities of the Latino community, fostering a regional cross-sectoral, collaborative problem-solving approach that encourages the Latino and Anglo community to see each other as resources.

In Germany, the National Association of Mother Centres provides the basic means and support to women's groups to participate effectively in local decision-making and to engage local authorities and city planning departments to address unmet needs and to eliminate physical barriers as well as gaps in human services that alienate women and

children. Mother Centres represent an innovative model of how to strengthen civil society by strengthening neighborhoods. Key issues addressed include removing barriers resulting from poor urban design to allow ease of access for women with children, policy impediments to gaining greater access to quality services and public safety. From an initial three centres, the network has grown to over 400 centres in Germany and many neighboring countries of central and eastern Europe, as well as in Africa.

LINKING BEST PRACTICES WITH NATIONAL POLICY

The *Habitat Agenda* recommends that all partners should regularly monitor and evaluate their own performances in implementing the *Habitat Agenda* through comparable indicators and best practices. The guidelines developed by UNCHS (Habitat) further recommend that national committees organize broad-based and participatory competitions, exhibitions, seminars and conferences to help mainstream lessons learned from best practices. Several governments and organizations in the ECE region have engaged in such undertakings. The Governments of France, Italy and Spain organize nationwide competitions on best practices, followed by publications, exhibitions and seminars to initiate policy dialogue based on lessons learned. The EC supports the European Sustainable Cities Campaign and Awards system. The International Council for Local Environmental Initiatives (ICLEI) organizes a global awards system, and the cities of Bremen and Vienna organize the identification and dissemination of best practices focusing on European and transition countries. Best Practices initiatives and awards are organized at both the federal, state and local government levels in the US, including the Ford Foundation's and Harvard University's Innovations in American Government annual awards program. In addition, Environment Canada has taken an active interest in the collection and dissemination of best practices. There is need, however, to harmonize these initiatives and to make their differences and similarities more transparent to users and submitters alike so as to make the information and its interpretation more user-friendly, comparable and relevant to policy and decision-making.

CONCLUDING OBSERVATIONS

In the shift towards the enabling approach and the implementation of the strategies recommended by the *Habitat Agenda*, cities and their civic partners are assuming new roles and responsibilities. This is particularly apparent where partnerships are actively involved in areas that were previously assumed to be the sole responsibility of higher-level authorities in most countries. Examples include the design and

delivery of human services; the creation of jobs and of income-generating business activities; the provision of housing, infrastructure, and basic public services; and the promotion of information and communications technologies.

The types of policy responses emerging as a result of this enabling approach appear to be much more holistic, as called for by the *Habitat Agenda*. This can be attributed to the participation of non-governmental organizations, including the private sector, that demand effective solutions to what they perceive as convergent rather than sectoral issues. In forging solutions, they play an active role in promoting dialogue, in formulating socially-oriented projects, in mobilizing and leveraging public, private and community resources, and in implementation. As a result, they not only influence policy but also create sustainable and replicable processes.

In most cases, however, major gaps still exist between the lessons learned on the ground and policy making at the national level. Much more needs to be done to incorporate and integrate successful experience into macro-level policy, regional and international co-operation. The potential for such forms of capacity building remains largely untapped.

The above conclusions suggest that Best Practices are indeed a highly effective means of monitoring trends and assessing progress in the implementation of the *Habitat Agenda*. Countries, cities, and civic groups are eager to report on their most innovative work. This information can be used to assess the continued validity of approaches recommended in the *Habitat Agenda* as well as the effectiveness of regional and national policies. The Best Practices system should therefore be strengthened. A principle means of doing this should be a renewed commitment by governments, national committees and *Habitat Agenda* partners to engage in the systematic identification, documentation and exchange of Best Practices and to mainstream the sharing of the knowledge, expertise and experience as an effective tool for international cooperation, capacity-building and policy development. •

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The U.S. Agency for International Development and the Woodrow Wilson Center Host an International Making Cities Work Partnership Forum

DIANA VARAT

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During the week of July 9-13, 2001, the U.S. Agency for International Development (USAID) and the Woodrow Wilson International Center for Scholars Comparative Urban Studies Project sponsored the Making Cities Work Partnership Forum, themed "Linking Effective Management to the Development Challenges of the Urban Millennium." In his opening remarks, Wilson Center Director Lee H. Hamilton stressed that by 2050 more than 80 percent of the world's population will live in cities. Such growth, he said, is potentially dangerous to both the national security of the United States and to the lives of millions of urban residents worldwide. Making cities work is therefore a critical global challenge of the twenty-first century.

Confronting urban issues in what USAID has dubbed "the urban millennium" requires an extensive network of collaborative partnerships. The Making Cities Work Strategy engages partners, both traditional and non-traditional, from the private, public, and non-profit sectors and the donor community, so that sector-specific work may be more responsive to changing global trends. Three days of the conference were therefore devoted to working group sessions during which representatives of a diverse group of organizations discussed conditions for effective partnerships. Most importantly, they stressed the need to identify shared visions, pool resources and organize themselves more effectively.

Forum participants also emphasized the role partnerships between cities can play in improving the lives of urban residents, especially low-income families. David Rusk, former Mayor of Albuquerque, New Mexico and author of *Inside Game/Outside Game*, argued that current trends in American cities, including suburban sprawl and segregation by income and race, generate continuing obstacles to effective and equitable urban policy and management. Congressman Earl Blumenauer called attention to the need for the U.S. Congress to become more involved in encouraging and supporting environmentally sustainable urban development and livable communities. He advocated increasing opportunities for direct partnerships between municipal officials from cities and metropolitan regions around the world, which can lead to the creation of more effective global solutions to urban challenges.

What became exceedingly clear over the four-day forum was the importance the U.S. private sector and civil society place on improving the lives of the rapidly growing urban low-income population in the developing world. The potential environmental degradation, health risks, and



Damnoen Saduak, Thailand

economic losses due to poorly managed urban growth threaten the security of nations and the livelihood of millions of people. Coordinating the efforts of the numerous organizations that participated in the Making Cities Work Partnership Forum will help to address both current challenges and potential future problems. The fifth day of the conference was dedicated to an intensive dialogue among the members of USAID's international Making Cities Work Strategy Team to determine and plan for the next steps in finding and implementing new policy solutions for making the Urban Millennium a century of improvement for families and communities.

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Managing a Metropolis: The Challenge of Low-Income Housing and Neighborhood Redevelopment in Mumbai (Bombay), India

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Mumbai (also known as Bombay), more than any other metropolis in India, merits its label as an engine of the national economy. Half of the nation's imports and exports and a little over 40 percent of the National Government's revenues come from Mumbai. Within the State of Maharashtra itself, Mumbai accounts for 40 percent of the State's domestic product. Though located in a promontory off the mainland, Mumbai has the busiest railroad terminal, seaport, and airport in India. The golden quadrangle project of upgrading and improving national highways will further increase Mumbai's connections to the rest of the country. Total metropolitan employment is 4.6 million, of which 1.4 million is in manufacturing and 1.9 million is in services. However, much of the employment may be described as informal. Estimates of the informal sector vary from 51 to 65 percent of the total employment in the services sector. By the year 2011, employment in the metropolitan region is expected to be 5.4 million, an increase of more than 800,000 jobs. The bulk of future employment will be in the older Mumbai Corporation area, amounting to nearly 3.4 million jobs. The new Mumbai area is expected to have about 500,000 jobs, and the areas to the northeast and north of the old city will have about 1.1 million and 340,000 jobs respectively.

POVERTY AND INADEQUATE HOUSING

Annual per capita state income in Maharashtra is about Rs.17000 at 1996-97 prices (approximately US \$370). It is estimated to be about 40 percent more in the Mumbai metropolitan region. Income distribution, however, is considerably skewed, though incomes across the board have been rising steadily. Projections and analysis indicate that the percentage of households below the poverty line, calculated at Rs.1300 in 1991 prices, will fall from 25 percent in 1991 to nearly zero in Mumbai City and less than five percent in the metropolitan region. As elsewhere in the country, poverty thresholds are calculated mainly on the basis of minimum caloric food intake. However, if other variables like housing or environment are considered, the picture looks very different. Mumbai has often been described as "the most expensive slum in the world." Squatter settlements are a

prominent feature of the Mumbai scene. The problem is mainly due to the sizeable gap between the rapid rate of household formation and the inadequate supply of affordable housing mainly due to the acute scarcity of buildable land. The average annual addition of households in the metropolitan area during the past five years is estimated to be about 87,000, yet the annual supply of new housing during this same period has been only about 47,000. The number of low-income households has grown from about 800,000 in 1952 to about 1.1 million in 1991. Taking the average household size to be about five people, this means a population of nearly six million in slum households.

While housing affordability is a significant factor in the growth of slums, a wide array of policy and market distortions seriously limit the availability of land. The Bombay Rent Control Act of 1947, which consolidated provisions of earlier rent controls and froze private residential rents at 1940 levels, has had a highly negative impact on housing supply. Because of low rents, many of the rent-controlled buildings fell into disrepair. A 1957 survey by the Municipal Corporation revealed that out of 36,000 buildings in the inner city area, nearly half had been built before 1905 and were generally in a dilapidated condition. Collapses of buildings resulting in hundreds of casualties and rendering families homeless became frequent during the 1960s. In 1969 the Building Repair and Reconstruction Board was set up, enabling the government to intervene and undertake rehabilitation of these deteriorated buildings.



Mumbai, India

COMMUNITY IMPROVEMENT ACTIONS

As in other cities, Mumbai's initial response to slum growth was one of clearance and redevelopment. The subsidized housing plans for factory workers and low-income families introduced by the national government provided 50 percent loan and 50 percent subsidy to state governments for constructing apartment blocks with low cost specifications. The State of Maharashtra made considerable use of this scheme to rehouse slum dwellers. However slum housing growth and the increase of low-income households continued to outpace the availability of funds. The approach then shifted to improvement of slum dwellings and communities. Started in Calcutta in 1972, the slum improvement program was extended to other cities. Mumbai was one of the first cities in the country to undertake an official Census of Slums and issue photo passes to slum dwellers in 1976. This Census identified about 1,700 slum pockets in the Municipal Corporation area with a population of about 3.2 million, about 40 percent of the city's total population. About half the number of slums were on municipal lands, mainly in the island part of the city, and the other half were on private lands in the outlying areas of the Municipal Corporation's jurisdiction. By 1996, slum improvement efforts served nearly two million people.

The slum improvement programs, or for that matter even the Census of Slums, did not address the problem of pavement dwellers. The Indian Census specifically enumerates such people as homeless. According to the 1981 Census of Population, there were about 22,000 households in Mumbai living on pavements, alongside the commuter railway lines, under bridges, and in other outdoor locations. The benefits of slum improvement schemes were not available to these pavement dwellers, and from time to time municipal authorities tried to evict them and demolish their shacks. They would scatter and reappear again within a few weeks or months. In July 1981 a civil rights group obtained an injunction from the Supreme Court against such evictions pleading that the fundamental "Right to Life" included the right to shelter in some location allowing a person to earn a livelihood. The case was argued in court for more than four years. The final judgement upheld the right of the Municipal Corporation to evict the pavement dwellers after giving prior notice. Since then municipal authorities have focused entirely on clearing lands that are required for other urgent public purposes. According to one estimate based on the 1991 Census of Population, the number of homeless families who live on pavements was 33,000, an increase of 11,000 families from a decade earlier.

The continuing growth of slums in the Mumbai metropolitan region reflects its economic attractions as well as the difficulties in evolving a policy to deal with slum growth and adhering to it over a period of time. Though the Municipal Corporation and other local authorities are involved, it is the State government which has taken the main responsibility for dealing with the problem. Reference was made earlier to the Census of Slums in 1976, which was probably the first of its kind in the nation. Since then the

State government has been periodically updating the Census of Slums. As of November 2000, one such Census in progress estimated that slum dwellers in the Municipal Corporation area alone may exceed six million as compared to four million when the Census of Slums was last updated in 1995. The main purpose of the Census of Slums, apart from a head count, is to identify the slum locations in public and private lands and determine the eligibility of slum dwellers for assistance according to cut off dates determined by the State government from time to time. An ongoing Census has been organized through 32 centers across Mumbai with over 17,000 volunteers. Officials undertaking the Census predict that when it is completed, the total figure of slum dwellers may be more than eight million. Given the total population of the city of over 12 million, two-thirds are slum dwellers, thus reinforcing Mumbai's reputation "as the most expensive slum in the world."

Like other large cities in India, the mechanics of slum growth in Mumbai is a highly organized process. Apart from the operation of the so-called slum landlords, the consolidation of slum growth in Mumbai is based on a combination of socio-economic factors. Unlike pavement dwellers, many of the slum neighborhoods do not entirely consist of an intense concentration of low-income residents. For example, Dharavi, an area of Mumbai with a population of nearly one million people, is considered to be one of the largest urban slum communities in Asia. Expanding on a settlement of fishermen which had existed in the area for many years, Dharavi is now a bustling center of small-scale manufacturing and service activities. Dharavi also is strategically located between the two principal commuter railway lines. Many of the occupants are above the poverty level and may be classified as belonging to lower middle income groups. Dharavi is highly heterogeneous, with residents, workers, and entrepreneurs drawn from almost all parts of India, and sharing a spirit of enterprise and adaptability. Like Dharavi, many of the slums have well organized community groups. The provision of basic services taken up initially under the slum areas improvement program of the 1970s has moved forward. In 1985, then Prime Minister Rajiv Gandhi visited Dharavi and announced a special grant for community improvement and redevelopment. The grant was used for upgrading services, widening of roads, and construction of new apartments to rehouse slum dwellers.

While Dharavi has been a somewhat special case, public policy and programs for improving slum conditions have moved forward in a difficult and tenuous manner. After the phase of removal, clearance, and rehousing of slum dwellers between 1958 and 1971, the Slum Areas Improvement, Clearance and Redevelopment Act of 1971 enabled improvement of slums in public and private lands, acquisition of land, and protection of residents from eviction. In 1975 the Maharashtra Vacant Land Act (Prevention of Unauthorized Occupation and Summary Eviction), intended to protect land from encroachment and squatter settlements, was passed but the law was not upheld by the courts. In 1976 the first Census of Slums was taken. In the same



Mumbai, India

year the Maharashtra Housing and Area Development Act integrated all slum housing activities related to new housing, demolition, and renovation of older buildings under one authority. The Urban Land Ceiling and Regulation Act of 1970 enacted by the National Government of India during the same year stipulated ceilings of land holdings, enabled acquisition of excess land and offered exemptions for promoting low-income housing. The implementation of the Act has been regarded as a signal failure. The Development Control Rules, which had prohibited redevelopment of land previously occupied by closed textile mills, began in 1991 to permit such redevelopment on up to one-third of the land area considered surplus under the Ceiling Act, with the remaining two-thirds to be handed over to the Municipal Corporation. There were no takers for the scheme. This is one of many instances of public policy failure. In the case of Mumbai, the Ceiling Act had the effect of further aggravating the scarcity of developable land. It was repealed in 1999.

PROPERTY RIGHTS AND PARTNERSHIPS

In 1985 an Urban Development project was launched in Mumbai with financial support from the World Bank. For the first time an effort was made to incorporate principles of affordability through differential pricing and full cost recovery. The project emphasized wider distribution of land through the provision of serviced sites in different parts of the metropolitan region, and upgrading of slums with secure land tenure and formal property rights. Labeled as Affordable Low Income Shelter (ALIS), the program envisioned 85,000 serviced sites and upgrading of 100,000 slum households. About 40,000 of the serviced sites were in the

old city of Mumbai and the rest in the new-Mumbai and Thane-Kalyan areas. Agencies like the City and Industrial Development Corporation (CIDCO), and the State Housing and Urban Development Authority, were responsible for implementation. The Development Control Regulations administered by the Municipal Corporation and other local governments were reformed to permit construction of affordable housing. The Affordable Low Income Shelter project was able to accomplish most of its quantitative targets. Unfortunately, this market-oriented public-private partnership approach has not been replicated. Instead, populist schemes of providing heavily subsidized government-owned housing continue to predominate. From time to time the public authorities also regress into demolition and slum removal, such as in January 2000 when slums adjoining railway tracks were bulldozed and the residents were forcibly displaced. Nevertheless, the plan for the metropolitan Mumbai region continues to emphasize a facilitating role for public authorities in private market activity through provision of critical land and infrastructure, reorienting the role of municipal authorities and planning agencies, minimizing cash subsidies from government by choosing less costly land supply and servicing options, creating incentives for direct private investments through guided land development, and assigning a stronger monitoring role to metropolitan area governments. •

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Community Economic Development in Ghana

KEVIN KELLY

National Congress for Community Economic Development

In early June, 2001, the National Congress for Community Economic Development and Global Linkages conducted a ten-day study tour to Ghana. The purpose of the tour was to bring community development practitioners from the United States to visit similar groups in Ghana. This offered the opportunity for U.S. practitioners to learn from Ghanaian non-profits and for the groups in Ghana to learn from their American counterparts.

Our members are community development corporations (CDCs), non-profit organizations that build and manage affordable housing and create jobs and businesses in low- and moderate-income communities across the U.S. Some of our members also operate human services programs.

Some people may ask, why a study tour and why Ghana? This was our first study tour in ten years, since a two-week trip to the United Kingdom and the Republic of Ireland in 1991. Our experience is that the best way to learn about community development is to see the projects first-hand and to talk to the people living in the community about how they have benefitted.

There are more obvious differences than similarities between Ghana and the United States. So, why was Ghana selected? It is a politically stable country in West Africa, with an active non-profit sector. It is English speaking, which made direct communication between our tour participants and our local hosts easy. Our partner, Global Linkages, already had the necessary contacts with the non-profit sector in Ghana to make the arrangements. The notion that countries have to be at a similar level of development in order to be able to learn from each other's experiences is not an accurate one. For example, many of our member CDCs operate microenterprise loan programs, an idea that came from the world's developing countries, not from western, industrialized nations.

We visited a wide range of community development projects during our tour, including microenterprises, housing developments, child care centers, and health clinics. We also met with officials from the national government.

Three groups hosted our trip and arranged local site visits. The first group was the Ghana Association of Private Voluntary Organizations in Development (GAPVOD) is a close equivalent to NCCED in Ghana. GAPVOD is the national umbrella organization for non-profits in Ghana, although its membership is involved in a broader range of activities than are ours. GAPVOD is located in the capital city of Accra.

The second host group was the Centre for the Development of People (CEDEP) provides technical assistance to many local nonprofit groups and operates projects

as well. CEDEP works throughout Ghana, but its main office is in Kumasi, the second largest city in the country.

Our third host group was the 31st December Women's Movement, which was started by the former first lady of Ghana, Mrs. Rawlins. This organization runs child care centers in both urban and rural locations and operates several income-generating activities in order to pay for the cost of operating the centers. These income-generating activities include palm oil production, forestry, and candle making. With the recent change in government, the 31st Movement is no longer as well positioned as it was before. What impact this change will have on its funding base and its ability to operate the day care centers is yet to be seen.

One major difference between the U.S. and Ghana is that the majority of Ghanaians earn their living through the informal sector of the economy. Street vendors are ubiquitous everywhere one goes. This is true in both urban and rural areas. While this allows people to survive day-to-day, they don't earn enough income to actually set up a small store and to hire other people. The income generated by this sector of the economy is not taxed, so it does not generate any revenue for government, which is badly needed in order to pay for basic infrastructure, such as roads, electricity, garbage disposal, fresh water, and sewage treatment.

Access to capital is a much different issue in Ghana than in the U.S. A much smaller portion of the population has access to institutional financing sources, such as commercial banks. Many microenterprises are too small to obtain bank loans. In addition, a high inflation rate makes repayment terms difficult for most businesses to meet. To deal with this dilemma, some innovative approaches have been developed.

One of the innovative projects that we visited was a Susu collective in Kumasi. Susu is a term that originated in the



Kumasi, Ghana

Caribbean, but has been adopted in other parts of the world. Susus are formed by street vendors. The vendors make so little income, that they don't participate in the normal banking system in Ghana. They don't have enough money to open accounts and their financial needs are too small for banks to be interested in providing them with loans. Employees from the Susu collective visit with each member each week and collect part of their earnings. They keep deposit records on each vendor and then deposit the pool of funds that they collect in a bank account. This keeps the funds safe until the vendors need the money, and then it can be withdrawn. The pool of funds also enables the Susu to make micro-loans to its members. This allows the vendors access to capital that they would otherwise never have. The Susu also pays taxes out of the bank account, so that the government gets some badly needed tax revenue.

The housing development process in Ghana also differs from the United States. If a family wants to build a house, they save enough money to buy some land. As they save more money, they buy building materials and start building their home. The house is built little by little, until it is complete. The development of affordable housing by nonprofit organizations in Ghana is more of a rural than an urban phenomenon. We visited a rural housing project developed by Habitat for Humanity International. Their approach in Ghana is different from the approach I've seen used in the U.S., where Habitat for Humanity generally builds a few homes in scattered sites, rather than concentrating large numbers of homes at a single location.

In rural Ghana, we visited a small town where Habitat for Humanity was in the process of completing its 100th house. The community was slowly being relocated from substandard housing in the older portion of the town to newer homes built through Habitat for Humanity. This way a sense of community is retained. The new homes are owned by the residents and are made from bricks that are produced on-site from the local soil. One other difference is that even the newly built homes in this rural village do not have electricity or running water. There is no existing infrastructure of water pipes and electric lines to run out to the newly constructed homes.

As in the U.S., parents in Ghana have a need for convenient, affordable child care. The 31st December Women's Movement has focused on this need. We visited their child care centers in Accra, as well as in rural areas east of the capital. The 31st Movement has over 700 of these centers across the country. Our group brought donations of school supplies for the centers, which had been collected by Global Linkages in New Jersey.

One site visit with lessons for the U.S. was a new reproductive health center that trained youth to discuss AIDS and other sexually transmitted diseases, and the use of condoms with their peers. In a country where discussions by young people about sex is not considered socially acceptable, this model holds out hope for educating youth about a sensitive but important topic. Currently the AIDS epidemic has not

hit Ghana as hard as it has many other African nations. Programs like this one will be necessary to keep down the disease rate.

We met with the new minister for economic development and the new mayor of Kumasi. The new national government plans to focus on macroeconomic issues that prevent people from raising their standard of living above the poverty level. This includes reducing inflation, which has been running at over 40%, and thereby reducing interest rates. High inflation and high interest rates constrict access to capital and make it hard to develop housing or create more stable, private sector jobs. Improved access to electricity, safe drinking water, and regular, sanitary garbage disposal are goals of the new mayor of Kumasi.

Another difference between Americans and Ghanaians is the perception of poverty. According to our hosts, Ghanaians, if asked if they are poor, will almost always answer no. They perceive the question to be whether they consider themselves to be permanently poor. Even if someone is obviously poor at the moment, they don't consider themselves to be in that condition permanently. An example was given of a health clinic set up for low income people. Very few people would go to the clinic, because they didn't want to define themselves as poor or to be viewed by others in that way. Instead of asking if someone is poor or has an income below a certain level, it is more acceptable to inquire as to whether the family was able to pay their school fees for the past two semesters.

In addition to visiting non-profits and their projects, we learned about the history and culture of Ghana. The traditional decision-makers in Ghana have always been the chiefs and queen mothers that operate in each village and town. In rural Ghana they are still the basic units of local government. The King of the Ashanti people is viewed as equal to the President of Ghana. This traditional structure must be taken in to account when considering ways to improve living conditions in Ghana.

One particular fact of history links Ghana closely with the United States and other parts of the new world, the history of slavery. Ghana has more of the forts used to hold and transport slaves to the Americas than any other African nation. Another connection with the U.S. is the presence of the final home and grave of the famous African American leader, W.E.B. Dubois. Ghana is now a major tourist destination for African Americans and approximately 2,000 American citizens live there. Tourism has become a major part of Ghana's economy, trailing only gold and cacao in the amount of revenue that it generates.

We at NCCED plan to continue the relationship that we started this year with our counterparts in Ghana and to expand our work to include other nations as well. •

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Summit of the Americas Update

ANJA GRAVES

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During the Third Summit of the Americas, held in Quebec City, Canada, April 20-22, 2001, President Bush met with the Heads of State of 35 countries in the Americas and they agreed to work together on several key issues. The final declaration by all delegations identified actions to be taken in the near term to further the Summit's goal of promoting greater hemispheric cooperation in addressing common challenges. One of these actions was the conference on "Decentralization, Local Government and Citizen Participation," held in La Paz, Bolivia, July 29-31, 2001 sponsored by the Organization of American States (OAS).

In an effort to advance or consolidate democracy, most countries in the Americas have begun to decentralize government in order to increase the capacity of people to act on their own initiative in serving the social, political, and economic needs of their communities. The United States is eager to share the lessons learned from its experiences with encouraging local participation and facilitating collaboration between governments and nonprofit community-based

organizations. Many other countries in the Americas also are promoting citizen participation in local decision-making for the improvement of community services. For example, in the State of Jalisco, Mexico, training courses are delivered to citizens' organizations that focus on local government functioning and the development of strategies for increased citizen participation.

Contributing to successful governance and decentralization is active citizen participation, the inclusion of grassroots organizations, and the formation of local networks of non-governmental organizations (NGOs). Citizens, working in concert with local governments and NGOs, are the foundations for a strong democracy, and play a crucial role in guiding the administration of public services.

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Metropolitan Regions Promoting Sustainable Development and Urban Livability: Copenhagen, Curitiba, and Portland

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Over the past several decades, political leaders and community activists in different parts of the world have put the brakes on car-centered urban development. Three such places are Copenhagen, Portland, and Curitiba, where political leaders have made difficult, even controversial, choices to give precedence to pedestrians and cyclists, steer new development to locations easily reached by public transportation, and maintain population densities that make public transportation and cycling possible. These decisions have helped to revitalize central city locations, improve environmental health, and make streets safer for children.



Copenhagen, Denmark

COPENHAGEN, DENMARK

In the 1960s, just as cars were taking over the city, and public squares were being commandeered as parking lots, Copenhagen made some crucial choices. Rather than widening the roads to ease congestion, officials proposed closing streets to cars to improve conditions for pedestrians. Many people protested that Scandinavia was too cold for people to linger outside, arguing "We are Danes, not Italians!" After a lengthy debate, the city closed the main shopping street, the Stroget, to cars in 1962. Storeowners found that the greater number of pedestrians on the street stimulated business. Over the next 11 years, adjacent streets were turned over to pedestrians. Then the focus turned to reclaiming public squares and harborsides from parked cars, and the number of parking spaces in the heart of the city was reduced by roughly 2-3 percent per year, cutting some 600 spaces between 1986 and 1996.

The city also enhanced public transportation, aided by an enduring vision called the "Finger Plan." The plan, initiated in 1947, was for the urban region to develop along rail corridors extending toward smaller population centers. Copenhagen's central city was the "palm," while urban development along the five rail corridors constituted the "fingers." Green space between the fingers kept the image of a hand from turning into a paw.

In addition to maintaining these rail "fingers," officials made walking and bicycling safer and easier, replacing curbside parking with bicycle lanes and expanding the network of bicycle lanes from 180 kilometers in 1950 to 293 kilo-

meters in 1995. By 1996, the city center had six times as much space devoted to pedestrians. Bicycling to and from the city center increased by 65 percent between 1970 and 1996.

In recent years, Copenhagen has built on these successes. For instance, along with other Danish cities, it has adopted a "safe routes to school" program that ensures that students have a network of safe walking and cycling paths. And to further promote transit- and cycle-friendly development, a recent government directive states that new development should occur within one kilometer of a transit station.

Copenhagen's changes in the past few decades have made it far less dependent on motor vehicles. Even though the road network is bigger now than it was in 1970, the total number of kilometers driven by motor vehicles is 10 percent below what it was three decades ago. A survey of major industrial countries between 1973 and 1992 found that Denmark was the only one in which a shift from cars toward buses and rail led to a clear reduction in automobile travel, energy use, and pollution from vehicle emissions.

In the words of one city official, the heart of Copenhagen changed "from a car-oriented to a people-oriented place."

As a result, Copenhagen is a safe, healthy, and enjoyable place for people to live, work, and relax. Cities in the United Kingdom are now trying to emulate the Danish safe routes to school initiative. After a student exchange trip, a 14-year-old British boy remarked: "It was amazing how independent

the children were in Denmark, compared to Britain. They could cycle to their basketball training, and to parties, rather than having to get taken by their parents.

PORTLAND, OREGON

While people in Copenhagen were mobilizing to preserve the character of their city in the 1960s, residents of the U.S. State of Oregon were becoming concerned about the effects of suburbanization. New houses and businesses were popping up farther from downtown Portland, which was losing vitality as people moved to new opportunities in the suburbs. Nature lovers, attracted to Western Oregon by its lush greenery and woodlands, and farmers whose livelihood depended on the region's rich soils, formed a coalition to protect Oregon's forests and farms from urban sprawl. In 1973, the Oregon Legislature passed a law requiring all metropolitan areas to create growth boundaries beyond which new urban development would not occur. The boundary for the greater Portland area, eventually decided on in 1980, encompassed the city of Portland and 23 neighboring towns in three counties.

While the boundary was intended to protect the rural landscape, it ended up making Portlanders more aware of the urban streetscape. Under the leadership of Mayor Neil Goldschmidt, Portland began to take space from cars and give it to people. The city tore down a six-lane riverfront expressway and replaced it with a park for cyclists and walkers, and transformed a large downtown parking lot into a pedestrian plaza, Pioneer Courthouse Square, in the heart of the shopping district. Even as Portland became more consciously urban, city officials maintained a link to nature by enforcing municipal regulations to protect "view corridors" of Mount Hood, 50 miles to the east.

Over the years, the city government has taken steps to promote alternatives to driving. Both building and transportation policies aim to make streets welcoming to pedestrians and cyclists. To avoid expanses of alienating blank walls, the city required ground-floor windows in new buildings, and public art to account for one percent of the budget of new public buildings. The city's transportation department and police department have teamed up in a "traffic-calming" program to deter speeding on city streets, especially those near schools. The city now has 240 kilometers of bikeways, and requires bicycle parking to accompany new construction. When a highway was proposed in 1975 as a link to the eastern suburbs, Portland opted instead for a light rail system called MAX (Metropolitan Area Express).

Active citizens have influenced these decisions. When a highway bypass was proposed to cut through farmland to the west of Portland, two citizens' groups, 1000 Friends of Oregon and Sensible Transportation Options for People, pointed out that computer models of traffic growth did not take into account the benefits of walkable and bikeable neighborhoods in projecting future trends. Updating the software, these advocates showed that over 20 years, development geared toward transit, pedestrians, and cyclists

would result in 18 percent less highway congestion than building a new bypass.

Metropolitan Portland is now trying to apply the lessons learned in revitalizing its downtown to revamping its suburbs, which were built with office parks separated from housing developments by wide motorways. The Portland region's latest plan is to channel the bulk of future growth toward nine regional centers that are to be interconnected by the light rail transit system. Up to 85 percent of new development is to take place no farther than a five-minute walk from a transit station. The first segment of the light rail network, opened in 1990, runs east from downtown Portland; the second line, opened in 1998, traces the city's western corridor. Without the west-side rail link, planners estimate that they would have needed eight new parking garages and two extra lanes on major highways.

Portland's regional government, Metro, consulted extensively with residents in formulating its latest plans. For example, Metro commissioned a survey in the early 1990s that asked citizens for their reactions to pictures of different types of streets. Most suburbanites surveyed actually did not favor the pictures of typical suburbia: wide expressways with large shopping malls on either side, marooned in an asphalt sea of parking spaces, and curving residential streets fronted by two-car garages. The highest-rated residential scene was in fact a picture of a tree-lined urban street in Toronto, with 30 to 40 dwelling units per acre. Based on these surveys, Metro developed four scenarios for growth to show how the region might accommodate the anticipated population increase, held 182 public meetings with citizens, made a video available through video rental stores, and sent every resident a questionnaire with maps of the different scenarios.

Initial surveys uncovered double standards. For instance: "I don't like sprawl, but I don't want my neighborhood to change," or "I like transit, but I mostly drive my car." Subsequent questionnaires explicitly offered a set of trade-offs. Faced with the choice: "Should investments be made in highways or transit," only 14 percent preferred investing in roads. Only 13 percent thought that growth should occur in new areas instead of existing neighborhoods. The resulting plan employed a host of transportation and land use policies, but the vision, according to Metro's chairman Mike Burton, could still be summed up in just two sentences: "Everyone can always see Mount Hood. Every child can walk to a library."

Although the suburbs within Portland's growth boundary still rely heavily on automobiles, the region's investment in transportation choices is already paying dividends. Compared to a number of more sprawling cities in the southern and western United States, Portland's streets are safer for children and pedestrians of all ages.

The growing variety of transportation choices has made "car sharing" possible. Membership-based hourly car rental services took root in Europe in the 1980s. Portland's program boasts a fleet of rental cars, including a hybrid-electric sports car and a pickup truck, parked throughout the city. Members pay a \$100 annual fee, reserve the car they want,

walk or bike to pick it up, and receive a monthly bill for the hours used and miles driven. Steve Gutman, a participant, reports that he and his wife "share 18 vehicles with 282 people—that's 6.4 percent of one car for each of us." The Gutmans end up driving about 160 kilometers (100 miles) by car each month, much less than the typical American, and pay only \$60 for transportation, a fraction of the \$480 a month it costs to own and operate a relatively new car. And, says Gutman, "on any given day we have, within 10 blocks of our home, our choice of four different cars!"

As in other desirable places, increased demand for housing in Portland has pushed prices up. But, contrary to critics' assertions, Portland's regional planning has likely eased the pressure. Elsewhere, suburbs put an upper limit on the number of houses per acre, effectively mandating expensive homes on large lots. Portland's Metro sets a lower limit on the number of houses and requires a mix of housing types to make housing affordable and keep a 20-year supply of buildable land within the region's Urban Growth Boundary. Still, the target density of Portland's latest plan is less than 15 people per hectare, slightly less dense than smaller Ashland, Oregon, and far from Manhattan's 193 people per hectare. Between 1985 and 1995, the prices of buildable lots increased on average 2.85 percent per year in Portland, but rose even faster in some booming places, such as Phoenix and San Diego, that lacked regional growth boundaries.

Between the 1980s and 1990s, according to researcher Arthur Nelson, metropolitan Portland and Atlanta have seen comparable growth in population, but Portland has benefited from slower growth in vehicle traffic, reduced commuting time, declining air pollution and fuel consumption, and an increase in neighborhood quality. Moreover, both job growth and income growth were higher in Portland. (See Table 1)

CURITIBA, BRAZIL

Another city that opted to invest in quality public space and public transportation in the 1970s is Curitiba, Brazil. Like Portland, Curitiba started as a New World frontier town. By 1972, it was reeling from a population surge in the 1950s

and '60s that, combined with escalating automobile ownership, had brought daunting traffic problems. Under Brazil's military dictatorship, foreign capital was flowing to large infrastructure projects such as highways and the hasty assembly of Brasilia, a dazzlingly modern new capital of skyscrapers and wide motorways that was widely touted as the city of the future. In line with then-prevalent thinking, a new overpass was expected to ease the Curitiba's traffic woes. But the city's new mayor, Jaime Lerner, an architect, believed that greater use of public transportation could ease traffic while maintaining the character of Curitiba's streets.

Mayor Lerner pointed out that the overpass would obliterate the city's historic main street. And on the eve before demolition was to begin, he took a highly controversial step to halt the project, organizing engineers to block off the street to cars and create a pedestrian mall. Bulldozer operators showed up the next morning to find the street they were supposed to tear up lined with flowerpots and occupied by children painting murals.

The city proceeded to manage traffic by improving public transportation, designating several main roadways radiating from the city center as "busways." (See Figure 1) Zoning laws encouraged high-density buildings along these thoroughfares. Transfer stations allowed commuters on the fringes of town to switch from smaller, local buses to the express buses on the main routes.

Mayor Jaime Lerner aimed not only to improve traffic but also to secure housing locations for poor families. Before the buildings along the transportation corridors were fully developed, the city bought up strategically located land parcels and set them aside for affordable housing. "These small-scale developments blend into the surrounding residential areas," writes urban analyst Jonas Rabinovitch. "They integrate rather than isolate low-income households into the economy and culture of the larger city."

With the streets reconfigured, the city revamped the bus system with a series of innovations that are now world famous. Dedicated busways, extra-large buses for high-density routes, and tube-shaped shelters where passengers pay their fares in advance, are all adaptations from rail systems that add speed and comfort for relatively little expense. In fact, the bus system cost less than one third of one percent of what a subway would have cost. And much of the expense has been covered by contributions from private bus companies. The city has paid only for the roads, lighting, bus stops, and staff to monitor the bus operators. By the mid-1990s, although Curitiba had one car for every three people, two thirds of all trips in the city were made by bus.

Looking ahead, Curitiba not only steered growth toward the streets and neighborhoods around transit lines, but also guided it away from environmentally sensitive areas. Stretches of land along rivers were put off limits to developers and made into parks, a practical option that also eliminated potential economic loss from flood damage to buildings. These re-zonings, together with other efforts to protect natural areas and build parks, increased the area of green space per person 100-fold over 20 years.

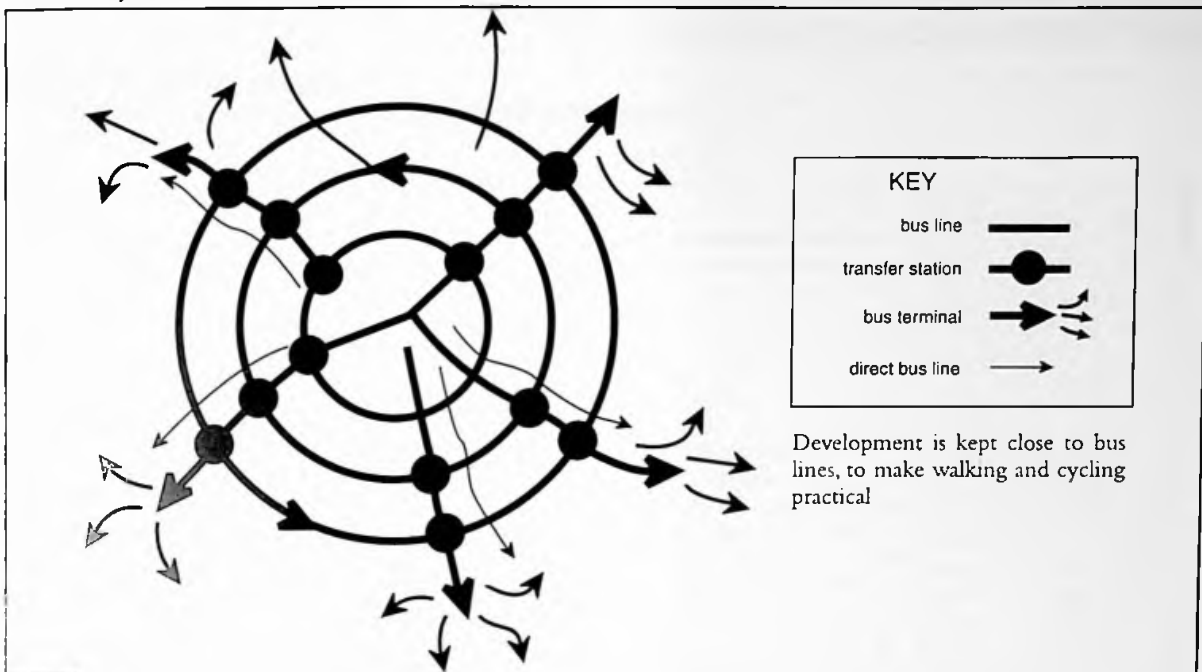
Table 1
Changes in Portland and Atlanta Regions from mid-1980s to mid-1990s

Indicator	Portland, Oregon	Atlanta, Georgia
	(percent change)	
Population growth	+26	+32
Job growth	+43	+37
Income	+72	+60
Property tax	-29	+22
Vehicle miles traveled	+2	+17
Single occupant vehicles	-13	+15
Commute time	-9	+1
Air pollution (ozone)	-86	+5
Energy consumption	-8	+11
Neighborhood quality	+19	-11

Source: Lincoln Institute of Land Policy, (Cambridge, MA, 2000).

Figure 1

The Bus System in Curitiba, Brazil



The city took a host of other steps to make streets safer and easier for pedestrians and cyclists to use. What began with the pedestrianization of the historic main street led to some 650 downtown blocks being set aside as pedestrian thoroughfares. These streets connect to bus stations and parks, which in turn connect to a 150-kilometer network of bicycle paths.

As in Copenhagen and Portland, Curitiba's transportation reforms were part of broader efforts to revitalize the central city, preserve the environment, and respond to the needs of citizens, particularly children. In Curitiba, the city made the needs of children central, funding municipal day-care centers and engaging street children in city projects such as urban gardening.

When New Yorker writer Bill McKibben wrote in the early 1990s, "Curitiba is among the world's greatest cities," he found that many shared his view: "99 percent of Curitiba residents told pollsters that they were happy with their town; and 70 percent of Paulistas, residents of the mobbed megalopolis to the north, said they thought life would be better in Curitiba.

The road taken by Brasilia shows what might have happened to Curitiba. The national government planned for Brasilia to have lower-density development that makes public transportation inefficient, and required residential, commercial, and industrial facilities to be separated from each other. As a result, notes an analyst for the Inter-American Development Bank, "car travel is required for even the

simplest of needs" in Brasilia. Curitiba, on the other hand, by promoting development—including low-income housing—along public transportation routes and allowing residences to be located near stores, created a city in which people do not need to drive."

CONCLUSION

The three cities described are by no means utopias. Outlying areas within greater Copenhagen are not as accommodating to the pedestrian or bicyclist as the center city. Within its Urban Growth Boundary, Portland has car-dependent suburbs and is feeling the housing demand that comes with success. Curitiba must wrestle with the problem of squatter settlements on the outskirts of town. Nonetheless, as a result of decisions to give precedence to public transportation and public space, these cities have fared better than others in many respects. Public transportation ridership has increased faster than population growth, children have better access to places they need to go, and the air is cleaner. What is more, their economies are thriving. •

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Economic Development Strategies for Smaller Cities and Intermediate Regions

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In the field of regional policy, metropolitan regions centered around large cities, and rural areas with small towns, have generally been the main focus of policymakers. But what about those regions that are in between these two extremes? What about regions which consist primarily of an intense network of small and medium-sized towns? The Territorial Development Service of the Organization for Economic Cooperation and Development (OECD) calls them "intermediate regions". According to the OECD, regions are classified as being intermediate when between 15 and 50% of their population live in rural communities (see box). Despite their great diversity, the different profiles of intermediate regions show some common characteristics. This is significant for policymakers as they attempt to learn from successful initiatives applied in other similar regions of the OECD.

Trend analysis for intermediate regions shows a mixed record. On the whole, intermediate regions have performed dynamically over the last 15 years. However, if structural adjustment has had positive effects in some intermediate regions, others have stagnated or declined. Generally, intermediate regions account for a significant proportion of the total population of the OECD countries, about 34 percent in 1995. In fact, intermediate regions were the only ones that have registered an increase in their population during the period 1980-1995, and this at the expense of rural regions (See Figure 1). However, the relative importance of intermediate regions varies among OECD countries. In European countries like France, Italy, and Spain, population is concentrated in

Figure 1

Types of Regions in Europe



Source: OECD Territorial Database, 1999.

intermediate regions. In Germany, Switzerland, and the United Kingdom, the greatest number are to be found in urban regions while in Finland, Norway, and Turkey, the bulk of the population lives in rural regions (see map). Overall, Europe's intermediate regions are to be found in all parts of national territories. Another point is that most intermediate regions in the OECD are specialized in manufacturing industries. Although this sector has recorded a net decline in the number of jobs in most intermediate regions of OECD member countries, manufacturing industries continues to provide employment for a significant portion of the working population.

This mixed record for intermediate regions is due to the fact that within the category of intermediate regions, there are different subtypes of regions. A more detailed assessment will require differentiating among regions according to their economic structures. Broadly speaking, there are three main types of intermediate regions: regions with a strong agricultural heritage, regions with industrial specialization, and regions with a developed tourist industry. Of course, some intermediate regions may combine several of these features. Consequently, it is quite a challenge to identify the factors of growth and reasons for decline. However, it is possible to highlight some similarities in terms of strengths and weaknesses that reflect global trends affecting most intermediate regions. Here are some interesting findings that will allow formulating fairly general strategies.

In terms of strengths, most intermediate regions have a highly-specialized industrial sector. Their strong industrial tradition has produced a local workforce with the skills and technical know-how that gives a competitive edge for incremental innovation. Moreover, in many OECD intermediate regions, the proportion of small and medium-sized enterprises (SMEs) is higher than at the national level. This is an asset, because SMEs have the advantage of being more flexible to a changing environment than big firms. They can respond more easily by shifting their production. Also, growth in intermediate regions is often linked to the dynamism of their small and medium-sized towns. With the concentration of facilities, infrastructure, and services, these towns offer both the advantages and the disadvantages of urban life combined with the quality of life in rural areas.

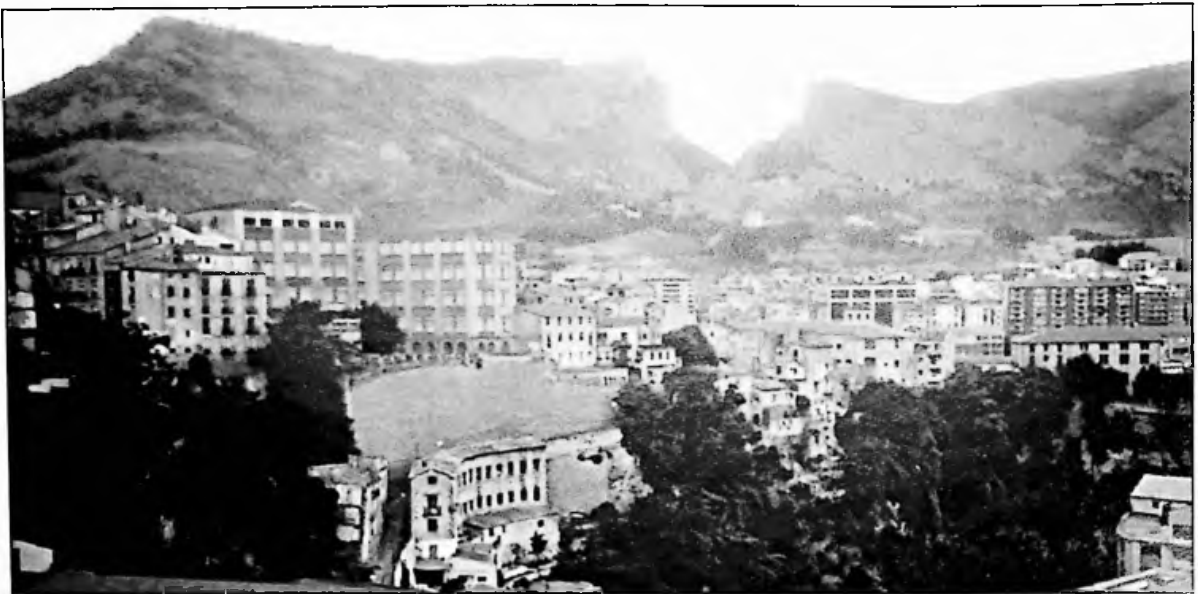
In terms of weaknesses, one of the main problems of intermediate regions is the relative weakness of the services sector, especially business and financial services. This is an important challenge since outsourcing of services is a key element of business strategies for becoming more modern, flexible and innovative. Another problem is that the limited resources of most businesses makes them less able to invest in technological improvement. Technology transfers and innovation are also held back by the lack of cooperation among the owners and managers of competing SMEs. Besides, there is a shortage of people with high levels of education and job skills. Holders of university and post-graduate degrees are proportionately less numerous in intermediate regions than in major metropolitan centers. Links between universities and the labor market in intermediate regions are frequently less well structured. Finally, lack of cooperation is a major problem of governance in intermediate regions, both in the private sector and between governmental jurisdictions.

In fact, globalization and the speed of technological progress have put intermediate regions in the difficult position of constantly catching up. Industrial restructuring has been particularly challenging for intermediate regions that grew up around one single industry. Generally, regions that have managed to adapt to the changing environment are those that are very well organized in terms of their local production systems. These regions have taken advantage of

their existing assets and output potential to move into new market niches. In this context, it is essential to strengthen productive relationships in industrial districts. The objective here is to focus on targeted industry clusters or networks, related groups of small regional businesses belonging to the same industry but specializing in different phases of the process of design, engineering, production, marketing, and distribution. It is also important to promote entrepreneurship through greater regional cooperation, including the creation of industrial zones, business incubators, and other policy measures to promote public-private collaboration.

With rising competition from developing countries where labor costs are cheaper, the economic competitiveness of intermediate regions now depends on the quality of manufactured goods, on advanced design, and on technological innovation. In this context, local entrepreneurs need a well-trained workforce, a sophisticated research and development system, and adequate transportation and communications infrastructure. Every small or medium-sized city acting alone cannot provide all of the necessary human and material resources required for the development of the business sector. In this respect, it is essential to improve inter-city industrial networking policies and regional cooperation. Small and medium-sized towns will then be able to offer facilities and services that they could never afford on their own. This cooperative approach makes possible supporting the critical mass necessary for intermediate regions to gain a higher economic profile domestically and internationally. Networking of cities is optimized when it goes together with a process of specialization of cities, whether in niche market products, through local industrial districts, or in industries based on tourism and natural and cultural amenities.

In many OECD countries, networking among small and medium-sized towns is non-existent or in its infancy. There are, however, a number of initiatives in various stages of progress. One excellent example is the region of Emilia Romagna in northeastern Italy. Widely recognized for its industrial districts, Emilia Romagna is economically a high-performing intermediate region. It has registered an employment growth rate of 4.2 percent between 1995 and 1999 and a Gross Domestic Product (GDP) growth rate of about 4.5 percent. The region is characterized by an important cultural industry of festivals, attractions, and arts. Policymakers have encouraged the networking of the small and medium sized-towns coupled with a specialization of each city in specific aspects of culture and the arts. Hence, Bologna has become the regional center for orchestras, Modena for theaters, Parma for operas, Ferrara for art exhibits, Regio Emilia for dance performances, and Ravenna for archeology. The cities are located near each other, and the transportation connections by road and rail very well developed. Consequently, it is possible for someone to spend his evening in another town attending an exhibition and come back home after the show. This process of networking and specialization was first borne from independent initiatives by local private entrepreneurs. Aware that these actions



Alcoy, Spain

could help enhance cultural amenities, promote employment, and boost tourism, regional public authorities also supported the process.

Another important economic cooperation initiative is taking place in the Central Comarcas Valencianas (CCV), an intermediate region located in the central eastern part of Spain, comprising 155 separate municipalities in two different provinces. Under the 1978 Spanish Constitution, municipalities gained some political autonomy, but more sub-national powers were granted to the newly created regional authorities called Autonomous Communities. The CCV is not considered an official region by the Spanish government officials, because it is located within the central part of the Valencian Autonomous Community, between the provinces of Alicante and Valencia. The CCV intermediate region has an important manufacturing sector specializing in textiles, clothing, and toys, organized in classical industrial cluster structure and highly oriented toward production for export. The region's development is somewhat held back by the lack of advanced services which prevent businesses from developing economies of scale, by external and internal problems with transportation accessibility, and by environmental concerns. In this context, the public and private sectors have decided to work together in promoting new regional economic and industrial policies. To pursue this agenda, they formed in 1999 the Consortium of Cities of the Valencian Central Districts. Its main purpose is to generate cooperation in overcoming the relative political marginalization of the smaller industrial communities from the major metropolitan areas of the region, the cities of Valencia and Alicante, and to create a critical mass enabling the region to address strategically the new economic

dynamics brought about by the ongoing process of economic globalization. During June 27-29, 2001, the OECD and the Polytechnic University of Valencia held an international conference in the CCV area of Spain on "Territorial Development Strategies for Intermediate Regions" and released a book-length report on the OECD territorial review of *The Valencian Central Districts, Spain*. Three days of meetings were held in four different communities: Xativa, Ontinyent, Alcoy, and Ibi.

In France, a traditionally centralized country economically and administratively, the *reseaux de villes* (network of cities), is a contractual public/private partnership with associated representatives from the business sector, different local administrative entities, and the central government. These French city networks are neither political bodies nor institutions. Generally speaking, medium-sized cities join together in order to share costs and risks with a view to achieving complementarity and improving administrative procedures. The organizations that take part in the city networks collaborate on strategic planning, public-private partnerships, and joint development projects. Cooperation covers a wide range of issues including promoting tourism and culture, improving transportation, business marketing, environmental enhancement, and investing in new information and communications technologies.

Overall, regional networks of small and medium-sized towns and cities are a still modest but growing phenomenon in OECD areas. The specific challenges that intermediate regions face are yet to be fully perceived by local leadership. Many OECD countries now view their growth potential as based not only in major metropolitan regions, but also in small and medium-sized towns and cities that encompass

valuable core assets for sustainable development. In this perspective, small and medium-sized towns and cities in intermediate regions should seize the opportunity to enhance the value of their unique comparative advantages through selective specialization strategies, relying in particular on active niche marketing. For this purpose, inter-city networks are crucial for reaching the critical mass to better provide the services and infrastructure their enterprises need. However, there is no magic formula on how to establish successful industrial specialization networks. What is important is to find solutions that will be appropriate to the local institutional context and to promote partnerships that involve central and local governments, the private sector, and civil society •



Valencia, Spain

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The OECD Regional Typology and Territorial Reviews

Considering the fact that there are different types of regions with different development trajectories, the OECD Territorial Development Service (TDS) has established a regional typology. A region is defined as "predominantly rural" when more than 50 percent of the regional population lives in rural communities (and rural communities are defined as communities with a population density below 150 inhabitants per kilometer). When less than 15 percent of the regional population lives in rural communities, the region is considered as being "predominantly urban". In between, there is the category of intermediate regions.

This regional typology is a simple indicator but quite relevant in dealing with the diversity of territorial spaces. Based on this typology, the OECD has developed a comprehensive database and produced various regional studies. In 2000, TDS conducted an initial series of territorial reviews at the national level (Korea, Italy and Hungary) and regional level (Teruel, Spain; Tzoumerka, Greece; Comarcas Centrales Valencianas, Spain; Bergamo, Italy; Moravska-Trebova-Jevicko, Czech Republic; and Champagne-Ardennes, France). The programme of work for 2001 includes Canada, Switzerland, and Mexico, for national reviews, Siena, Italy; Vienna, Austria; Helsinki, Finland; and Oresund (the Copenhagen, Denmark and Malmoe, Sweden cross-border international region) for regional reviews. Broadly speaking, a territorial review is an audit of structural and territorial policies. It includes the review of policy efforts to combat economic and social disparities between regions and/or within regions and of initiatives to enhance their comparative advantages and economic potential. The review analyzes the distribution of competencies and resources between the different levels of government and the most appropriate modes of governance, focusing in particular on the different mechanisms of decentralisation and/or devolution. This audit is carried out by missions of the Secretariat accompanied by representatives of the examining countries and international experts who use their knowledge about other national experiences to deepen the assessment and provide meaningful policy recommendations.

For more information about the territorial reviews, please contact: Lamia.Kamal-Chaoui@oecd.org

Wilson Center to Release Book on Microfinance

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Microfinance and microenterprise initiatives and institutions have become important tools for reducing poverty, promoting self-employment and entrepreneurship, creating jobs and wealth for low-income people and welfare recipients, creating affordable housing and homeownership, and strengthening families and communities in many countries around the world, from Bangladesh to Bolivia, and from India to Indonesia. In particular, the success of the Grameen Bank has been widely discussed and emulated over the past two decades, not only in developing countries, but in the United States.

There are currently hundreds of public and private sector microfinance programs operating in this country, with substantial diversity in terms of how they are funded and operated, and what target population they serve. In addition, there is a growing body of research and program evaluation regarding the accomplishments of these programs. Many of them now belong to their own national trade group, the Association for Enterprise Opportunity, and are supported by a wide range of private foundations,

government agencies, financial institutions, corporations, research centers, and non-profit organizations.

The Fannie Mae Foundation and the Woodrow Wilson International Center for Scholars cosponsored an international conference on "The Future of Microfinance in the United States: Research, Practice, and Policy Perspectives" on October 11, 2001, at the Fannie Mae headquarters in Washington, DC. The theme of the conference was based on a collection of original research papers commissioned by the Fannie Mae Foundation that will be published as a book in the summer of 2002 by the Wilson Center Press.

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