

# No Time to Waste

APPLYING THE LESSONS FROM LATIN AMERICA'S 50  
YEARS OF HOUSING POLICY TO RAPIDLY URBANIZING  
COUNTRIES

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Applying the Lessons from Latin America's 50 Years of  
Housing Policy to Rapidly Urbanizing Countries

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IHC Global: A Coalition for Inclusive Housing and Sustainable Cities

## Summary

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The United Nations' New Urban Agenda (NUA) adopted by Habitat III and Goal 11 of the Sustainable Development Goals (SDG) respectively call for housing to play a prominent role in urban development and for cities to become more inclusive, safe, resilient and sustainable places. The lessons from past experiences in urban development and housing can make a significant contribution in designing and implementing the policies and programs needed to achieve these goals. Latin America, as the most urbanized developing region of the world, offers more than 50 years of experience of housing policies and urban development. Some experiences are good while some represent failures. This paper reviews the findings of recent publications that analyse the experience of this region and which can provide useful lessons for the rapidly urbanizing countries of South Asia and Sub Saharan Africa. The lessons identified are also relevant for Latin American countries that are lagging behind in improving the housing conditions of their populations and for those that are not dealing effectively with the urban effects of their housing policies.

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## Preface

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We at IHC Global are pleased to have played a role in bringing this important research and analysis to the realm of “real world” policy and practice. It is our great hope that the synthesis of existing knowledge and its interpretation in this paper will help to shape policy and programs that enable effective, efficient and equitable housing delivery at scale. IHC Global plans to disseminate it widely, using it as the basis for dialogue with policy makers and practitioners. At this important juncture of global urban growth and city level challenges, IHC Global believes, as the paper itself says, there is “No Time to Waste!”

A word about the method used: The task we set was to distill and synthesize knowledge developed over the past decades when Latin America was undergoing rapid urbanization and from that process to illuminate and make accessible the lessons that can be derived from the literature. The aim here is to support those who will be instrumental both in implementing the New Urban Agenda and in achieving the “Cities Goal,” Goal 11, of the 2030 Sustainable Development Agenda, in which housing plays an important role. IHC Global hopes that “No Time to Waste” will be helpful particularly in countries undergoing rapid urbanization and cities experiencing rapid growth.

In bringing this work to fruition and to test and refine the validity of the lessons drawn, we engaged with some of the most well recognized experts in the field to provide an in-person, interactive peer review for the first draft and then to debate and discuss the larger applicability of the lessons on the World Stage at Habitat III in Quito, Ecuador. This document reflects the input and discussions at both of these events.

IHC Global first expresses deep appreciation to Eduardo Rojas, who, bringing his unique experience and talents to bear, has worked tirelessly and with great insight, to prepare this document. Without him it could not have happened!

Great thanks go also to the reviewers of the draft paper convened at the Ford Foundation prior to Habitat III: Solly Angel, Ana Marie Argilagos, Bob Buckley, Tara Panek Bringle, Mike Cohen, Bob Dubinsky, Marianne Carliez Gillet, Larry Hannah, David Painter, Roger Williams and Patricio Barragan Zambrano who all, bringing diverse perspectives to the process, contributed substantively, wisely and passionately to the document.

And similar thanks to those in Quito who debated and commented, particularly on the issue of the transfer potential of the knowledge: Hayder Ali, Margarita Greene, Catalina Marulanda, Kirtee Shah, and Roger Williams.

The peer review process that the Ford Foundation enabled by hosting us for a day was invaluable for testing and validating the ideas in a space where egos were checked at the door and together we wrestled with the content. Similarly, a rich and fruitful debate occurred in Quito on Next City’s World Stage, for which we express our gratitude to Next City and its CEO, Tom Dallessio. Finally, we are most grateful to Ana Marie Argilagos for her key role in supporting the peer review and presentation process that has led to this paper.

Judith Hermanson  
President and CEO  
IHC Global  
Washington, DC  
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## The Opportunity

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The Sustainable Development Agenda of United Nations (UN 2015) has 17 Sustainable Development Goals (SDGs), 12 of which must be implemented in cities. Specifically, Goal 11 calls for cities to become more inclusive, safe, resilient and sustainable places, committing governments to expand the productive capacity of cities to provide good quality employment and ensuring good living conditions to the population. These goals commit cities not only to expand the urban economy but to also provide the urban population with access to good housing, sanitation, health, education, transportation, recreation, and cultural services, a goal also emphasized by the New Urban Agenda (NUA), which “aims to place housing ‘at the centre’ of national and local urban agendas” (UN HABITAT 2016:192) (emphasis in the original).

In the last 50 years, Latin American countries made progress in improving the housing conditions of their rapidly growing urban populations (that reached 500 million in 2015) (UN 2016) and many can claim having achieved or being close to achieving some of the SDG and NUA goals. But the countries of the region have also made mistakes in managing the urban consequences of massive housing construction (Rojas 2016) and missed opportunities for reducing inequalities in income and human development (World Bank 2013). Today’s rapidly urbanizing countries with market economies (for instance Sub-Saharan Africa and South Asian countries) will have to achieve the SDG and NUA goals and objectives under far more difficult conditions than those faced by Latin American countries in the second half of the twentieth century. The urbanization process in these countries is taking place at a much more rapid pace (UN Habitat 2015 and 2014) and a larger proportion of the new urban population is solving their housing problems through

informal means (World Bank 2016). Furthermore, most of these countries lack strong institutions to manage urban development and to improve the housing conditions of the population. In tackling these issues, they may benefit from the lessons that can be drawn from Latin America.

The last 15 years produced a wealth of studies on Latin America’s housing sector and government responses to housing issues (a recent document by the Urban Institute reviewed over 1,000 publications on matters related to housing in Latin America [Urban Institute 2016]). The most recent studies cover region-wide housing topics including: the evolution of housing conditions in the region (Rojas and Medellín 2011; Arriagada 2003; Szalachman 2000); the state of the housing sector in Latin America (Bouillon [editor] 2012) and in the Caribbean (McHardy and Donovan 2015); the effectiveness of housing policies (Gilbert 2014, UN HABITAT 2013); the evolution of housing finance (Bebczuk et.al. 2014, Stickney 2014, Sancho et.al. 2012, Cohen et.al. 2007); and the state of the rental markets (Blanco et.al 2014). There are also country studies focusing either on a specific group of countries—like those with large economies (Murray and Clapham 2015, Di Virgilio et.al. 2014)—or on individual countries: Argentina (Moya 2012, Cuenin and Moya 2010); Brazil (Martins et.al. 2011, Bonduki 2011); Chile (Alarcón et.al. 2014, Micco et.al 2012); Colombia (Torres 2012); Mexico (Soederberg 2015, Monkkonen 2011); or Peru (Calderón 2015). Other studies focus on specific housing issues including: policies to reduce the growth of informal settlements (Herzog 2017); retrofitting informal settlements with services and infrastructures (Galiani et.al. 2014); and the effectiveness of incremental housing construction in solving housing problems (Ward et.al. 2015, Sullivan and Ward 2012, Gattoni et. al. 2012, Greene and Gonzalez 2012, Greene and Rojas 2008). There are

studies discussing the urban consequences of housing including: the urban impacts of housing policies (Rojas 2016); the rapid expansion of cities (Angel 2011; Heinrichs et.al. 2009); the management of urban land markets for affordable housing (Gargantini and Pasquale 2014); and issues of urban revitalization (Ward 2015, Diaz and Rabasco 2013, Degadillo 2008). There are also studies on the effectiveness of multilateral assistance in housing (Buckley and Kalarickal 2006).

The literature review by the Urban Institute concludes, “...there is still a general paucity of rigorously produced evidence around housing issues in the Latin American and Caribbean region” (Urban Institute 2016:52). Notwithstanding this significant shortcoming, the available studies provide a wealth of information, conclusions, and recommendations that can be of use to policy makers in need of guidance while designing and implementing housing policies and programs. While waiting for the results of new academic research to become available, there is much to be learned from an

integrated reading of the findings of the recent studies that discuss the design and implementation of policies and programs (or the consequences of failing to act). This paper contains one possible reading of the available literature on housing and urban development in Latin America. It is inspired in the belief that these studies contain lessons that can be of great use for decision makers operating in rapidly urbanizing countries that have ‘no time to waste’ in devising effective policies and programs to confront the rapid growth of cities and the pressing demands for adequate housing.

After a section describing the approach adopted in reviewing the existing literature, the paper has three other parts: a brief review of the most salient facts characterizing the Latin American experience in housing, the discussion of two groups of lessons that can be drawn from this experience and that can be of use to rapidly urbanizing countries, and a brief conclusion.

## The Approach

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The central aim of the paper is to contribute to the attainment of the SDGs and the NUA, identifying in the literature about housing and urban development in Latin America the lessons that can be of use for the rapidly urbanizing countries of the twenty first century. The review of the literature will focus on a selected group of works dealing with the effects of housing policies on the housing conditions of the population and on the evolution of cities. The analysis adopts a broad approach discussing housing and urban development issues jointly. Concerning housing policy, this analysis acknowledges that the improvement of housing conditions is broadly accepted as an area of public policy with social and economic impacts. Housing is often considered a merit good (or even a basic right) and governments endeavour to ensure that the population consumes a basic standard of housing services following the evidence that indicates that the provision of adequate housing has positive impacts on health, education and social cohesion. Other arguments for government intervention in the housing sector include the need to mitigate the ill-effects of market failures that limit access to housing and the use of public expenditure in housing to jump-start stalled economies. From the urban development perspective, this analysis takes into consideration that the set of services provided by a house—protection from the weather, privacy, living space and access to potable water and sanitation—are only a fraction of the services required by households. To have a

good quality of life in cities, households also require good jobs, transportation, healthcare, education, recreation facilities, community parks and services, citizen safety, and employment opportunities, and other services that are provided by the neighbourhood or by the city but not by the house or the subdivision where it is built (Rojas 2016 Table 10:11).

The combined analysis of the literature of the last 15 years on these issues indicates that although Latin American countries established institutions devoted to improving the housing conditions and managing urban development early in the urbanization process, in practice only rarely did these institutions coordinate their efforts, leading to a situation where housing and urban development policies did not work together. The lack of coherence between the policies and programs pursued by these institutions greatly diminished the positive impact of good housing on a population's quality of life and in reducing social and economic inequalities. This finding is even more troubling considering that new housing and its related services represent the largest land use in cities (taking on average 75% of the urbanized land) and that the failures in incorporating the urban impacts of housing construction have directly affected cities' capacity to provide good services, reduce environmental impacts, adapt to climate change and be resilient to natural hazards, all key components of the NUA.

## The Facts

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In the period between 1995 and 2009, the housing situation of the urban population in Latin America—measured in terms of the population’s deprivation of housing services—improved. The percentage of households in need of a house (or the full replacement of their current shelter) decreased from 8% of the urban population in 1995 to 6% in 2009. Similarly, the proportion of urban dwellers living in overcrowded houses or with deficient construction materials dropped from 12% to 8.8%. At the turn of the 21<sup>st</sup> century, the housing deficit impacting the largest proportion of the population was a lack of infrastructure, affecting 17% of the urban population in 2009, down from 24% in 1995. Nevertheless, the region still faces significant challenges in housing. In 2009 about nine million households were in need of a new shelter and 13 million in need of improvements in their houses due to poor construction materials or overcrowding. Lack of infrastructure remains the most prevailing housing issue affecting almost 28 million households. The challenge of providing good housing to all of those in need is compounded by the need to provide approximately 3 million new homes every year to accommodate new households (Rojas and Medellín 2011).

The housing improvements reported in Latin America occurred in a period of economic growth with increases in per capita income, but also with growing income inequalities and persistent informality in employment (World Bank 2013). Countries with higher per capita incomes had better housing conditions in 2009, and in the period between 1995 and 2009, the least developed countries showed the least progress in housing. A cross-country analysis of housing shortages shows that there is a strong negative relationship between per capita income and the percentage of households living with housing deficits. The higher the per capita income of a country the better the general housing conditions of their populations. The relationship is particularly strong for shortages related to a lack of infrastructure and poor quality of housing materials (Rojas and Medellín 2011). The close relation between per capita income growth and improvements in

housing conditions observed in Latin America suggests that there is no substitute for social and economic development in improving living conditions. However, in Latin America, as in most countries in the world, markets do not provide good housing for all. As the differences in the quality of housing available to different social groups is an important dimension of social inequality, governments seeking a more egalitarian distribution of the benefits of economic growth and more integrated societies implement housing programs as part of a variety of social policies. In the majority of Latin American countries government interventions explain a significant part of the improvement in housing conditions observed in the region. Government supported programs are responsible for 64% of all new houses built in Mexico in the 2007-2008 period, 52% in Chile, 21% in Argentina and 19% in Colombia (Rojas 2016: Table 10.4).

In Latin America, public concern for urban housing issues began in earnest in the 1960’s, along with the acceleration of the urbanization process and a widespread informality in housing production. By the early 1970s, most countries had established institutional capacity to deal with housing issues. These institutional arrangements included central government ministries, government-run housing banks, and central and local housing corporations in different combinations. These institutions implemented a vast array of housing policies and programs. Initially, governments tried to solve the housing deficit by directly producing subsidized houses and providing subsidized finance. Most of these housing programs proved difficult to sustain due to macro-economic volatility and other fiscal issues confronted by the region and often did not reach the poorest population. Given that private housing supply reached only the higher income tiers of the population, homes built by the government for the poor were instead captured by middle-income households, often crowding out the intended recipients (Rojas, 1995). In the 1970s, Chile and Costa Rica pioneered housing policy reforms geared to facilitate the functioning of the housing markets including: the development of the private

housing finance industry, eliminating regulations on land markets, and focusing government interventions in supporting the demand for privately produced houses for low- and middle-income households. These reforms were framed in the 'enabling markets approach' and advocated shifting government efforts away from the direct supply of housing towards supporting the demand. This approach was supported by international organizations (UN HABITAT 1988, World Bank 1992, Inter-American Development Bank 1995) and also adopted in the 1990's by Colombia, Bolivia, Dominican Republic, Ecuador, El Salvador, Mexico, Panama and Peru.

A survey of housing programs in 18 Latin American countries indicates that Latin American countries did not fully embrace the whole range of policy and program recommendations of the "enabling markets approach" (Cuenin et.al 2021). First, some countries never ceased their supply-oriented housing programs based on the public production and financing of homes. For example, the majority of government spending in housing programs in Argentina and Venezuela goes to the direct provision of new houses by government institutions with funding from the federal government. Second, countries like Brazil, Mexico and more recently Argentina offer substantial interest rate subsidies for moderately priced homes financed by below-market returns for workers' retirement funds. Third, countries that embraced the proposals of the enabling approach found that some of the instruments did not work for all intended segments of the population. An example is the direct one-off subsidies (housing vouchers) aimed at leveraging the households' capacity to get private loans to finance part of the cost of the house. This instrument did not help poor households or those working in the informal sector deemed not eligible for loans by private banks. Governments in Chile, Colombia, Ecuador and Panama had to resort to the direct construction of highly subsidized houses for the households not served by the demand-focused subsidies (Cuenin et.al. 2012). Finally, another feature of housing policies in Latin America is that they focused mostly on the production of owner-occupied new homes and many countries and cities retained tenant protection laws and statutes greatly impairing the development of rental markets. On average, only one fifth

of the housing stock is rented in contrast with developed countries where on average one third of the houses are for rent (Blanco et.al. 2014).

Private housing finance is still poorly developed in Latin America even after more than two decades of macroeconomic stability. Most studies consider this to be a result of the multiple risks faced by lenders that market developments have not eliminated or that have not being mitigated by government interventions. In Latin America lenders face high commercial risks due to the low income of a large proportion of their potential clients, a product of the high incidence of underemployment and informality in the labour markets. They also face guarantee risks emerging from difficulties in enforcing contracts (Grupo Analistas, 2004; Galindo and Lora 2004, Rojas 2005, and Cohen et.al. 2007). Rebucci et.al (2012) reports that in 2011 Chile and Panama had the largest housing finance sectors with a total debt equivalent to 20% of GDP; in most countries it is much smaller: Mexico 9%, Brazil 3%, Argentina 2% of GDP. On average the Latin America region has a mortgage debt equivalent to 5.5% of GDP that does not compare favourably with developed countries where the mortgage debt represents 60% of GDP and even with Asia where it is 12.4%. The real promise for housing finance for the poor is emerging slowly through microfinance institutions for business and home improvements (Ferguson, 1999) and improved access to affordable materials and technical assistance for incremental housing construction (Greene and Rojas 2008).

Minimum-size houses are quite unaffordable in Latin America. An analysis of housing affordability in 12 cities (affordability being the combined result of the cost of a basic house, the income of the population and the local credit conditions) shows that the percentage of households that can pay for a minimum cost house produced by the private sector under the prevailing private lending conditions varies significantly (Bouillon, e.al. 2012). There are cities where two thirds of the households can theoretically afford to buy the minimum house (cities in Panama, Chile, Mexico, El Salvador, Ecuador) and cities where less than 10 per cent of the

households are able to do so (in Argentina and Venezuela) including a group of cities where approximately only one third of the households can afford a minimum house (in Brazil, Peru, Colombia, Honduras). All factors considered and in the best of circumstances, privately produced and financed minimal housing is still quite unaffordable for at least half, if not two thirds, of households in Latin America. Formal housing markets produce between 30 to 50 per cent of the new houses in selected countries of Latin American (Rojas 2014), underscoring the pressing need to improve the functioning of the housing markets with greater incidence on the cost of a formal house, primarily urban land markets (Bouillon et.al. 2012b) and the construction industry (Boruchowicz et.al. 2012).

Households, which are unable to access formal housing markets, find solutions to their needs in the informal market, where they build their own shelters incrementally on plots without infrastructure in illegal subdivisions or land invasions. With an estimated three million new urban households formed every year, the shortfall in new houses built and financed in the formal housing markets will divert between one and a half and two million households to the informal housing markets every year. This fact underscores the importance of improving the outcomes of the incremental construction of houses in informal settlements. The energies and resources that households use to self-build their shelters in informal settlements can be channelled to produce liveable homes by supporting and improving the incremental process of building a house (Greene and Rojas 2008). Surprisingly, very few countries have explicit policies and effective programs supporting incremental housing construction in spite of the many settlement upgrading programs that exist focusing on infrastructure and land tenure issues. This is particularly significant for countries facing a substantial quantitative shortage and rapid urban growth in the coming years.

Solving the housing problems of a community requires resources. According to Dasgupta et.al (2014) investment in housing varies with the level of development of a country, the level of urbanization, and the accumulated stock of houses. Investment as a proportion of GDP tends to be high for recently urbanized upper middle-income countries given that income growth is associated with expanded demand for better and larger houses. According to these authors in the 2000-2011 period, upper middle-income countries in Latin American (per capita GDP between US\$4,000 and 12,000, [World Bank 2016b]) spent the equivalent of 10.3 per cent of GDP in housing while the lower-middle income countries (US\$1,000-4,000) spent the equivalent of 3.9 percent of GDP. The corresponding figures for East Asia are 7.1% and 4.9% and for Sub Saharan African countries 6.4% and 7.3%. As the latter group of countries attain higher levels of income they will spend more and face problems structurally similar to those confronted by Latin America. Dasgupta et.al. (2014:29) conclude that “The empirical research on urbanization, housing, and economic development highlights that investment in housing follows an S-shaped trajectory with housing investment taking off around national development levels of about \$3,000 (2005 USD). Given rapid urbanization at lower income levels across countries in Africa and parts of Asia, urbanization will be a messy process where population density in cities may not be supported by the necessary capital investments”. How these countries spend their resources will be determined by the types of policies they apply to the challenges of urbanization and income growth. The lessons drawn from Latin American countries that confronted these issues in the last half of the twentieth century are then of significance for these countries which most certainly will double the resources they devote to housing in the coming years.

## The Lessons

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The first lesson from the Latin American experience is the reiteration of Angel's (2000) assertion that housing policy matters. However, the review of the data and the literature shows that not all government interventions work equally. Thus, the type of housing policies and programs also matter. This assertion is supported by the fact that countries with similar levels of development exhibit differences in the quality of housing available to their populations. While it can be expected that the housing situation of a particular country should correspond to its per capita income, this relationship not always holds. In Latin America there are countries with relatively high income per capita that have qualitative or quantitative housing shortages larger than countries with lower per capita incomes. Rojas and Medellín (2011) found that the housing conditions related to the materiality of the houses and access to infrastructure in Costa Rica, Colombia, Honduras, Paraguay, and Uruguay are better than what could be expected given their per capita income. It is also remarkable that Brazil, Argentina, Panama, and Mexico—with relatively high per capita incomes—have higher percentages of dwellings lacking infrastructure than what their income suggests. It can be argued that the housing sector of countries with housing conditions above the prediction line are doing worse than what their income level would suggest and those below are doing better. The study by Cuenin et.al (2012) suggests that housing policies and their impacts on housing affordability play a role in explaining these deviations.

The second lesson from the Latin American experience emerges from the incapacity of most countries to deal with the urban consequences of housing production. The new houses built in Latin America cities either by public housing entities, private developers or incremental builders, are located in poorly served peripheries, the result of their desire to minimize the incidence of the cost of land in total housing costs and the availability of land for greenfield development or invasion (Rojas 2016). In peripheral locations households often lack many of the services required for a good quality of life,

particularly in terms of access to employment centres, health and education services, and recreation facilities, which are assets provided by the neighbourhood and the city. A shortage of urban amenities forces households to pay more in transportation, face longer commuting times, and have limited access to essential urban services. Many are abandoning these new houses as the effects of these location-related shortcomings become unbearable. It is estimated that in 2012 nearly 20% of the housing stock in Mexico was underused, remaining empty or under temporary use (CIDOC 2012). Similar figures of underused housing come from Argentina, Chile and Colombia. The main reason for the abandonment of the houses is the lack of the infrastructures and amenities provided by the neighbourhood or the city (Rojas 2016).

Although these lessons in their general formulation may sound fairly obvious, the reading of the available studies on the Latin American experience shows that their negative consequences can be avoided, and the ways to avoid them are not entirely obvious. This conclusion is of great importance for today's rapidly urbanizing countries like those of South Asia (SA) and Sub-Saharan Africa (SSA) that have an opportunity to achieve better outcomes than Latin America if they take into consideration these lessons. These lessons are also a reminder for Latin American countries that are lagging behind in addressing their housing problems or need to make policy adjustments to mitigate the negative urban consequences of their housing policies.

### **Lesson 1: Housing Policy Matters, but Not All Policies or Programs are Equally Effective**

***Isolated low-income housing programs do not work and housing policies must promote the effective functioning of the whole housing sector***

Most governments in Latin America initially attempted to solve housing shortages through the direct provision of affordable houses by public entities. To



finance the new houses they used resources from a variety of sources: the national budget; allocations from specific sources (for instance a per cent of the gas tax yield in Argentina); or worker's savings in the social security system. Housing ministries, housing banks, or public housing corporations produced limited quantities of new houses or subsidized mortgages but never attained the scale and sustainability to fully address the housing problem created by rapid urbanization. These public housing entities faced endemic shortages of resources due to competing demands on the public budget and high arrears in their loan portfolios. In the mid-1970s many countries produced serviced lots to accommodate the growing demand for housing by low-income households but beneficiaries of these programs never got support to expand and improve their shelters, preventing these programs from achieving the intended results (Rojas 1995). In most cases public housing entities were inefficient producers of houses or serviced lots and often miss-targeted the allocation of their products due to political pressures that funnelled the new houses to middle-income households affiliated with strong trade unions or working in the civil service. In the majority of cases, low-income households were left to solve their housing problem in the informal sector. The Latin American experience proves that the provision of finished houses and financing by public entities does not satisfy the needs of the growing urban population. There are no reasons to think that SA and SSA countries that are building new houses directly would do better as the volume of new houses they manage to build is very small in relation to needs a situation that leads the majority of households (over 80 per cent in some cases) to self-build their shelter informally (World Bank 2016, UN Habitat 2014).

This finding confirms one of the assertions of the “enabling markets approach to housing policy” that to effectively reach the poor with good housing, the housing sector of the economy must be capable of satisfying the needs of all social sectors simultaneously, otherwise higher income groups displace lower income households in their access to housing. Recommendations for moving

to a well-functioning housing sector were put forward by the World Bank (1993) and several countries in Latin America followed this advice including Colombia, Ecuador, El Salvador, Mexico, Panama, and Uruguay in addition to Chile and Costa Rica, the pioneers. The policy concern shifted from isolated projects serving a specific section of housing demand to a concern for the functioning of the entire housing sector. Governments designed policies and programs that addressed the market and government failures that were preventing households from all income levels to access quality housing. This led countries to adopt a wide array of programs ranging from those based on the most orthodox prescriptions of the enabling markets approach—where governments assist households to access private housing solutions via private financing according to their financial capacities (one-off and up-front subsidies)—to the direct construction of basic expandable houses for the very poor that have no capacity to access privately produced housing. A survey of housing programs by Cuenin et.al (2012) shows that most countries have a combination of ‘demand oriented’ programs that support middle and lower-middle income households in accessing housing supplied and financed by the private sector and ‘supply oriented’ programs that focus on low income households that cannot afford privately produced homes. However, no country in the region managed to address all the issues affecting the entire housing market and many still require programs to address key issues emerging from how urban land markets function and the underdevelopment of housing finance systems. The lesson from the Latin American experience is dual: great progress can be achieved from adhering to the ‘enabling markets approach’ provided that the housing needs of all households are met, but also that significant problems result from not implementing the totality of policies and programs required to make the housing sector work for all households. This is the most probable outcome of single-sided direct government new housing construction programs currently implemented in some SSA countries that are not simultaneously addressing the provision of infrastructure, and reducing the cost of production and financing new houses (World Bank 2016). Another shortcoming of focusing mostly in new house construction is highlighted by Buckey et.al. (2016:128) “...a

more effective way to address housing concerns would be to look at the existing housing. Policies that allow the existing stock to be used most efficiently can have far larger effects on supply, and hence on affordability, simply because of the enormous difference in scale between new and existing housing.”

***Governments alone cannot solve the problem; it is necessary to mobilize the resources of all social actors***

Public housing programs that fully subsidize housing supply proved incapable of achieving the scale required, mostly because they did not mobilize the beneficiaries’ full capacity to contribute to the solution of their housing problem. The policies and programs of the countries that saw the largest reductions in their housing deficits (Chile, Colombia, Costa Rica, Mexico, and Panama) share two key characteristics. Their housing policies and programs addressed the needs not just of low-income households but also of the underserved, non-poor low-income, lower-middle- and middle-income households and assisted them to access private financing for their homes thus engaging their capacity to pay for the solution of their housing problems. The best designed programs mobilized the resources of the beneficiaries in proportion to their capacity to pay through a variety of financial mechanisms including: repayment of mortgage-based loans to purchase finished houses; programmed savings to partially finance the highly subsidized solutions they received from the governments; micro-credit for incremental construction and improvement of houses.

The public resources thus liberated (compared with public programs that subsidize equally housing for all households) allow governments to better serve low-income households facing the most acute difficulties in accessing quality housing. The active participation and resources of all actors—including the capacity of low-income families to self-build their houses and the participation of private capital for financing mortgages for households capable of servicing a debt—expand the volume of resources flowing to the housing sector with direct effects on housing supply. Complementary financial

reform policies and programs facilitate the convergence of resources from all actors by promoting long-term savings, the development of private mortgage financing, and micro-credit for home construction and improvements. The development of a strong and sustainable private housing finance system is still a major challenge and critical to mobilizing more private resources to the housing sector. Reducing the significant gap in the reach of private housing financing that exists between even the most advanced countries in Latin American and the United States and some European countries is still a challenge. This underscores the significant difficulties faced by countries in the early stages of developing private housing financing a problem expressed in the very small participation of private sector financing in the housing sectors of most SA and SSA countries (World Bank 2016, UN Habitat 2014).

The best performing countries in Latin America have a diverse set of public programs that complement each other: up-front subsidies assisting low-middle and middle-income households to access mortgages supplied by private banks; direct government provision of highly subsidized basic expandable houses to low-income households that cannot access mortgage financing for a finished house; micro-credit and technical assistance for self-builders to incrementally complete and improve basic homes; and urban upgrading for sub-standard informal settlements. Achieving the right balance of policies and programs is not easy. It took Chile—a leading adopter of the approach—almost ten years to complete the transition from a government-driven housing sector to a more diversified structure with public and private actors cooperating in assisting households with different financial capacities to access good housing and the country still have not dealt effectively with micro-finance and technical assistance for self-builders (Rojas, 2001).

## *Incremental housing is part of the solution*

As stated earlier, between 30 to 60 per cent of the housing stock in Latin American cities is incrementally self-built by low-income households (Rojas 2016). This can reach 80 per cent in several SA and SAA countries (World Bank 2016, HABITAT 2014). Household investment in expanding and improving the quality of materials of their houses, assisted by urban upgrading programs that bring basic infrastructure and services to informal settlements, allow self-built houses over time to attain most of the attributes of a house built by the formal sector, although the process forces families to live for a long time lacking services (Greene and Rojas 2008). The capacity of low-income households to devote resources to expanding or improving their houses cannot be underestimated. Acevedo et.al. (2012:221) reports ratios of family investment in their houses equivalent to 2.9 times the cost of a basic house in incremental housing programs in Chile.

The absence of programs supporting incremental housing construction (but for a few exceptions) is one of the major shortcomings of the Latin American housing experience and a missed opportunity in allowing households to play a larger role in solving their housing problems. Not only households must live for extended periods of time in sub-standard houses but also low quality construction materials and poor building expose the dwellers to significant natural hazards risk including earthquakes, hurricanes and landslides. The fact that most houses are incrementally build and that the incremental construction process can be greatly improved with adequate support including: the provision of expandable core-houses; technical assistance to self-builders; micro-finance for building materials and to contract specialized help; adequate building materials; and security of land tenure (Greene and Rojas 2008) offers SA and SSA countries one of the most significant opportunity to improve the housing conditions of their populations. Micro financing provides households with resources for small, incremental improvement projects without overtaxing their savings and repayment capacity (Ferguson 1999). Furthermore, a large number of municipalities and local nongovernmental organizations

are active in providing technical cooperation and assisting homebuilders to more effectively improve their homes (Herzog 2016). Most of these activities are small scale and community-based, two features that pose a challenge for central governments to channel resources and technical support to this form of home construction.

Acevedo et.al. (2012) discuss several successful programs assisting self-builders in Latin America proving that the challenges discussed above can be confronted effectively. Many are decentralized efforts run by municipalities, non-governmental organizations or private sector suppliers of building materials. Examples include programs like: FUNDASAL a Salvadorian foundation that provides technical assistance to low-income families; the ‘Patrimonio Ya’ [Today’s Assets] Program financed by CEMEX—Mexico’s largest cement production corporation—to supply materials under a micro-credit scheme that also includes technical assistance managed by the company’s extensive network of retail distributors; and Habitat for Humanity’s support for self-builders accessing micro credits for home improvements in Paraguay. The ‘Piso Firme’ [Solid Ground] program in Mexico, Argentina’s ‘Vivir Mejor’ [Living Better] and Chile’s ‘Fondo Solidario de Vivienda’ [Shared Housing Fund] are examples of programs financed and managed by central governments that support incremental building and improvement of self-built houses. South East Asia offers many examples of government and donor supported programs helping communities to improve their neighbourhoods and households to incrementally build and improve their houses (Boonyabancha and Mitlin 2012). Scaling up these experiences is one of the best investments governments of rapidly urbanising can make to improve housing conditions.

## *Rental markets play an important role in the housing sector and require development and diversification*

Well-functioning housing markets need a sufficient supply of rental properties to satisfy the needs of households that do not need, do not want, or cannot afford to own a house. The distribution of home tenure

between ownership and rental varies significantly among countries and between cities within a given country. Variations among countries with similar levels of development can be quite significant: among developed countries the housing stock for rent can represent as much as 55% in Switzerland and as little as 15% in Norway. Similarly in Latin America, 50% of the housing stock is for rent in Bolivia and only 15% in Venezuela (Blanco et.al. 2014). In market economies the distribution between rental and owned houses changes with the economic cycles, the evolution of financial markets and consumer preference. Circa 2010 in developed economies around one third of homes were rented (33% in United States and Canada, 30% in Western Europe) contrasting with Latin America where only one fifth of homes were rented.

Most housing policies in Latin America favour home ownership and some countries over-protect tenants, a problem reported long ago by Gilbert (2003). These policies, together with the reluctance of governments to finance public rental housing due to negative experiences in developed countries, result in underdeveloped rental markets in Latin America. This is a poorly researched area of housing in most of the developing world (Peppercorn and Taffin 2013) however, for what it is known; a few stylized facts can be presented. The formal rental market in Latin America is dominated by individual property owners that own the rental properties as a safe investment that provides a complementary income or as a form of retirement income. There is hardly any commercial residential renting in the region possibly because the risk-return equation is not favourable. In many Latin American countries residential renting is a risky business mostly due to the time consuming and costly process needed for repossessing properties, a product of legislation that over-protects tenants or of slow functioning judiciary systems. There is, however, a very dynamic informal rental market represented by homeowners in informal settlements renting rooms or plots of land. In large cities and in rapidly developing intermediate cities there is high incidence of sub-letting of deteriorated properties to recent migrants and very low-income households unable to find any other type of housing. These forms of rental are almost completely

unregulated with many negative consequences for tenants including high rental prices, sub-standard services, and lack of protection from arbitrary eviction.

The rental market is an area of housing policy that Latin America needs to develop further. There is a need to support rental housing to cater to the needs of an estimated one third of the households that at different phases of their family cycle prefer housing rental to ownership. This is an area where SA and SSA countries can do much to improve housing conditions given that rental is a common source of affordable housing for middle- and low-income households in SSA (UN HABITAT and Cities Alliance 2011) and that “...the majority of rental housing in Africa is held by self-help landlords in informal settlements and private subdivisions.” (World Bank 2016:35). This support must also seek to make informal renting by low-income households more efficient and less onerous for the tenants. After reviewing the cases of 13 countries, Peppercorn and Taffin (2013) suggest several areas of improvement to make rental markets more efficient, inclusive and fair, including: landlord-tenant regulations, adjustments to the tax system, simplification of the process by which multifamily properties are registered, and adjustments of the overall system of housing subsidies. Rapidly urbanizing countries of SA and SSA will be wise not to repeat Latin America’s neglect of rental markets.

## **Lesson 2: It Is About Building Cities, Not Just Houses**

### ***Coordinating the construction of new houses with the provision of urban services and amenities***

Overall, housing policies in Latin America have focused on creating entitlements supporting individual households to access owner-occupied houses under the assumption that this would improve their quality of life. Although quality houses do so in significant dimensions, not all of the housing services required by households are provided by the individual structure of a house. The set of services directly provided by the house—protection from

the weather, privacy, access to potable water and sanitation—are only a fraction of the services required by households to live. Households also require: good transportation; healthcare, education, and recreation facilities; community parks and services; citizen safety; and employment opportunities. These are services or resources provided by the neighbourhood or the urban context within which the house is located (Rojas 2016 Table 10:11). In most cases in Latin America these services are not available at the time the new houses are received by users and it is increasingly common that good houses located in underserved subdivisions and neighbourhoods will lie empty, as their occupants cannot satisfy all of their daily needs in these locations.

This is one of the most costly lessons of the Latin American experience with housing: the failure to closely link efforts to improve housing conditions with the provision of city and neighbourhood amenities, services and infrastructure. Rapidly urbanizing countries of SA and SSA would do better to link the production of new houses with the provision of urban amenities breaking away from the traditional sector-focused housing programs and moving instead to a more urban-focused set of policies aimed at improving the living conditions and livelihood of the urban population. For Buckey et.al., (2016:125) “...housing programmes should be part of a broader urban social contract, which should focus on the inclusiveness and social cohesion outcomes to be achieved through access to more affordable housing, rather than myopically on housing production”.

The convergence of the different institutional and financial mechanisms available to provide cities with a good quality of life is a pressing need in most countries of Latin America. The consolidation of institutions and financial mechanisms to produce affordable serviced land for housing is the most immediate priority in SA and SSA as it is still a priority in Latin America. Investment in urban infrastructure and services need to be implemented in synch with residential expansion. This is also the best way to enhance the resilience of new and existing neighbourhoods improving their capacity to make good use of land and other natural resources and to adapt to the

negative consequences of climate change. There is no lack of planning and policy tools to ensure the integrated planning and implementation of new housing developments; they just need adequate institutions and human resources to be applied. Rapidly growing cities need to plan their expansion areas with a long-term perspective that will protect the environment and enhance the efficient functioning of the city. Plans can identify the lands needed in the long term to guide the supply of infrastructure and urban services, and local authorities can make provisions for acquiring them in advance (Angel et.al. 2011). Only a handful of cities in Latin America have done so including the well-known cases of Curitiba in Brazil, Medellin in Colombia, and Rosario in Argentina. SA and SSA countries should not make the same mistake and guide long-term urban growth to the most suitable lands acquiring in advance the development rights needed to supply the infrastructures and urban services.

It is also critical for city governments to have the resources to provide urban infrastructure and services. Much progress has been made in the provision of sanitation services with both the consolidation of well-run and well-financed public utilities and the direct government support given to low-income households to ensure they can afford a minimum level of consumption of these services. There are SSA governments using the sale of public and community lands to finance infrastructures thus raising the price of serviced land out of the reach of the majority of households. The provision of healthcare and education is still a challenge for city governments and for relevant central and regional government institutions. Housing policies that contemplate in their budgets funds for the urban investments needed to allow a house to provide all the services required by a household could greatly contribute to the mitigation of these problems. Governments will do well balancing the priorities of building new houses with the need to provide urban amenities in close proximity to the new housing in addition to continuing the efforts to improve the quality of the existing housing stock and the infrastructure and urban services available to these houses. Housing policies and programs should include in their budgets sufficient resources for the provision of the urban infrastructures

and amenities required by the beneficiaries. The governance challenge is to ensure that these investments coincide in time and in the territories where they are needed. Highly centralized and sector-focused structures of government are particularly challenged to attain this outcome in cities (OECD 2013). Greater decentralization in the provision of these services must be balanced with promoting more transparent and accountable local governments.

### ***It is cheaper to prepare for rapid urbanisation than retrofitting informal settlements***

Lack of access to quality housing produced by the formal sector drove large numbers of households to build their houses in informal settlements that lack basic services. Latin American countries have gained experience in dealing with this problem. After years of allowing informal settlements to grow in the hope that they were a temporary stage in development to be overcome in time by economic development, they changed gears in the mid-1990s and actively implemented upgrading informal settlements programs in order to retrofit them with basic infrastructures and urban services (Brakarz et.al. 2002). However, the Latin American experience shows that retrofitting is always more expensive and socially disruptive than planning and investing ahead of land occupation. Brakarz et.al. (2002) report expenditures of USD\$4,000 to 7,000 (1998 USD) per lot to improve informal settlements in projects financed by the Inter-American Development Bank. These amounts represent three times the cost of regular land development figures confirmed by a study by Abiko et.al (2007) that estimates the cost of providing basic infrastructure to informal settlements in Brazilian cities at USD 4,100 per lot compared with the estimated cost of USD 1,700 per lot to provide the same infrastructure in regular land developments.

Increases in per capita income lead to higher demand for housing and urban services, whose supply requires more serviced land, which in turn increases urban land prices. With the exception of short-term and isolated periods of economic crisis, urban land prices tend to

increase over time making it unaffordable for large portions of the population. Private developers and government agencies paying more for the land thus make adjustments. Private developers produce houses for higher income households that can afford the higher land prices and public entities build houses in the periphery of cities where land is cheap but more expensive to service (Iracheta and Smolka 2000). A study by Trivelli (2010) documents the systematic displacement of social housing projects to the periphery of the Santiago metropolitan area (Chile) in search for land at prices compatible with the availability of public funds for the highly subsidized government housing programs. Families are forced to live in neighbourhoods with few services and far away from areas of economic and social activity. Similar issues are reported in Mexico where new housing built by the private sector are routinely located in poorly served areas in the periphery of cities (CIDOC 2012).

A more efficient strategy to deal with the growing demand for residential land is in Angel et.al 2011 that recommends preparing land before urbanization pressures materialize. Preparing land with basic infrastructure for orderly occupation is a strategy that can significantly reduce the volume of resources needed to provide good living conditions and basic services. This strategy complements and does not substitute the interventions needed to upgrade informal neighbourhoods and improve self-built houses, which were successfully implemented by most countries in Latin America. The challenge is to increase access to affordably priced land for future neighbourhoods. Basic economic logic indicates that one way of moderating land price increases is for governments to invest in trunk infrastructure to put more land into residential use (Glaeser 2012). However, this strategy requires complementary measures to: reduce land development costs generated by land use and registration regulations (Bouillon et.al. 2012b); prevent inefficient speculative behaviour by landowners; promote public-private cooperation in the development of residential areas; and facilitate the efficient use of underused land in inner cities. These measures can include capital gains taxes, special assessments that capture unearned land price increases to



help defray infrastructure costs (Smolka and Iracheta 1999, Sandroni 2011); and other tax measures that enable the government to transfer to landowners the social costs of their decisions like idle-land taxes that can help prevent owners from keeping land off the market for speculative purposes. This is a lesson that SA and SAA countries can benefit from by aggressively pursuing land development programs aimed at housing the new immigrants. Letting informal settlements proliferate as a 'de facto' housing policy would be very costly. Furthermore, upgrading informal settlements when not combined with preventive measures can fuel more uncontrolled informal urbanization by promoting the illegal occupation of land by households in need with the expectation that their informal settlements will in time receive infrastructure and tenure security from the government.

Latin America has some successful experiences in expanding the supply of affordable land. Colombia's Macro-Proyectos [Large-scale Projects] is a government-sponsored land development scheme involving cross-subsidies from the sale of large-scale lots to commercial developers in order to finance affordable housing by retaining a proportion of the developed land for that purpose. Public-private cooperation is also possible, as successful land readjustment projects in Bogotá and other cities show (Torres and García 2010). Under the right political and institutional conditions, even informal land developers can be induced to cooperate in the construction of better cities, as demonstrated by the 'Social Urbaniser' scheme implemented by the municipality of Porto Alegre in Brazil that induced illegal land developers to produce better-quality residential subdivisions (Smolka and Damasio 2005). Another strategy is to put on the market more serviced land in infill areas and other suitable expansion areas. To do this, cities need to establish institutional mechanisms that promote fruitful cooperation among private and public stakeholders in urban land management. As discussed by Garay et al. (2013) and Rojas (2004) public or mixed-capital land development institutions, as well as other forms of strong public-public and public-private partnerships, have had good results. These models should be adapted and incorporated more broadly into the urban land

management mechanisms of cities.

### *The solution to housing problems is mostly a local challenge*

Housing policies in most Latin American countries are designed, financed, and implemented by central governments and conceived mostly as a social policy providing support to individual households. In Latin America there are a few large and rich municipalities with active housing programs (Buenos Aires, Sao Paulo, Medellin) but in most of the region only the central government is capable of commanding the volume of resources needed by policies that transfer wealth among different groups in society. However, the urban impacts of these policies are felt locally as most national programs rely on city governments to provide the additional urban services required by the new population placed in their jurisdictions either directly by the central government housing institutions or by private developers responding to central government incentives. Oftentimes, municipalities are eager to approve new housing subdivisions in their territories in the expectation of increased revenues from property taxes and economic development but lack capacity or intention to provide the urban services required by the new subdivisions.

In Latin America, most municipalities rarely have the financial resources needed to supply all of the neighbourhood and urban services required by new developments, or at least to do it in time for the arrival of new populations. The financial weakness of local governments is underscored by Bahl et.al (2013:11) which reports that in the years 2000s and for a sample of 20 developing countries, subnational government expenditures represented 18.8 per cent of total government expenditures, or the equivalent of 5.1 per cent of GDP (compared with 27.8 and 13.9 per cent respectively in a sample of 26 developed countries). The situation in Latin America varies significantly from country to country. In the more decentralized countries (Argentina, Brazil, Colombia, Ecuador) sub-national government expenditure can range from 40 to 50 per cent of total government expenditure. In less decentralized countries (Chile,



Peru, Honduras, Costa Rica) it represents less than 20 per cent. Also the assignment of responsibility for urban services and infrastructures can be highly decentralized (Brazil, Colombia, Ecuador) or highly centralized (Chile, Peru, Venezuela). The consequences of these shortcomings are evident in Latin America's municipalities incapacity to guide urban development according to social and environmental needs and whose long-term consequences are also emphasised for Africa by UN HABITAT (2014:7) that states "Ubiquitous urban poverty and urban slum proliferation, so characteristic of Africa's large cities, is likely to become an even more widespread phenomenon under current urban development trajectories, especially given the continuing and significant shortfalls in urban institutional capacities."

Although there still much room for improvement, the Latin American experience suggests that there are gains in transferring the responsibilities for detailed design and implementation of housing and urban development programs to local governments if these responsibilities are accompanied with financing and technical support from the central government. Housing policies designed to 'build cities' should include the financial and technical support needed by city governments to provide the services needed by the new housing development. Failure to do so produces negative impacts on quality of life and, in extreme cases, in the abandonment of the new homes, as reported in Mexico and is also becoming a common occurrence in other countries in the region.

## Conclusion

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This analysis of the Latin American experience—its successes and shortcomings—provides lessons for the design and implementation of housing policies in rapidly urbanising countries. It proves that it is possible to confront the root causes of housing shortages commonly faced by these countries and that lead to high levels of informality in the housing and urban sector. The countries that show the greatest advances managed to expand formal housing production and made them more affordable by promoting private sector participation in the production and financing of new houses. However, the Latin American experience also shows that the private sector based solution does not work for everybody. The housing policy experiences discussed in this paper show that government policies that aim to improve conditions for the poor must focus on expanding the flow of affordable housing to households in all income levels as well as improving the living conditions of existing informal housing and settlements. Achieving this objective requires the mobilization of large volumes of resources that government alone cannot afford. Housing policies must improve the functioning of the entire housing market including the private, public and informal components so that households in all income brackets find a housing solution and can contribute to the production and financing of their homes according to their capacity to pay.

The Latin American experience also highlights the significant problems created by not coordinating urban development with housing development. Housing policies conceived and implemented as social policies directed to individuals or households in need were not capable of ensuring that the residents of the new houses had access to all the services they need from their homes. The lack of coordination in the provision of these services—a combination of sector-based allocation of responsibilities and resources with a fragmented structure of decision-making—led to construction of houses in peripheral locations lacking the neighbourhood and city services that they required. The abandonment of new houses that is growing in many cities of Latin America is a painful

remainder of the cost of not caring for the needs of the households in an integrated manner. The lack of widespread and up to scale support for incremental housing construction is another shortcoming of the Latin American approach to housing in the last 50 years. Households' contributions to housing is a critical component of the long-term solution and it should be tapped in any possible way from the repayment of a mortgage to the sweat equity contribution they can make through self-help or community help efforts.

Improving the quality of housing available to the population is a complex undertaking that requires time, perseverance, the growth of the economy, and political will to implement reforms that are complex and must be comprehensive affecting housing and urban development policies and institutions.

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## Annex

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### List of participants at the meeting in New York to discuss a draft version of the paper

Shlomo (Solly) Angel, Professor of City Planning, Marron Institute & Director, Urban Expansion Program, New York University

Ana Marie Argilagos, Senior Advisor, Equitable Development, Ford Foundation

Patricio Barragan Zambrano, Housing and Urban Development Specialist, Inter-American Development Bank

Robert Buckley, Senior Fellow, International Affairs, The New School (formerly World Bank)

Marianne Carliez Gillet, Director of Global Program Management, Development Innovations Group

Michael A Cohen, Professor of International Affairs, The New School

Robert Dubinsky, Chairman of the Board, IHC Global

Larry Hannah, Senior Technical Advisor, IHC Global, Economist and Independent Consultant (formerly World Bank)

Judith Hermanson Ogilvie, President and CEO, IHC Globa

David Painter, Independent Development Finance Advisor (formerly USAID)

Tara Panek Bringle, Director of Global Program Management and Chief Financial Officer (CFO), Development Innovations Group

Eduardo Rojas, IHC Global Advisor, Urban Development Consultant, Faculty University of Pennsylvania (formerly Inter-American Development Bank)

Roger Williams, IHC Global Senior Technical Advisor, Community Development Consultant, Rogelio Williams & Associates

### List of panellists at the World Stage meeting in Habitat III, Quito, Ecuador

Hayder Ali, Vice President, International Union of Architects, Sudan

Tom Dallessio, President, CEO, and Publisher, Next City

Judith Hermanson, President and CEO, IHC Global

Margarita Greene, Professor, Pontificia

Universidad Católica de Chile  
Catalina Marulanda, Lead Urban Specialist, The World Bank

Kirtee Shah, Architect, Asian Coalition for Housing Rights, India

Roger Williams, IHC Global Senior Technical Advisor, Community Development Consultant, Rogelio Williams & Associates

