Urban poverty may well be the most critical problem in the Latin American Region (LCR). Much of the region's population has yet to benefit from the significant social and economic reforms that have taken place in the region over the past several years. It is of great significance, for example, that urban poverty rates in LCR are the highest in the world with 39% of households living beneath the poverty line. Although poverty rates are higher overall in rural areas (55% vs. 39%) than in urban areas in the region, in absolute terms there are more than twice as many urban poor than rural poor in the region – 68 million rural poor compared with 138 million urban poor. This means that nearly 7 of every 10 poor people live in urban areas in LCR.

Urban Poor

<table>
<thead>
<tr>
<th>Region</th>
<th>Urban Poor Households (%)</th>
<th>Urban Income Disparity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>38.8</td>
<td>12.3</td>
</tr>
<tr>
<td>Arab States</td>
<td>28.5</td>
<td>10.2</td>
</tr>
<tr>
<td>Asia and Pacific</td>
<td>20.1</td>
<td>6.7</td>
</tr>
<tr>
<td>Latin American Region</td>
<td>39.0</td>
<td>17.7</td>
</tr>
<tr>
<td>Transitional</td>
<td>23.5</td>
<td>6.1</td>
</tr>
<tr>
<td>Industrialized</td>
<td>12.9</td>
<td>10.5</td>
</tr>
</tbody>
</table>

Source: Urban Indicators Programme 1994-1996

Latin America is the most urbanized area in the developing world. With an urban population over 75 percent, its urbanization rate is similar to that of highly industrialized countries. Nearly 70 percent of people who live at or below the poverty line live in urban areas. Many live in informal settlements, with limited or no access to basic services. They suffer from substandard housing, insecure land tenure, inadequate access to affordable transportation networks, environmental degradation, and increasing social problems such as urban violence.

Through its urban projects and programs the World Bank is helping its clients develop medium and long term policies for addressing the problems of urban poverty, the provision of basic infrastructure (water, sanitation, housing and transportation), and city management. Projects differ in their structure whilst the overall objectives remain the same. Some are discrete single-city operations, while in other countries the Bank has supported multi-state projects for on-lending to municipal governments (Brazil, Argentina). A high priority is given to “scaling-up” urban upgrading projects.
1980 to over 10 million by 1995) that figure is 40% and in Recife, Brazil, another 40% of the population, or 1.2 million people, live in such settlements. These high percentages are not entirely uncommon, and many cases are growing. One study suggests that Mexico City's population living in informal settlements grew from 47% in 1970 to 60% by 1990.1

The living conditions in these areas are well known, with high environmental health risks, low access to many urban services, deficient drainage and sewerage, inadequate solid waste management practices, limited access to transport and congestion from overcrowding. Inadequate shelter in crowded, often peri-urban settlements, is also known to lead to excessive crime and violence, especially in rapidly urbanizing areas where social and civic networks are nascent or not yet existent. Moreover, inadequate shelter (including the entire housing, bundle of shelter, land rights and urban services) undermines the productive potential of low-income populations, as housing is often a key productive asset for low-income families.

World Bank Response

Since the early to mid 1990's the LCR region of the World Bank has been actively pursuing a program of integrated upgrading of low-income, informal human settlements. These projects have typically focused on the city level, taking a geographic approach to poverty targeting, and emphasizing the physical improvement of slum conditions. In that regard, the projects emphasize improvements in drainage, vehicular and pedestrian access, water supply and sanitation, public lighting and electricity supply. The provision of resettlement housing for those living in highly vulnerable areas, the provision of land tenure regularization, and in some cases, micro-credit for housing improvements are also components of these projects. Among the better known upgrading projects are

"El Mezquital" This small pilot project in Guatemala City, known by the name El Mezquital (one of the benefited communities) was completed in 1998, benefiting a total of 20,000 people with an investment of US$4.5 million. It is considered one of the early examples of successful upgrading projects that was fully community driven, with all project funds and contracting done directly by a community association. Following improvements, infant mortality rates dropped 90%, crime decreased by 43% and property values increased ten-fold in two years.

"CAMEBA": This ongoing project is one of the Bank's largest urban upgrading projects, benefiting 180,000 people in 13 low-income, informal settlements in metropolitan Caracas, Venezuela. The project is approaching the halfway point of a five year execution period. One of the most complex projects of its type, due to the very high densities of these settlements, the project is proving to be cost effective, with per/household investments of less than $3,000 for improvements in all urban services. Of particular interest in this project is the emphasis on community participation, and empowerment.

"Guarapiranga": Named after one of the most important reservoirs in metropolitan São Paulo, Brazil, this project, recently completed and undergoing evaluation, included a large informal settlements improvement component within a larger water quality improvement project. With an average per family investment of US$4,860 (compared with an average of US$12,000 per household for typical social housing projects), the project benefited approximately 250,000 people and included significant investments in inter alia, infrastructure, resettlement, environmental education, drainage, erosion control and risk mitigation. Over 70% of the beneficiaries earned less than 3 minimum salaries.

From these, and other, experiences, lessons can be drawn that are important for the consideration of future operations.

Lessons Learned

Pursuing Supportive Housing and Land Policies: The proliferation of urban slums is due in large part to obsolete regulatory, legal and institutional frameworks at the local level governing land use, development standards, land registration and titling. These regulations are often exclusionary, insisting on development norms and standards that are outside the realm of the poor to pay and subdivision procedures are often over-burdensome, leading to informal land subdivision, thus excluding the possibility to register titles under such "illegal" conditions. Likewise, well intentioned federal or national housing policies that focus on the provision of complete housing packages (as opposed to products like sites and services, progressive housing or demand, rather than supply-side subsidies) often have the unintended
effect of filtering-up to higher income groups, especially when private mortgage market alternatives are not available to middle and lower-middle class households. Reforming these structural problems remains one of the greatest challenges, but progress is being made in countries like Brazil, Mexico on both the land and housing sides, and in Venezuela with regard to land and development standards.

Cost Recovery: Upgrading projects need to include an explicit cost-recovery strategy up-front. In that regard, it is important to use economic analysis tools as part of project planning, linked with survey mechanisms to determine capacity and willingness of communities to pay for investments. In the cases of Caracas and the Recife projects, economic analysis was used to identify the level of investments that would be affordable to the beneficiaries and still maximize the welfare benefits of the project with cost recovery and subsidy policies designed accordingly. Cost recovery strategies that are designed up-front have the added benefit of allowing for the development of appropriate subsidy policies if needed. Specific strategies need to be developed for public and private goods, understanding that there may be justification for the subsidization of some public goods, while full cost recovery for private goods (such as housing improvement) should be maximized. Having the cost-recovery and subsidy policy established up-front makes it easier to engage the community on these issues.

Community Participation: Community participation, from the outset in project design, is one way to ensure that the most appropriate infrastructure services are used. While community participation may appear intuitive and simple, it is not. There are some important lessons to keep in mind: (i) much of the success of participatory approaches depends on the ability of institutional partners to work as a unified interlocutor (i.e. planning departments working with social service agencies and sectoral service providers); (ii) the provision of socio-technical support to the community may only be recognized as a benefit in the long-run; and government institutions may not be willing to suffer the initial costs of this; (iii) not all civil society organizations may be willing to participate if there is a perception of “turf invasion,” but it is important to offer the option of participation to as wide an array of civil society organizations (CSOs) as possible; and (iv) careful selection of CSO for participation, using pre-determined criteria, is important for the success of any participatory initiative, and this should be based on technical capacity and willingness to collaborate.

Macro Perspective and Integration: City-based urban upgrading projects must take a macro perspective to effectively integrate often isolated, low-income communities into the overall fabric of the city. This is a lesson learned from the Caracas project which include significant investments in road access to into the low-income settlements. Likewise, experience from projects such as the PROSANEAR project in Brazil (which focused on the provision of only water supply and sanitation in low-income communities), has demonstrated the need to integrate sector investments for maximum technical and cost effectiveness (both long-term capital costs and operating costs). This requires careful inter-institutional coordination.

Institutional Appropriateness: Experience has shown that urban upgrading projects can be delivered using different institutional models. In the case of Caracas, for example, the national government takes the leading role in project planning and execution with cooperation from the municipalities. This is so because the municipalities have generally weak technical capacity and require the coordinating capacity of the national government. But the model is clearly second best. Upgrading projects should generally be implemented at the municipal level. In the case of Recife, this is the case, but with strong state assistance in the coordination of investments that are inter-municipal in nature, such as certain investments in transport. Likewise, the right models can search for appropriate roles of the private sector both in financing investments and in operations and maintenance of investments. Such models were considered in Ciudad Juárez, Mexico using micro-credit for housing and engaging the private sector to capitalize a community investment trust fund for infrastructure.

Land Tenure Regularization: This is one of the most challenging aspects of upgrading projects. It is considered essential to long-term sustainability of projects and in some cases is a requirement to charge beneficiaries for services or property taxes. It is also considered by many to be essential for accessing credit. It has proven difficult in most projects to do on a large scale. Innovations are often necessary, such as in the case of Caracas where they are experimenting with horizontal condominium arrangements of ownership. A lack of political will is a common reason why land tenure objectives are often failed to be met in projects.
Current and future projects will continue to be a mix of city or metropolitan-based urban upgrading projects combined with attempts to scale-up to the national level. Both are legitimate approaches. Regarding the former, metropolitan-based initiatives are currently underway in Caracas, Venezuela and Recife, Brazil. New projects are planned for Bogotá, Colombia and Salvador and São Paulo, Brazil. These projects will draw from earlier lessons learned and attempt to innovate, in areas like income generation and social services integration. The next wave of upgrading strategies also includes projects that attempt to bring-scale at the national level. Different from city-based initiatives which have typically focused on the physical aspects of upgrading, these initiatives will take more explicit aim at land and housing policies in order to increase access by the poor to urban assets. In that regard, these projects place greater emphasis on the first of the lessons learned of pursuing supportive housing and land policies which is critical in preventing the growth of informal settlements in the future. Authorities in Mexico, Brazil and Venezuela are pursuing this approach with the World Bank.

About the Author

The author is an urban specialist in the Urban Cluster of the Finance, Private Sector and Infrastructure group within the Latin America and the Caribbean Region of the World Bank.