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Peru's Urban Land Titling Program

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Executive Summary

Since the 1940s, urban migration has radically altered the structure and size of Peruvian cities, but migrants from rural areas have been excluded from established legal and administrative systems, especially the systems that establish legal access to housing. Migrants responded by establishing informal human settlements in defiance of the law. In 1996, such settlements contained more than one million properties in eight of the country's largest cities.

The government of Peru recently modified its longstanding policy of repressing extra-legal settlement on state land and private property and improper use of agricultural land for urban development. It now accepts these developments as inevitable. In 1988, with the support of the political parties convinced of the need for institutional reform, Peru passed laws to establish a new parcel-based property registry that formalizes and simplifies property rights. In 1996, COFOPRI (the *Comisión de Formalización de la Propiedad Informal*) assumed responsibility for formalizing informal urban property using a registry known as *Registro Predial Urbano* (Urban Real Estate Registry), or RPU. Its target for 2001 was to establish legal titles for over one million informal urban properties in eight main urban centers.

In making this important change in policy, the government recognized that while growth, macroeconomic stability, and economic reforms were essential for growth and poverty reduction, they were not enough in themselves. The Informal Real Estate Property Formalization Program was so important to Peru's economic programs, in fact, that the country's annual commitments with the World Bank related to the program were incorporated into agreements the country signed with the International Monetary Fund.

The plan called for the formalization of informal properties in Lima and seven major urban centers in Peru. Strong social pressure and demands from people sped up its launch in other cities and led to its expansion to other urban centers. COFOPRI was able to grow because of its early experience, the standardization of its processes, development of a modular growth design, and the availability of trained consultants in Lima and Arequipa.

COFOPRI and the RPU enjoyed full independence, meaning they had technical, functional, and administrative autonomy. All public institutions linked to the formalization process were required to comply with the statute and requirements dictated by COFOPRI on formalization matters, and COFOPRI was given title holding to all government lands, whether fiscal or municipal.

Preliminary reforms during the late 1980s and early 1990s allowed COFOPRI to identify legal, institutional, and operative obstacles to large-scale formalization of property rights and to develop legal and institutional reforms to overcome those obstacles. Creating an efficient property formalization system to secure poor families' rights to their principal assets required a consensus on the need for reform among the executive and legislative branches, the people in the informal settlements, and the civil society in general. The functions of administering the formalization process had to be concentrated into a single entity. Public and private interests that derived privileges and incomes from the process of obtaining formal property rights had to be

neutralized. Since it was forged in 1996, the consensus—to generate a massive title granting program, complete with a survey and register that were easy and cheap to use—has held. COFOPRI remains the entity responsible for urban formalization.

The three major stakeholders in the formalization process were urban landholders; financial companies; and institutions involved in planning and development, including local governments, urban infrastructure, and service providers, and land and housing developers (private and public). Urban landholders played an important role at different stages of the process. Infrastructure suppliers and public utilities took advantage of formalization, and municipal governments have made use of the graphic databases compiled in the land-survey process for planning and urban development.

The goal for titling properties was far surpassed. By June 2003 COFOPRI had titled 1,313,795 plots. Surveys carried out to measure the economic impact of the formalization indicate significant benefits in several areas—among them increased investment in home improvement; increased access to credit and the use of real estate as collateral; increased property transactions; and an increase in property value. Also, the formalization program is associated with an increase in the number of hours people are available to work and an increase in their access to the labor market because families do not have to stay home to protect their property. Social benefits are primarily the legal security from property titles and the ability to use homes as collateral for loans, improving the lives of the families, especially women and children, and reducing the incidence of child labor. Women represent more than 50 percent of the beneficiaries of the formalization process.

The recognition of property rights is only the first step in the process to improve the lives of the affected population. Formalization must be accompanied by other measures, among them systems for gathering, systematizing, and exploiting information on formalized properties and their owners; research to clarify the factors restricting access to credit and investment in housing, infrastructure, and public utilities; education of the newly formalized population about how to gain access to credit; diffusion within the newly titled population of the benefits of registering improvements made to their properties; strengthening of municipal government functions in land use, planning, urban development, and promotion of local economies; and land-management systems to protect the environment while permitting building sites to be granted to those who have no house.

Implementation Process

Rationale and Objectives

Since the 1940s urban migration radically altered the structure and size of Peruvian cities. Migrants from rural areas were largely excluded by the established legal system that supported the formal sector, especially from legal access to housing. The migrants responded by establishing informal settlements in defiance of the law, that in 1995 represented more than 1.5 million informal urban properties located in eight of the largest cities in the country.

To deal with this problem, several reforms were proposed, based on the concept that for the development of a market economy it is essential that: (i) property rights be defined, recognized and protected, in order to allow titleholders to use them as efficiently as possible through market mechanisms; (ii) a system of property rights whose information flows smoothly among market agents allows the generation of real estate markets, which in turn may be the base of capital markets; and (iii) solely with clear and legal property rights, titleholders may interact within the market and mobilize them in the most convenient and efficient way⁴. To that end simplified processes to formalize informal ownership were developed and trailed in Lima since late 1980s. In 1988 laws were passed to establish a new property registry, *Registro Predial de Pueblos Jóvenes y Urbanizaciones Populares* (Real Estate Registry of Informal Settlements and Popular Urbanizations). This registry introduced for the first time in Peru a system that formalizes property rights by recognizing community extra-legal norms and practices, using simplified procedures and a parcel-based registry. In 1993 this system had its first demonstrated success through a World Bank managed pilot project. In 1996 the reform was reinforced through the creation of COFOPRI (*Comisión de Formalización de la Propiedad Informal*)⁵ who assumed the competencies regarding the formalization of the urban informal properties that before pertained to municipal governments.

The target for the year 2001 was to title more than one million urban informal real estate properties in 8 main urban centers of Peru, while generating the following economic and social benefits:

⁴ Mosqueira, Edgardo (2000), supra.

⁵ The creation of COFOPRI was consistent with a vision of property formalization as a key element of economic policy: as part of a strategy to fight poverty. This vision highlights that a Property Formalization Program should look forward to the social and economic integration of people with limited economic resources, recognizing the savings and investments made in parcels they occupy, and increasing the value of their properties through property titles. Thus, one of the purposes of the Program was to make liquid the assets of the real estate property of the informal sector of lower income in order to integrate them within the real estate market.

The statutes for the creation of COFOPRI signal that its mission is to develop reforms for the generation of an institutional and legal framework based on safe property rights, and to promote private and public investments in lands and buildings, including the rendering of public utilities.

Economic benefits: (i) increase in property value; (ii) increase in property transactions; (iii) increase in access to credit and the ability to use property as collateral; and (iv) increase of investments in housing development and the better use of urban informal property in accordance with market values.

Social benefit: inclusion of a substantial proportion of the Peruvian urban population into the formal sector, so as to: (i) provide access to a better protection of property rights; (ii) allow the access to infrastructure and public utilities; and (iii) increase the female owners' share.

Political Context

Before the reforms introduced in the 1990s (specially from 1995), the State responded to informality from absolute repression to tolerance and finally, by recognizing their rights⁶, but without creating the institutional and legal frames necessary to introduce the informal owners to the market system⁷.

During the 1980s, the Institute for Liberty and Democracy (ILD) demonstrated the economic relevance of the informal settlements, and, at the same time, its direct relation to the costly and complicated procedures that were necessary to fulfill to get a legal title to the land. At the same time, ILD helped to generate the necessary consensus among the politicians and civil society for the introduction of legal and institutional reforms that could attack the problem of land informality⁸.

During the late 1990s, after a few relatively successful pilot projects executed by ILD, and with the support from political parties convinced about the need to develop institutional reforms, COFOPRI was created and a former registry established in 1988 became the *Registro Predial Urbano* (Urban Real Estate Registry) –RPU, through the enactment of Legislative Decree 803. In 1998 a World Bank loan reinforced the Informal Real Estate Property Formalization Program.

COFOPRI immediately was considered a successful project, because for the first time in Peru it introduced massive and speedy procedures for formalizing informal settlements and, at the same time, recognized the participation of the Civil Society. This participation helped to reinforce the consensus about the reform and to neutralize several interested groups against the reform. It

⁶ First, the State tried to stop invasions of state and private land prohibiting them by law. Then, when its number was not significant, the State tolerated invasions focusing its interest in helping the families to get access to public services. In the early 1960s, the State realized that invasions were irreversible, due to the fact that the State was incapable to respond to the demand (i.e., purchasing a state land needed at least five years of bureaucratic procedures), so instructed the municipalities to recognize them.

⁷ Mosqueira, Edgardo (2000), *supra*.

⁸ The ILD organized meetings, forums, among others, with leaders from the political and civil society groups. The ILD also published researches about informality, like the outstanding “The other Path”.

also helped in the huge task to issue approximately one million property titles in its first four years of operation and to introduce several new reforms during its execution⁹.

Unfortunately, since 2001 the political joint obligated to move back several reforms, one of which was the reallocation of competences within several national, regional and local public institutions, that again has created coordination problems and overlaps. Thus, COFOPRI has lost competences that have been transferred to other institutions not well prepared to deal with informal settlements, in detrimental of its beneficiaries¹⁰.

Consistency of the Objectives with Any Ongoing Country Poverty Reduction Strategy

The formalization program created a new legal and institutional frame, that were capable to respond the demand for the definition, recognition and enforceability of land titles. The program was a part of the governmental strategy to consolidate social stability, because assigning legal property rights and resolving conflicts between possessors helped to reinforced the state presence against terrorism groups.

At the same time, the program allowed poor people access to basic infrastructure, the increase of investments in housing development (raising at the same time the quality of their houses), and the use of the property as an asset in the market (increasing property transactions and the use of property as collateral). All these contributed to reduce poverty in the country¹¹.

In a next stage, the program was supposed: (i) to develop mechanisms for the adjudication of lands for the people with very low income; (ii) to reduce the credit allocation costs through the generation of information systems; (iii) to develop financial products for low-income segments; (iv) to encourage the access to productive and housing credit (improvement and construction); (v) to develop productive articulation initiatives; and (vi) to encourage micro and small enterprise to use the property titles to improve their financial leverage.

⁹ In fact, working directly with the beneficiaries helped to identify new bottlenecks and to design new institutional and legal reforms necessary to deal with those problems. Because the beneficiaries worked with COFOPRI in identifying the bottlenecks and its solutions, COFOPRI had enough support to proposed additional reforms to the political parties during the execution of the Program.

¹⁰ The project has lost consistency and efficiency, because once again competences necessary for the formalization process have been transferred to other public institutions that have their own and contradictory agendas. Now several public institutions perform part of the formalization process, like the Regional and Local governments, the Public Registry system, among others.

¹¹ It is important to mention that the PAD of the Project and the Bank's Country Assistance Strategy (1997) established that the Peruvian Government recognized that growth, macroeconomic stability, and the completion of economic reforms during the early 1990s, were not enough for poverty reduction. Its poverty reduction program between 1996-2000, was focused on raising the quality and improving the access of poor people to: (i) education and health services; (ii) effective property ownership and full enjoyment of property rights; and (iii) basic infrastructure.

Changes in Scale (zones, projects, groups, etc)

The preparation plan considered the formalization of informal properties in Lima and seven other major urban centers in Peru¹². It started in Lima (June 1997) and Arequipa (December 1997)¹³.

A strong social pressure and popular demands from the main urban centers (because of project success at the places where it started) forced COFOPRI to begin expansion before the estimated date; the formalization plan covered different urban centers, even cities that were not financed by the World Bank project¹⁴. COFOPRI's growth was possible because of the experience gained during the initial years, the standardization of processes, and the modular growth design which allowed to repeat previous experiences in new cities, and the important amount of staff trained in Lima and Arequipa who were transferred to the new cities to manage the formalization process and to train local human resources.

On the other hand, diagnostic surveys in the main urban centers allowed to discard some cities and reinforce the formalization actions in other areas, considering the complexity of formalization and the titling potential of each¹⁵. Important changes also took place regarding the prospective of titles issued by type of property¹⁶; by contrast the project found other property categories that required to be formalized but had not been considered during preparation stage¹⁷.

Institutions Involved and Initial Degree of Commitment

Legislative Decree 803 created two new absolutely autonomous agencies: COFOPRI and the RPU. Both institutions obtained the status of "*pliego presupuestal*" (maximum budget hierarchy

¹² The cities were chosen through a rigorous selection process by using a limited number of criteria that included: concentration of population in Informal Settlements, poverty levels, and the expected relative benefits of formalization.

¹³ The scaling up of the operations of COFOPRI and RPU considered to continue with the process in: Piura was planned to start in February 1998, Chiclayo in January 1999, and Chimbote, Trujillo, Iquitos and Huaraz to begin in January 2000. All the cities were expected to end by December 2000, except Chiclayo and Trujillo that should have finished in year 2001.

¹⁴ During 1999 the project extended to 7 of the 8 main urban centers originally foreseen (except Huaraz). It also incorporated 6 additional urban centers financed with Peruvian Government resources: Ayacucho, Ica, Moquegua, Cerro de Pasco, Tacna and Ucayali (in the year 2000 Huancayo was included to the list). These cities were included during year 2001 within the project financed by the World Bank.

¹⁵ Thus, for example, Huaraz was discarded while Trujillo and Arequipa were given priority over Piura. The two first cities received 66 percent and 30 percent more titles than those forecasted while preparing the project, while in Piura 50 percent less than the titles forecasted were formalized.

¹⁶ Mainly in the case of private property formalization that required the previous acceptance of the original owners and the fulfillment of additional procedures from other institutions. This was an area that did not develop as expected.

¹⁷ During the preparation stage the properties to be formalized were only Human Settlements and Popular Urbanizations (72 percent and 28 percent, correspondingly). During implementation, it was determined that most of the Housing Programs that the Peruvian Government had sponsored also needed formalization. This resulted in a final allocation of property titles as follows: 82 percent Human Settlements, 3 percent Popular Urbanizations and 15 percent Housing Programs of the State.

that grants full independence) and technical, functional, and administrative autonomy¹⁸. Thus, both entities were allowed to operate with the efficiency and effectiveness of any enterprise from the private sector¹⁹.

At the same time, COFOPRI assumed all functions from 14 public institutions, and was authorized to pass administrative rules regarding the formalization process²⁰. All these were possible, because COFOPRI generated the right incentives for obtaining support from the public institutions and the beneficiaries of the reform²¹.

Other Actors Involved, Including Civil Society Agents and Their Specific Role

The three major stakeholders identified were: (i) urban landholders; (ii) financial institutions; and (iii) planning and development suppliers: Local governments, urban infrastructure and service providers, land and housing developers (private and public).

Given the participatory nature of the formalization process, the urban landholders played an important role at all stages of the process²², and their involvement helped for the transparency of the whole work (see Annex 2, Diagnostic Study on Governance, Rule of Law and Corruption for Peru, issued by the World Bank).

Financial institutions helped the project to define the information required in order to identify the recently formalized groups and their economic potential²³. This information allowed the design of ad hoc attractive products for these groups²⁴.

¹⁸ Key positions of both institutions were appointed by the President of the Republic and directly reported to him, allowing absolute technical independence and strong political support.

¹⁹ Except for certain formalities inherent to public sector management.

²⁰ Also COFOPRI became the titleholder of all state lands, whether national or municipal.

²¹ COFOPRI shared with public institutions all its information and maps, and helped them in their tasks. At the same time, COFOPRI worked with the beneficiaries of the reform in developing the administrative rules (feedback in the production of norms process). Furthermore, all the administrative rules introduced accountability mechanisms applicable to the whole process. For example, COFOPRI with the participation of the interested groups designed a procedure to identify the stretch of the archaeological areas, that made possible to formalized non-archaeological sites, at the same time that COFOPRI helped the *Instituto Nacional de Cultura* (National Cultural Institute) to introduced the real archaeological sites to the public register.

²² By assisting COFOPRI in the prioritization of areas to be formalized (Process 0); by helping to verify on field the accuracy of map information and the pre-existent property rights (Process 1); and by participating in all the activities required to obtain the individual property title (Process 2), including initial informative assemblies, house by house owners' census, social control of owners registered in the census and subsequent individual titling (See Annex 1).

²³ Such as income verification, payment behavior, market potential, among others.

²⁴ The project designed an innovative information system, denominated "*Central de Información Positiva* (CIP) – COFOPRI", whose main users are financial institutions.

Suppliers of infrastructure and public utilities, took advantage of the formalization process and made use of the modern databases and the security regarding the property rights granted, to extend service coverage to the recently formalized areas. Municipal Governments received the graphic bases obtained as a result of the formalization process for the development of their cadastres, as well as, for planning and urban development purposes.

Preliminary Results and Comparison with Initial Objectives

According to the PAD, as of the year 2001 the project should have reached 1'019,746 titled properties, of which 79 percent would receive property titles within the scope of the original project and the remaining 21 percent would correspond to the formalization activities that COFOPRI undertook with its own resources. This figure was far surpassed if we take into consideration the overall property titles that were granted by COFOPRI as of December 2003, amounting to 1'364,434 property titles (of which 60 percent approx. correspond to the project)²⁵.

In relation to the objectives of the project, the preliminary results show that:

Consolidation of social stability

The main benefit of the formalization program is the juridical security given by the property title (according to 62 percent of the titleholders), followed by the possibility of using it as a collateral for a loan (32,4 percent of the titleholders). Likewise, 78 percent of titleholders believe that the property title gives more security to the real estate property²⁶.

Furthermore, this juridical security has improved the quality life of the beneficiary families, specially of women and children²⁷.

At the same time, people perceives that the State is more interested in their welfare, which also consolidates the state's presence in most poor areas.

Although the Base Line Survey of COFOPRI (ELB) indicators are not conclusive, because of short term elapsed between the massive formalization activities and the carrying out of the ELB (1999-2000), it is possible to identify that the perception about State interest in people's welfare is higher in those that were the beneficiaries of the project, than in the case of people that have no property titles.

²⁵ Specifically for the project, 109 percent of the goal regarding property titles has been fulfilled. Regarding annual property title goals foreseen by the project for 1999-2000, years in which the formalization activities were expected to be massive and the highest number of property titles would be issued, the same were fixed in 243,266 and 300,026 property titles, respectively, achieving 76 percent and 101 percent of the respective targets. These percentages are substantially increased if we consider the total property titles issued by COFOPRI (100 percent and 141 percent respectively).

²⁶ All the information were obtained from the Base Line Survey of COFOPRI (ELB).

²⁷ It has eliminated the continuous state of alert in which they lived expecting a possible eviction or usurpation of their property, being women and children responsible for watching out the property. In the case of women, they can now look for a remunerated job or a more productive job out of home. In the case of children, they could study more hours.

Access to public utilities

Juridical security of properties was expected to allow families to request more public utilities (electricity, water and telephone services), who in turn may better identify and assess the users of the service they render. In fact, the Base Line Survey of COFOPRI concluded that homes with property titles have more access to public utilities than those with no documents.

Investment in home improvement and increased property value and transactions

The Base Line Survey of COFOPRI (ELB) suggests preliminary conclusions regarding the effect of property titles on home investments: (i) 75 percent of the population with property titles has invested to improve their homes versus a 39 percent of persons without property titles; (ii) between 1994 and 1999, the number of rooms per house increased in approximately 20 percent within the target sector; (iii) families with property titles have more rooms in their homes²⁸; and (iv) the families with property titles have better quality homes²⁹.

Furthermore, the qualitative survey of the real estate market ordered by PDPU, found out that people from NSE C and D considers that the property title increases the value of their property between 20 percent and 30 percent. Likewise, the Base Line Survey of COFOPRI established that 64 percent of the families that have received property titles believe that the property title increased the value of their real estate property. This perception has been validated by the PDPU “Ad-Hoc Study” (concluded in December, 2003), which established that the marginal impact of a property title in each piece of land is approximately US\$ 925.00. If it is considered that the average value of each lot with no property titles in the study is approximately US\$ 3,680.00, this represents an increase of 25 percent³⁰ or, put it in other words, a minimum impact of US\$ 523'120,800.00. This amount can increased significantly, considering all the pieces of land that COFOPRI introduced to the Public Registry, and hence, to the market system.

Finally, in regard to the increased of property transactions, the secondary market transactions recorded in the RPU (purchase-sales, sub divisions, independences, among others), have passed from 58,000 in 1999 to 136,000 in 2003 (134 percent increase, see Annex 3).

Other economic benefits

Several surveys were carried out to measure other economic impacts of formalization activities, which suggest that the expected benefits were reached³¹, although jointly with other information sources provide preliminary indicators:

²⁸ In 1999, 70 percent of the total rooms in the houses of the target sector belonged to families that had some kind of title and 30 percent to those who had no property title at all. This means there were 130 percent more rooms at the houses that had some type of property title.

²⁹ Brick walls (57 percent of families with property titles versus 42 percent of families with no titles); concrete roofs (45 percent versus 31 percent); water (85 percent versus 67 percent).

³⁰ Estimación del Beneficio de Formalizar la Propiedad Inmobiliaria Urbano-Marginal, Apoyo Consultoría, Diciembre 2003.

³¹ However, because of short period elapsed between the massive formalization activities and the carrying out of The Base Line Survey COFOPRI (ELB), *Apoyo Consultoría*, 2000, it is difficult to arrive at final conclusions.

*Access to credit and the use of real estate property as collateral*³²: As of December 2003 the use of mortgages as collateral and the number of credits and amounts of the same, specially those granted by the Formal Financial System have substantially grown:

Mortgages: (i) the number of mortgages registered has increased 106 percent from 2000 to 2003, being the yearly increase of 10 percent, 45 percent and 28 percent respectively³³; (ii) mortgages amount increased from US\$66 millions in 2000 to US\$136 millions in 2003; and, (iii) from total amount of mortgages constituted between 2000-2003, 80 percent were constituted in favor of private entities within the Formal Financial System (See Annex 4).

Credits: Credits granted by the formal financial system, have increased by 47 percent in 3 years (December 2000- December 2003), from US\$ 249 millions to US\$ 367 millions; while the number of credits granted has grown 53 percent in the same period (from 154,000 to 235,000). Despite this success, only 45 percent of the initial potential market was reached (people demonstrating their income and having property titles)³⁴ (See Annex 4).

Increase of the number of hours available to work: Although it was not originally included within the benefits expected from the project, an independent survey carried out by Erica Field on the impact of the granting of titles in the job³⁵, determined the following economic conclusions: (i) the formalization program, contrary to other assistance programs, allows an easier access of the beneficiary population to the formal labor market; (ii) the urban property title program reduces the need to generate income at home, since it allows the beneficiaries to look for a remunerated job or one having a higher productivity out of home (since they do not have to stay at home to protect their property); and (iii) the formalization program is associated with a 17 percent increase in the labor hours of beneficiary families and with a 47 percent decrease in the possibility of working at home.

Other social benefits

Another very positive effect is, according to Erica Field, the incidence in reducing the infant' work demand at most of the families³⁶. Also, from the total beneficiaries of the formalization process (whether individual titleholders or co-owners) women represent more than 50 percent.

³² There is no information regarding the number and amount of mortgages constituted before 1999-2000 and of credits granted by the Formal Financial Sector to the recently formalized population, because the *Central de Información Positiva* -CIP was concluded in 2000. The CIP is a information system created to provide the Financial System and the market in general, information regarding the potential and characteristics of the formalized sector. From a universe of 1'421,113 titleholders identified, 522,646 demonstrate formal income, besides counting with a property title duly formalized and recorded that may be used as collateral. Thus, there is an important number of prospective clients that makes attractive the participation of the Formal Financial System in the low-income segment.

³³ The total number of mortgages constituted between 1999 and December 2003 is approximately 65,000.

³⁴ By December 2003 these credits represented 8 percent of the total amount of credit of the National Financial System to natural persons (does not include corporations).

³⁵ ²⁷ Field, Erica (2002). "Entitled to Work: Urban Property Rights and Labor Supply in Peru", Industrial Relations Section/Firestone Library, Princeton University.

³⁶ The formalization program is associated with a 28 percent reduction in the likelihood of infant' work.

Nevertheless, when we focused on individual property titles (one owner), more than 55 percent are women³⁷ (see Annex 5).

Minor Adjustments and Fundamental Changes to Original Plan

These were: (i) the decision of in-house development the cartography and mapping databases, instead of outsourcing as it was originally envisaged³⁸; (ii) the design of special formalization procedures for certain types of properties which due to their special features require ad-hoc legislation and production lines, such as archeological and risky areas; and (iii) the need, as of 2000, to adopt decentralized formalization procedures through Provincial Commissions presided by the local mayors, being COFOPRI only in charge of the technical work.

Impact Analysis

Efficiency in the Use of Resources Invested, Measured by Cost-Efficiency Ratios

Hernando de Soto in his book “The Other Path” estimated in US\$ 2,156 the cost that people needed to pay to formalized their lots in the mid 1980s.

During the project preparation, there were established two main mechanisms to measure the efficiency of the invested resources: the cost of the first issued of a property title made by COFOPRI and its recording in the RPU, that were fixed at US\$ 35.00³⁹ and US\$ 15.00⁴⁰ respectively, based on the experience of COFOPRI and the RPU in Lima during 1996-1997 (See Annex 6).

According to the project's indicators, as of December 2003 the costs of the first issue of a property title and their corresponding registration in the RPU, have different trends. In the first case, the costs have continuously increased from US\$ 43.3 in year 2000, to US\$ 49.80 in 2001, US\$ 55.40 in 2002 and US\$ 62.00 in 2003, while in the case of the first registration, the same

³⁷ Although the granting of property titles has not generated great changes in the domestic dynamics regarding responsibility for children and house keeping, women perceive that the formal recognition of their formalized right to a piece of land makes their husbands to take into account women's views before any possible use of the real estate property. INFORMET (2002), “*Estudio sobre los efectos de la titulación en el desarrollo de la mujer*”, PDP/COFOPRI.

³⁸ Decisions that were consistent with efficiency and effectiveness criteria, were made because of the specific institutional framework granted to COFOPRI that allowed it to operate as a private enterprise.

³⁹ These includes COFOPRI's costs directly related to formalization, including public servant salaries, individual contractors' fees, outsourcing costs and operational costs of mapping, office establishment and other direct operational costs; and excluding capital costs such as office refurbishment, furniture, equipment and information technology.

⁴⁰ The RPU's costs per COFOPRI-issued title registered includes RPU's costs directly related to registration of COFOPRI-issued titles, public servant salaries, individual contractors fees, outsourcing costs and operational costs of mapping, office establishment and other direct operational costs; and excluding capital costs such as office refurbishment, furniture, equipment and information technology.

dropped from US\$ 14.60 in 2000 to US\$ 5.62 in 2001, and slightly increased during 2002 to US\$ 7.07, experimenting a huge increase during 2003 to US\$ 29.57⁴¹.

Regarding the duration of the activities, they were fixed in 50 days for the formalization and recording of the first title carried out by COFOPRI and the RPU, and 10 days for the recording of mortgages and purchases-sales. In all cases, the duration observed was less than the one forecasted⁴².

The last established indicator is the one regarding the suspension percentages and contingencies⁴³ at the different stages of the formalization process, being it established that for every 100 properties entering the formalization, 95 percent should be registered and from those registered, 95 percent should be issued a property title, which meant a 5 percent of suspensions and a 5 percent of contingencies. For the 1997-2001 period the suspensions level was of 9 percent, increasing to 16 percent if the measurement was made between 1997-2003, while the contingencies were decreasing, but always exceeding the pre-established percentage. For the 1997-2001 period accumulated contingencies were 25 percent, being reduced to 24 percent for the period from 1997 to 2003⁴⁴.

⁴¹ The increase in the cost of the first issue of property titles results from: (i) the fact that the initial costs were based on the experience of one sole city (Lima) which accounted for more than 40 percent of the real estate properties to be formalized and that prioritized huge areas with high concentration of real estate properties and relatively low complexity; (ii) the extension of the coverage scope of the project to new localities, that created obstacles to continue with massive processes, due to the reduction of the critical mass; (iii) the need to solve the most complex problems that needed special longer and more expensive processes; and (iv) the decentralized operation system adopted by COFOPRI as of the year 2001.

The reduction of costs of the first registration must be thoroughly reviewed but a first conclusion suggest that during the first years of the process to issue property titles an effort to transfer and close the entries contained in the former Real Estate Property Registry was made, as well as, building the corresponding geo-referenced base. While, in turn, the effort of the RPU during 2001 to 2002 was mainly focused in the review and recording of the property titles submitted by COFOPRI. The increase in 2003, could be explain as a consequence of joining RPU and RPI (traditional registry) in one, effort that began in 2003.

⁴² The first activity was carried out in 49 days since the year 2000 until December 2003; while in the case of the second one, the duration determined was between 30 percent and 40 percent of the maximum established.

⁴³ "Suspension" refers to obstacles cases where it is not possible to formalize the lot (for example, due to ownership problems, location in risky zones, or archeological zones, etc.), while the "contingencies" refer to formalization problems of lots located within the main lot (for example, unoccupied lots or lots in litigation, etc.).

⁴⁴ These results demonstrate the need to redefine the so called contingencies and suspensions and the assumptions that they comprise, adopting legal and institutional reforms to solve part of them and assign the remaining lots to housing programs. Both cases deal with human settlements whose occupation occurred is after March 1996, reason why the lot adjudication programs with housing purposes foreseen also in Legislative Decree No. 803 must be implemented immediately, adjudicating those lots in a purchase-sale transaction made with their occupants or, if there were no occupants, to third parties requesting the lots for housing purposes.

Measurement of Effectiveness, Using Intermediate Output Indicators, Such as Change in Policies

The Project's Policy Letter recognized that Legislative Decree 803, which at the same time created COFOPRI and RPU and established the legal and institutional frames of the Program, was a part of the institutional reforms developed by the Peruvian government to consolidate a market oriented economy system, by the formalization of property rights to the land⁴⁵.

Legislative Decree 803 also established the principles for the creation of a property rights program that could be sustainable in time; principles like the production of legal rules that mirrors reality, the development of methodologies that gradually adapt to the specific findings, the absolute respect of property rights, among others (See Annex 7). All these principles guided the policies and the allocation of resources within the project.

Thus, all regulations dictate by COFOPRI were tested with the beneficiaries involvement in the field. This feedback helped to identify and deal with new forms of informality that were not known during the preparation project, like the "*pueblos tradicionales*" (an ancient informal settlements in Arequipa)⁴⁶, and to bring closer formal and informal rules.

Furthermore, Legislative Decree 803 created a legal and institutional framework that allowed the allocation and recognition of property rights and their permanence within formality through the reduction of transaction costs, and considered mechanisms to avoid future invasions, through lot adjudication programs with housing purposes in State lands⁴⁷.

All this has resulted in: (i) the consolidation of 14 agencies into one with national competence; (ii) an institutional and organizational design, reporting the highest level of political decision; (iii) the standardization of formalization procedures, eliminating redundant or unnecessary red-tape and incorporating extra-legal norms and their informal organizations within formal rules; (iv) the development of methodologies that gradually adapt to the specific findings in field; (v) the implementation of a massive formalization model⁴⁸; (vi) the inclusion of specific mechanisms for the solution of controversies (conciliation, mediation and arbitration); (vii) the reduction of the term for the formalization process between 3 to 20 years to less than six weeks; (viii) the formalization costs reduction from US\$2,200 to US\$50 in average; (ix) 1'824,087 lots duly formalized and registered; (x) 1'364,434 property titles duly registered.

⁴⁵ Project Appraisal Document, Annex 8, Government of Peru Letter of Sector Policy, Urban Property Rights Project.

⁴⁶ For example, COFOPRI also learned to deal with topographic differences between informal settlements located in the coast, the mountains and the jungle.

⁴⁷ The Decree has been complemented in the last 8 years (1996-2003) with 14 Statutes, 34 Legislative Decrees, 35 Supreme Decrees and 1,164 Administrative Resolutions related to urban real estate property formalization issues.

⁴⁸ That applies scale economies with the subsequent cost reduction, and which combines popular participation through assemblies with methodologies for gathering legal and geographic information carried out by multidisciplinary "brigades" that work proactively at the informal settlements.

Final Outcomes in Terms of Poverty Indicators, in Connection with the MDGs and the Broader Country Poverty Reduction Strategy

It is clear from the objectives of the project, that its main reason was not to reduce poverty, although, as we have seen before, it decisively helped in this task: (i) by giving juridical security to the real state property; (ii) increasing the value of the formalized properties; (iii) increasing the access to public utilities; (iv) increasing investment in home improvement; (v) improving the quality life of the beneficiary families; (vi) increasing the number of hours available to work; among others.

Furthermore, the project has contributed to reduce the necessity to watch out the properties, so now children can go to schools and women could look for a remunerated job or a more productive job at home. It also has helped with the gender agenda, because a great number of women has received title to their homes⁴⁹.

Also, local governments have enough information to plan urban developments (health, education, and other public services).

Driving Factors

Commitment and Political Economy for Change

In the early 1980s Peruvian economist Hernando de Soto in his book “The Other Path” suggested the need to recognize the property rights over the main assets of the poorest families (their houses) as mechanism to insert within the formal economy thousands of millions of dead capital.

In order to achieve this, it was required to generate a general consensus amongst the highest authorities of the Executive and Legislative Branches, the leaders and people of the informal settlements and the civil society in general, regarding the need to introduce the necessary reforms that would make possible the expected benefits, thus neutralizing the opposition from important interest groups which wanted to keep a status quo that benefited them⁵⁰.

The political support to the Program since 1996 has remained steady and is being continued by the current government (2001-2006) under a decentralized model that includes the Municipal Governments, but COFOPRI is still the governing entity regarding urban formalization and the technical entity responsible for formalization activities. The World Bank project was extended until June 2004 (one year more with respect to the original closing)⁵¹.

⁴⁹ Supra 37.

⁵⁰ Political leaders, land dealers, notary publics, professional bars, officials from the Central and Municipal Governments, might have lost some political or economical power.

⁵¹ There is also the possibility of a new operation to complete the formalization process at the remaining geographical areas, to formalize the buildings made on titled lands, to generate property rights protection policy, to support municipal governments in the administration of cadastries, to continue encouraging the

Institutional Innovation

In the Peruvian case, the main causes of informality were: (i) the maintenance of a normative system that generates laws and institutions unable to define, recognize and provide legal security to property rights; (ii) the lack of an institutional system of incentives; and (iii) the lack of an interconnection between title issuance, registries and cadastres.

In Peru most of the norms regarding property were issued in a centralized manner, without taking into account the practices of users (lack of **feedback** in the production of norms process); neither existed information and accountability mechanisms (lack of **transparency** in the state activity); and the users did not have whom to make accountable for the decision-making regarding property titles or registries (there was no **accountability**).

Furthermore, most of the land title granting programs, cadastre and reform of the real estate registries have been limited and partial; and were not intended to solve the real issues. Some programs were only focused on the generation of cadastres, while others on improving the real estate property registries, when in fact, they must be part of a strategy that provides sustainability in time and is only achieved when assets accumulated by the poorest sectors are included into the market through property rights formalization programs and complementary mechanisms that make it easier to transfer those assets in the market.

Finally, the creation of an efficient property formalization system, means the adoption of an institutional reform strategy that takes into account a political consensus involving the highest instances of the Central and Municipal Governments to: (i) generate a massive title granting program, cadastre and registries, simplified with low transaction costs for users, as well as proactive institutions in charge of the program; (ii) the concentration of the functions and responsibilities linked to the regulation and direction of the formalization actions into one sole entity; and (iii) the neutralization of the public and private interests that receive privileges and incomes from title granting, cadastre and registries, and which generate high transaction costs to have access to formal property. All these issues were considered in the design of the Informal Real Estate Property Formalization Program.

Learning and Experimentation

Investigations developed by Mr. De Soto's Liberty and Democracy Institute showed the economic importance of the so called informal owners, as well as the complexity of the procedures that must be followed in order to obtain a property title. During the late 1980s and the early 1990s, a series of preliminary reforms started⁵². These preliminary and partial processes led

access to credit, the investment on public utilities infrastructure and to contribute to generate a real estate market.

⁵² Legislative Decrees 495 and 496 (1988) created the Real Estate Registry of Settlements and Popular Urbanizations (currently Urban Real Estate Registry), the Popular Mortgage (Possessory Mortgage) and the Credit Insurance. Between 1990-1993, new reforms were implemented through pilot programs that put into effect the *Registro Predial* (Real Estate Registry); these pilot programs were supported by the World Bank and allowed the incorporation to the *Registro Predial* of 110,000 lots from informal settlements, although without any physical or legal formalization.

to the collection of valuable information, and the design and put into effect of reforms that finally allowed to develop an efficient property formalization program⁵³.

This experimentation and learning process was later used as one of the main tools of COFOPRI and allowed to identify legal, institutional and additional operational obstacles, that were solved as the new legal and institutional reforms were introduced or through reengineering of processes⁵⁴.

External Catalysts

Millions of settlers were excluded from the benefits conferred by the formal economy and were not able to use their properties as valuable assets, even when it was their main asset and represented the savings of years of sacrifice and efforts.

During the 1990s the Peruvian government, the civil society and the international cooperation understood that the poverty reduction strategy had to include the allocation of inviolable property rights. This was a demand of the millions of poor Peruvian people, who saw in the formalization of their property titles the first step of a process that will allow access to credit, infrastructure services in addition to their social and economic integration.

Lessons Learned

The effective formalization of property titles establishment through legal and institutional reforms framework to solves the causes of informal property ownership. In order to achieve this objective it is essential to involve norms, organizations and practices which may make of a real estate property market a set of defensible and transferable rights.

Thus, it is also indispensable to fight against the lack of adequate institutions; building previous consensus about the necessity to introduce the reforms (demonstrating at the same time the economic and social importance of those reforms); and building alliances with stakeholders.

⁵³ The main conclusions were: (i) the need to count with a political priority level that encourages a nationwide formalization supported by the highest authorities; (ii) the existence of functions dispersion linked to formalization, that generated bottlenecks and were not solved with the preliminary reforms; (iii) the need of an institutional framework for integration and close inter-institutional cooperation among the entities having responsibilities linked to the physical-legal regularization and the registry; (iv) the need of a planning institutional framework of the formalization process, with its own purposes; (v) the absence of alternative mechanisms for dispute resolution that would be critical for an efficient reform; (vi) the absence of appropriate administrative mechanisms for property rulings that avoid following complex and expensive judicial proceedings; and (v) the absence of legal frameworks that consider incentives to formalize and maintain formalized a property, which are of material importance to provide sustainability to the formalized property.

⁵⁴ Initially tested on the internal directions of the Institutions in charge of the formalization process, they were later included into norms of higher hierarchy (Supreme Decrees and/or Statutes), once approved, generating for these effects a critical mass of beneficiaries and consensus within the society regarding the need of their introduction.

PERU'S URBAN LAND TITLING PROGRAM

To this end, property rights legally unquestionable and accepted by the market should be granted to squatters and land. Administration policies that allow the efficient use of the land resources should be developed for an ordered and planned land endowment to satisfy demand, avoiding future illegal land usurpations. Nevertheless, all these must be carried out within an absolute respect to private property.

The recognition of property rights is only the first step in the process to improve the life conditions of the formalized population, providing them the juridical security that allows access to credits, increases the properties value, provides access to infrastructure and public services, and develops a real estate market. Of course, it is clear that projects like this one does not implicate an immediate access to credit, but generates one of the main basic conditions for the development of a credit market, besides other important economic and social impacts.

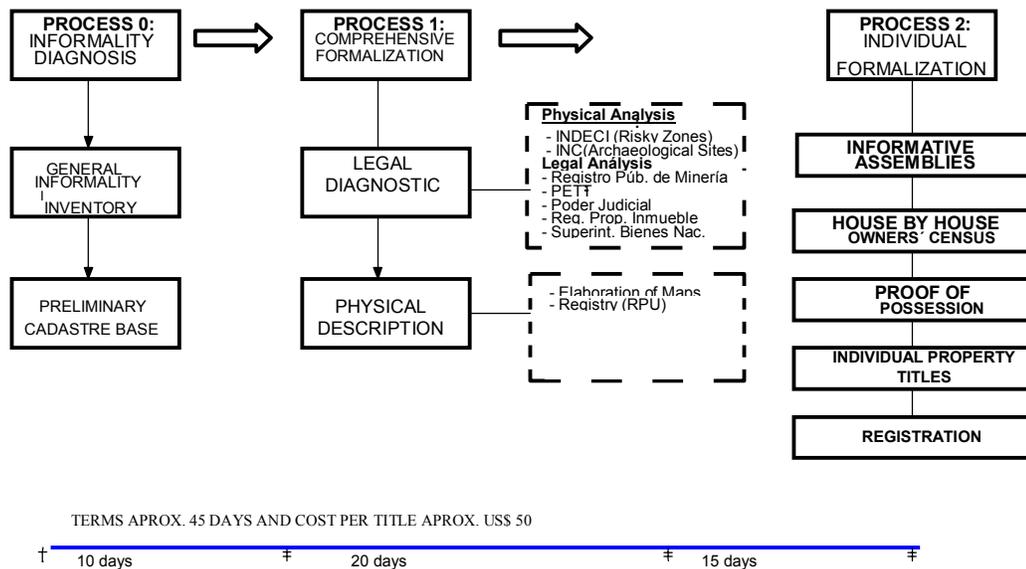
Formalization must be accompanied by, among others: (i) gathering, systematization and exploitation mechanisms of information regarding the characteristics of formalized properties and the beneficiaries of said formalization, which complemented with other sources of information, allow the market to function more efficiently and effectively; (ii) surveys that allow to know the causes and factors limiting or restricting the access to credit, the investment on housing and in infrastructure and public utilities, in order to propose legal and institutional reforms regarding those matters; (iii) the involvement of other public and private institutions, mainly linked to housing policies, housing development, credit and infrastructure, and public utilities, as co-participants in the improvement of life conditions of the population; (iv) educate the formalized population regarding the mechanisms to access to credits; (v) diffusion within the formalized population of the benefits from registering the secondary actions made to their properties; (vi) promotion of the potential of the formalized market directed to the economic agents linked to credit, investment on infrastructure and public utilities and the real estate market; (vii) strengthening of the municipal government regarding their functions on territory administration, planning and urban development, as well as, promotion of local economies; and (viii) land management systems that allow assigning lands with housing purposes to those who have no house, from an environmental and economic perspective looking for a sustainable development.

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Annex 1. The Formalization Process and the Participation of Urban Landholders at All Stages of the Process

FORMALIZATION PROCESS - COFOPRI (D.LEG. 803)



1. INFORMALITY DIAGNOSIS (PROCESS ZERO)

Surveying informality in a urban or peri-urban area. A trained technical team collects and processes available data and generates three major products:

- 1) General informality inventory.
- 2) Preliminary cadastre base.
- 3) Preliminary files with specific data about each informal settlement.

The Urban Landholders and their base organizations participate at this stage of the process, providing COFOPRI with information about the areas in their possession, the problems they face, the maps they have, the number of families, etc. With these and other information from public and private sources, COFOPRI elaborates the initial diagnosis, that helps to prepare the formalization activities and to give priority to certain of those activities.

2. COMPREHENSIVE FORMALIZATION (PROCESS ONE)

Analyzing the physical and legal situation of informal possessions through two procedures:

- 1) Legal diagnostic: Report on the informal possession legal status background.
- 2) Physical description: Geo-referencing the parcel through field surveys and layout and plot mapping (PTL).

During this stage of the process, the Urban Landholders and their base organizations participate in informative assemblies where COFOPRI explains all the characteristics of the Formalization Process. At the same time, they elect their representatives that will coordinate with COFOPRI during all the formalization activities, helping COFOPRI's staff during the elaboration of the maps, providing documents about the legal situation of the informal settlements, etc.

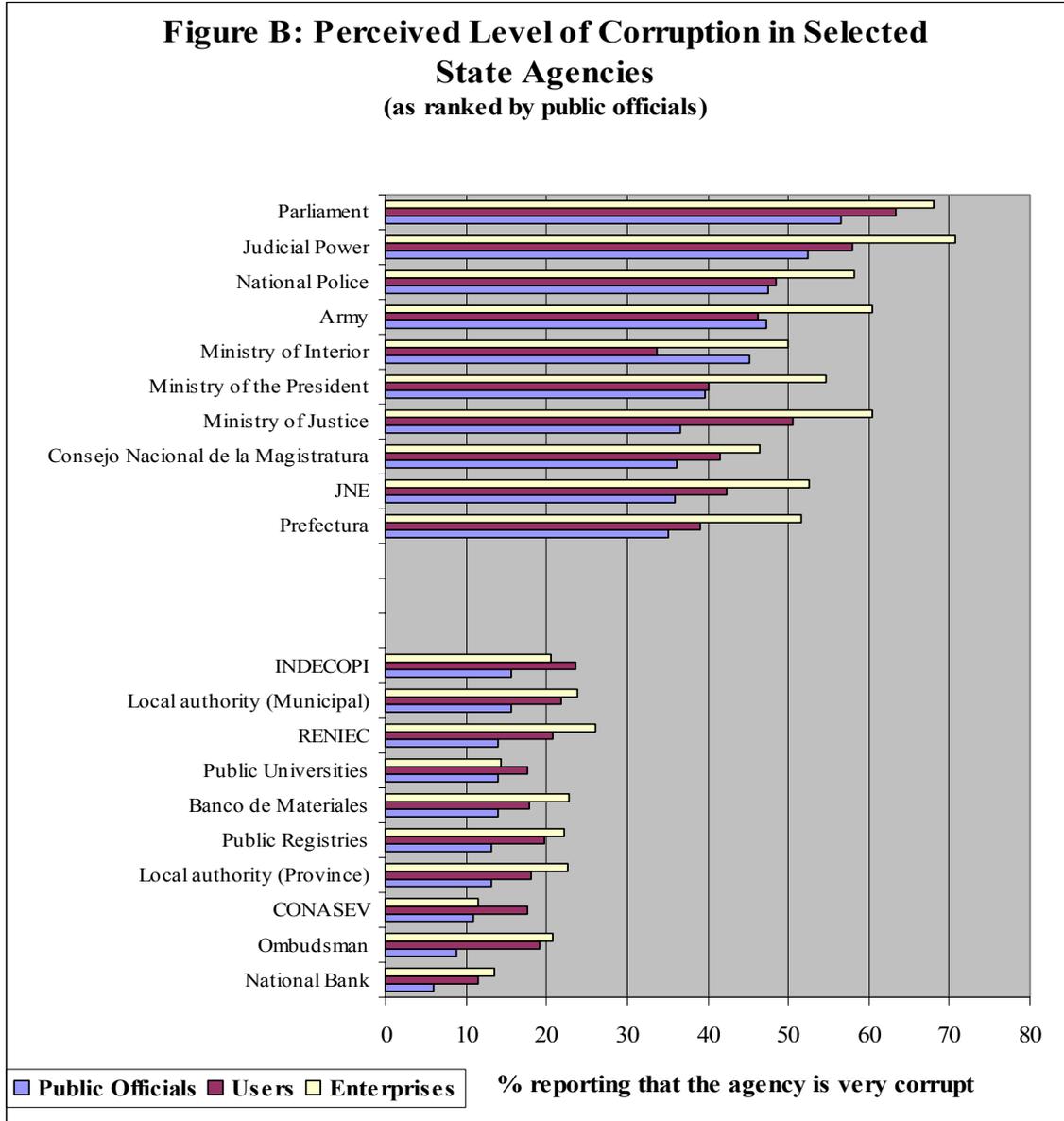
3. INDIVIDUAL FORMALIZATION (PROCESS TWO)

Analyzing individual parcels for screening and recording purposes, including:

- 1) A census to identify owners.
- 2) Data on owners and parcels processed and entered into a database.
- 3) Titles issued by the Provincial Municipalities.
- 4) Titles registered in RPU.

During this stage of the process, COFOPRI visits each home to identify the real owners (proof of possession). Then COFOPRI publishes the list of the beneficiaries, so the Urban Landholders and their base organizations could identify if something is wrong. Finally, a group of COFOPRI's staff that has no direct contact with the people verifies if documents provided by the possessors satisfies the legal requirements before issuing the property titles.

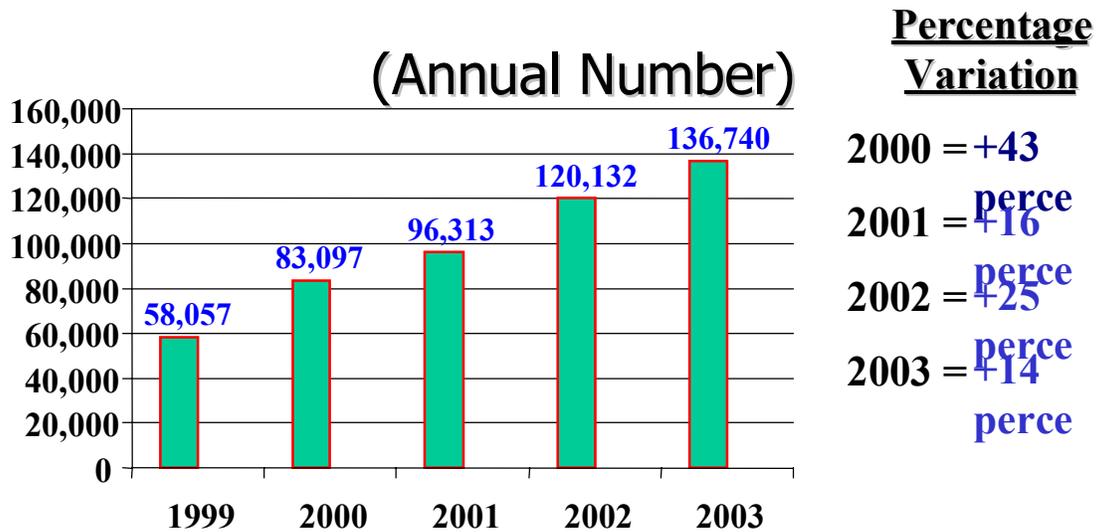
Annex 2. Diagnostic Study on Governance, Rule of Law and Corruption for Peru



Source: World Bank, Analysis prepared by the World Bank Institute at the request of the Government of Peru, August 6, 2002.

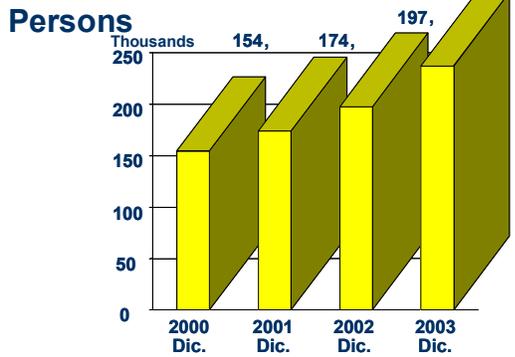
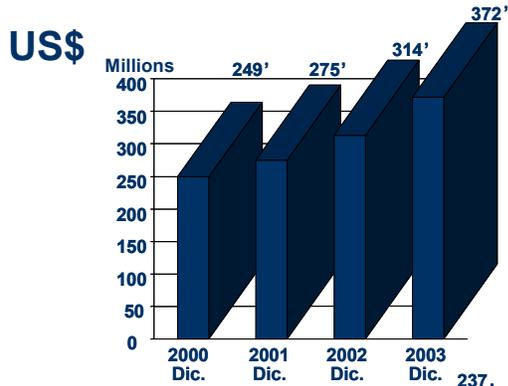
Annex 3

SUBSEQUENT TRANSACTIONS REGISTRATION



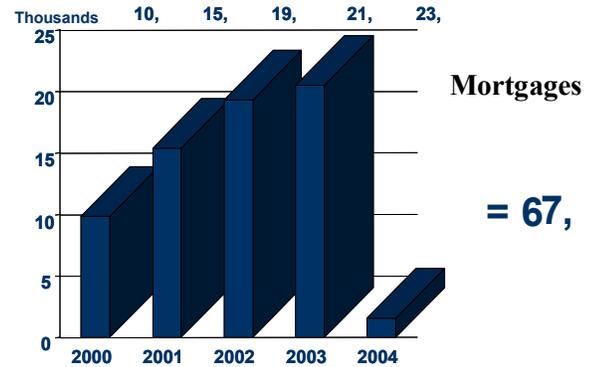
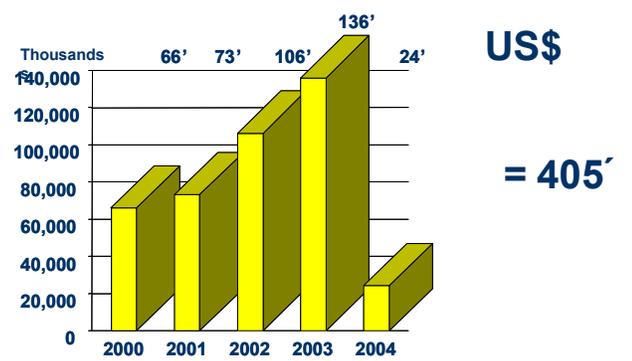
Annex 4

Credits – December 2003



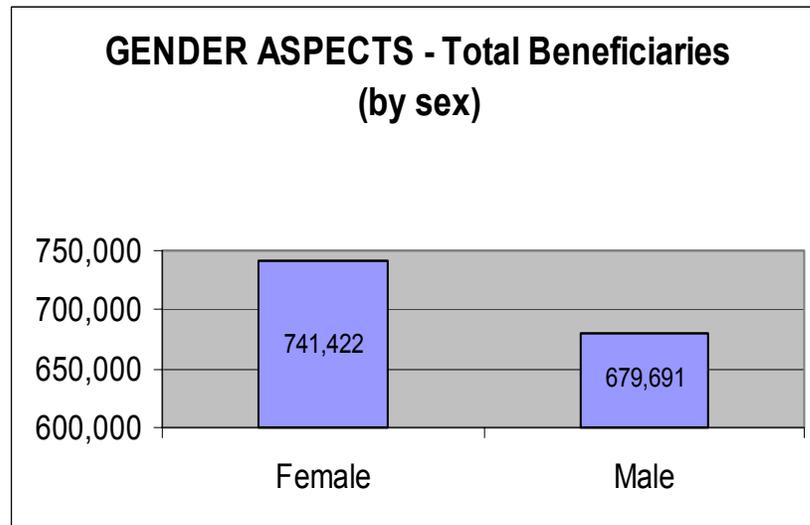
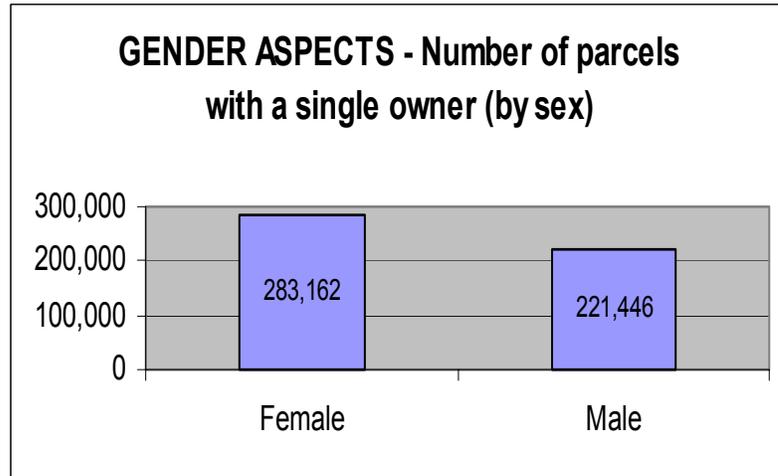
Source: SBS – Banco de Materiales not included

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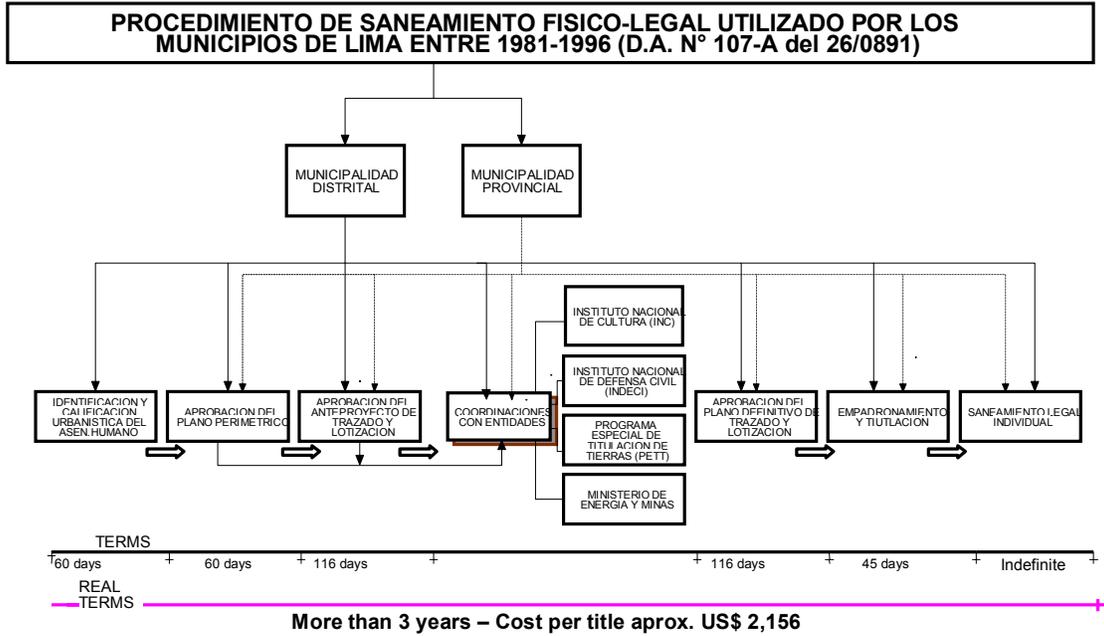
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Annex 5



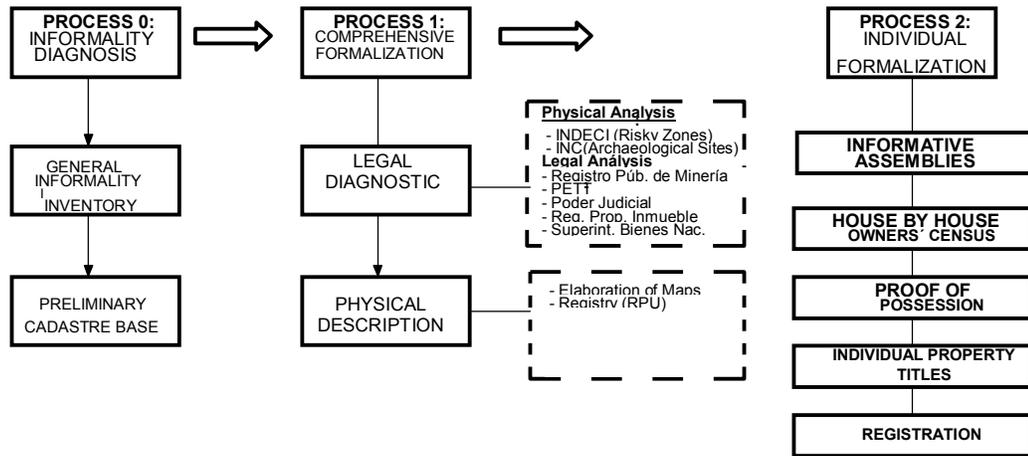
Annex 6

THE FORMALIZATION PROCESS (OLD SYSTEM)



THE FORMALIZATION PROCESS (NEW SYSTEM)

FORMALIZATION PROCESS - COFOPRI (D.LEG. 803)



TERMS APROX. 45 DAYS AND COST PER TITLE APROX. US\$ 50



Annex 7. Principles for the Creation of a Property Rights Program and Methodology for Formalization and Registration

“PRINCIPLES FOR THE CREATION OF A SUSTAINABLY PROPERTY RIGHT SYSTEM

7. Essential principles of the UPRP:

- The legal and regulatory frames that regulates the property rights formalization procedures shall reflect reality and give legal security to titles and transactions.
- The institutions in charge of the property rights formalization program shall have flexible organizations and methodologies and shall operate with low transaction costs.
- The property rights formalization program shall produce a significant group of new owners to increase the real estate market.
- The property rights formalization program shall contribute to the use and respect to private property.

THE UPRP ORGANIZATION

8. The organization of the entities in charge of the execution of UPRP shall have, in conformance to their legal frame:

- Technical, functional and administrative autonomy.
- Feedback and transparency mechanisms that could allow the reception of information useful for the execution of the project and for identifying the bottlenecks and its solutions.
- Accountability mechanisms, so users could have whom to make accountable for the decision-making regarding property titles or registries.

METHODOLOGY FOR FORMALIZATION AND REGISTRATION

9. The methodology for property rights formalization is based in:

- The implementation of procedures capable to define, recognize and enforce land titles, that are consistent with community extra-legal norms and practices, and are the product of permanent institutional investigations about the causes of informality.
- The implementation of pro-active procedures, well defined, and executed by the institutions in charge of the project.
- The execution of a massive title granting program, simplified with low transaction costs for users.

CASE STUDIES IN SCALING UP POVERTY REDUCTION

- The recognition and promotion of Civil Society's participation during the whole process.
- The inclusion of specific mechanisms for the solution of controversies (conciliation, mediation and arbitration).

10. The methodology for the registration of property titles is based in:

- Mechanisms that facilitate the identification of the physical and legal history of each lot.
- A registry system that consider independently each lot.
- Adequate technology for the property rights formalization program.
- A tariff system that guaranties lows transactions costs”.