

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

URBAN DEVELOPMENT AND HOUSING SECTOR FRAMEWORK DOCUMENT

FISCAL AND MUNICIPAL MANAGEMENT DIVISION

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This document was prepared by the project team consisting of: Vicente Fretes Cibils (IFD/FMM), Project Team Leader; Nora Libertun de Duren (IFD/FMM), Project Team Co-leader; Huáscar Eguino (IFD/FMM); José Brakarz (IFD/FMM); Andrés Blanco (IFD/FMM); and the other FMM urban development and housing specialists; Mercedes Mateo-Berganza (VPS/VPS); Lorena Rodríguez Bu (KNL/KNM); Mónica Lugo (LEG/SGO); and Sergio Lacambra (INE/RND). The document took account of contributions and comments from VPC, VPP, and the following departments CAN, CCB, CDH, CID, CSC, IFD, INE, KNL, OMJ, RES, SCL, and SCF, and from the following divisions IFD/CMF, IFD/CTI, IFD/ICS, INE/CCS, INE/ENE, INE/RND, INE/TSP, INE/WSA, KNL/KNM, LEG/SGO, SCF/FMK, SCF/INF, SCL/GDI, SPD/SDV, VPS/ESG, VPS/VPS (ESCI) and TRY/FSY. The document also received comments from the following external reviewers Clara Irazábal (Columbia University) and José María Ezquiaga (Polytechnic University of Madrid); and assistance was provided by Ida Fernández (IFD/FMM); Dianela Ávila (IFD/FMM); and Marina Massini (IFD/FMM).

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ABBREVIATIONS

ABC	Ahorro, Bono y Crédito [Saving, bonus, and credit]
DEM	Development Effectiveness Matrix
ECLAC	Economic Commission for Latin America and the Caribbean
ESCI	Emerging and Sustainable Cities Initiative
GDP	Gross domestic product
GHG	Greenhouse gases
HDI	Human development index
OECD	Organization for Economic Cooperation and Development
OMJ	Opportunities for the Majority Sector
OVE	Office of Evaluation and Oversight
PCR	Project Completion Report
SFD	Sector Framework Document
TIF	Tax Increment Finance
UN	United Nations
UN-DESA	United Nations Department for Economic and Social Affairs
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UN-ISDR	United Nations Office for Disaster Risk Reduction
UNODC	United Nations Office against Drugs and Crime

I. URBAN DEVELOPMENT AND HOUSING IN THE CONTEXT OF THE BANK'S SECTOR AND INSTITUTIONAL STRATEGIES

A. The Urban Development and Housing Sector Framework Document in the context of current sector strategies

- 1.1 This Sector Framework Document (SFD) sets out the Bank's priorities for the urban development and housing sector (hereinafter referred to as "the sector"), defining guidelines for the Bank's action through its financial and nonfinancial instruments, including loans both with and without a sovereign guarantee. The SFD also lays out guidelines for the Bank's dialogue with the 26 borrowing member countries on urban development and housing, specifying the main themes of the analytical and operational work involved in extending the benefits of urbanization to all urban residents in the Latin American and Caribbean region.
- 1.2 The content of the SFD is governed by the document "Strategies, Policies, Sector Frameworks and Guidelines at the IDB" (document GN-2670-1), which calls for the renewal of sector regulatory instruments to increase the Bank's effectiveness, pursuant to the mandates of the Ninth General Increase in the Resources of the Inter-American Development Bank. This SFD takes account of the relevant aspects of the Urban and Housing Development Policy (Operational Manual OP-751) and the Policy on the Maintenance and Conservation of Physical Works and Equipment (Operational Manual OP-707). Once this SFD has been approved, Operational Policy OP-751 will cease to have effect, while Operational Policy OP-707 will remain in effect until all of the relevant SFDs have been approved, pursuant to paragraph 1.25 and Annex III of document GN-2670-1. The relevant content of those policies has been incorporated into this SFD, pursuant to Annex II of said document. Lastly, this SFD will be updated every three years, as required in paragraph 1.20 of document GN-2670-1.

B. The Sector Framework Document as part of the Bank's institutional and sector strategies

- 1.3 This SFD is aligned with the Sector Strategy Institutions for Growth and Social Welfare (document GN-2587-2), given its contribution to strengthening institutions that support urban development and the provision of housing services. In particular, it stresses improvements to public sector management and finances, including resource mobilization, optimization of public spending, the delivery of urban and housing services, the fostering of local economic development, and the promotion of institutional transparency. The same strategy includes the objective of reducing citizens' insecurity in the region, which is addressed in this document from the standpoint of recovering the urban public space.¹

¹ The SFDs on subnational governments, fiscal management, and citizen security, also framed under the Sector Strategy Institutions for Growth and Social Welfare will expand on these issues.

- 1.4 This SFD is also aligned with the Infrastructure for Competitiveness Strategy (in preparation),² given its contribution to the development of urban infrastructure, and with the Integrated Strategy for Climate Change Mitigation and Adaptation, and Sustainable and Renewable Energy (document GN-2609-1), since it promotes more densely populated cities with a smaller carbon footprint, and the reduction of natural disaster risks in the cities.³ Since urban development requires the integration of various sectors, this SFD addresses topics involving the transportation, employment, water and sanitation, energy, and climate change sectors, which will be addressed in depth by the respective SFDs to be completed by 2015, ensuring the consistency of all Bank interventions in the different sectors.⁴ In implementing this SFD, the Bank will adapt its interventions to the particular needs and demands of each country, as well as to the specifics of each client, in accordance with the sector notes and respective country strategies. In that sense, the SFD is not regulatory but indicative.
- 1.5 With a view to extending the benefits of urbanization to all city residents in full and on a sustainable basis, this SFD pursues two main objectives: (i) to support the interventions and institutional changes undertaken by the Bank's 26 borrowing member countries to address: (a) deficits in urban infrastructure and services; (b) deficits in housing; (c) degradation of urban habitat; and (d) deficits in urban governance; and (ii) to deepen and consolidate the foundations of the sector's knowledge agenda.
- 1.6 This SFD is organized in five sections. This section describes the relation between the SFD and the current regulatory framework. Section II presents selected international empirical evidence on programs in the sector. Section III presents the main challenges facing the sector. Section IV contains lessons learned from the Bank's experience in the sector. Lastly, Section V includes the targets, principles, dimensions of success, lines of action, and specific activities to be prioritized by the Bank's work in the sector.

II. INTERNATIONAL EVIDENCE ON THE EFFECTIVENESS OF POLICIES AND PROGRAMS IN THE SECTOR AND IMPLICATIONS FOR THE BANK'S WORK

A. Cities and economic and social development

- 2.1 Cities are the main engine of economic and social development—just 100 of them produce one quarter of the world's total gross domestic product (GDP).⁵ Cities are where the economic output of countries is concentrated; they serve as poles of

² Annex II of document GN-2670-1.

³ In the rest of the document, these will be referred to as "disasters."

⁴ This SFD also makes reference to the topics of gender and diversity, access to financial services, tourism, innovation, health, labor, and the environment, which will be further developed in the respective SFDs.

⁵ The main cities in both developed and developing countries, such as Mexico, Hungary, Kenya, and Saudi Arabia, contribute nearly 25% of GDP, and occupy 1% of the land area (World Bank, 2009).

attraction for migration; and they constitute centers of consumption and innovation (Glaeser, 2011). Furthermore, the variety of productive inputs, skilled labor, and knowledge that tends to be concentrated in cities, generates agglomeration economies that foster productivity (O’Sullivan, 2009).⁶

- 2.2 Urbanization is associated with the reduction of poverty and indigence (see Figure 1, Annex I)—25% of households living on less than US\$1 a day are city dwellers, whereas the remaining 75% live in rural areas (Ravallion, 2007). Urbanization has also contributed to improvements in public health and education indicators: greater access to medical care among the urban population in developing countries has resulted in a longer life expectancy (World Health Organization, 2013) and a significant increase in children’s years of schooling (UN Habitat, 2011). The social interaction in cities is also driving innovation and creativity (Jacobs, 1969; Kratke, 2011), giving rise to cutting-edge technological and cultural production systems; social movements to extend full rights to women, indigenous and Afro-descendant peoples; and the promotion of democratic forms of government (Castells, 2012).
- 2.3 Despite the benefits in terms of economic and social development, the concentration of populations in cities generates high demand for services. Urbanization has aggravated problems of environmental pollution and natural resource depletion in urban and periurban areas. Moreover, when the public sector is unable to respond to its citizens’ ever-increasing needs, and when the expansion of the supply of services is inadequate, significant deficits emerge in the coverage and quality of infrastructure and services, including housing. These and other problems, such as habitat degradation, are compounded by weak urban governance. As a result, over one third of the urban population in developing countries lives in inadequate housing conditions, overcrowded, makeshift housing, with insecure tenure, lacking water and sanitation, or with a high exposure to disasters (UN Habitat, 2011). In Latin America and the Caribbean, these deficits began to emerge in the 1950s and have deepened over time, due to the combination of burgeoning urban population growth and the weak public sector response capacity (Gilbert, 1998).
- 2.4 In developed and developing countries alike, a wide variety of policies and programs have addressed urban problems, and there is a broad-ranging literature on these experiences. This section identifies examples of good practices that are most relevant for the region, as well as their implications for the Bank’s work in the sector, and establishes the basic principles of comprehensiveness, sustainability, and targeting on citizens, drawn from the international empirical evidence.

B. Urban policies and programs need to be comprehensive

- 2.5 Successful urban policies have a long-term vision and integrate actions by multiple sectors, while responding to specific demands. Urban development is most effective

⁶ The average urban-rural wage differential is 90% in developing countries, compared to 35% in developed countries (O’Flaherty, 2005).

when interventions are organized on the basis of territorial projects, rather than sector-based interventions. This also facilitates social engagement and consistency with the vision for the entire city

1. Infrastructure and urban services need to be comprehensively planned using a physical plan

- 2.6 Delivery of urban services and infrastructure needs to be coordinated with physical planning, coordinating urban growth with land uses. In South Africa, for example, national legislation ties budget allocations to the achievement of cross-cutting targets (Harrison, et al., 2008). Moreover, with a view to ensuring consistency across sector investments, traditional zoning, regulating plot by plot, has been abandoned. In the United States, for example, many cities limit only the acceptable impacts of buildings (levels of noise and energy consumption) (Baker et al., 2006) or the principles of urban design they must meet (Duany et al., 2003). Another method is to establish density criteria to optimize service delivery and improve the city's environmental quality. In Toronto, Canada, providing infrastructure for an urbanization of 150 inhabitants per hectare costs 40% less than providing it for an urban area of half that density (UN Habitat, 2013).
- 2.7 The state plays a fundamental role in promoting private activity without disregarding equitable access to urban services (Friedman, 1973; Davis, 2004). An urban plan that coordinates land use and the delivery of services and infrastructure improves service accessibility for all residents. Adequate densities generate local demand that justifies the cost of mass transit (O'Sullivan, 2009);⁷ and this encourages the use of alternative, healthier, and more economic modes of transportation, such as walking or cycling (UN Habitat, 2013). In turn, affordable mass transit enables the development of new urban centers with a sustainable growth pattern (Zegras, 2010). Moreover, mixed land uses with high densities reduce the number of daily journeys (Chatman, 2008; Crane and Crepeau, 1998); vehicles per household (Hotzclaw et al., 2002); energy expenses⁸ and greenhouse gas (GHG) emissions (GEI) (Khan et al., 2007). Curitiba, Brazil is one of the region's best known cases of land-use planning being integrated with flood management (Yusuf, 2013) and transportation (Suzuki et al., 2013). As a result of Curitiba's urban plan based on interconnected road arteries, the public transportation system encompasses 90% of the município and accounts for 70% of work-related journeys. By using high-density corridors close to the rapid-transit bus lanes (Bus Rapid Transit-BRT), Curitiba has reduced congestion in the downtown area and minimized low-density outlying development, while its population has grown from 400,000 to 2 million over the last 40 years (UN Habitat, 2013). In the Caribbean, Port-of-Spain, Trinidad and Tobago, has begun a review of its

⁷ In the United States, a minimum density of 30 people per hectare is needed to justify one bus per hour, 44 people per hectare for two buses, 53 for a light train, and 71 for a heavy train (O'Sullivan, 2009).

⁸ High-rise housing requires less energy than single-family homes, but may impede the use of solar energy or generate reflections that increase energy demand.

legislation to encourage the development of coordinated investments in commercial and residential buildings and infrastructure (IDB, 2012; Waldron, 2005).

- 2.8 Access to services and urban infrastructure is correlated with the improvement of indices of citizen health and satisfaction (UN Habitat, 2013). An impact assessment of the improvement of the water supply in Argentina found an 8% reduction in infant mortality (Galiani et al., 2005). Urban services also boost land values and promote private investment in housing. In a sample of 10 Latin American and Caribbean cities, the average impact of infrastructure on the price of urban land amounted to three times its construction cost (Smolka, 2003). In Mexico City, paving local roads doubled the number of internal home improvements and increased their sale value by 16% (González-Navarro and Quintana-Domeque, 2010). In addition, urban lighting and public spaces with cultural and recreation activities have been linked to an increase in residents' satisfaction with their quality of life. This association is robust in terms of studies based on surveys and the willingness to pay for services, and is also supported by studies that quantify the equivalent monetary value of urban services (Lora et al., 2008).

2. Informal neighborhood improvement programs need to be based on comprehensive actions with citizen participation

- 2.9 The improvement of informal neighborhoods combines investments in basic infrastructure and in urban and social services. These programs are increasingly comprehensive, and have includes components addressing employment training, education, care for vulnerable groups, citizen security, and normalization of land tenure (Brakarz et al., 2002). To facilitate the latter component, Brazil created the Zonas Especiais de Interesse Social [special zones of social interest] (ZEIS), which protect residents from real estate speculation and allow public-private partnerships in housing financing (Lago, 2007).
- 2.10 The case studies and quasi-experimental evaluations of informal neighborhood improvement programs suggests that service delivery should be comprehensive and complementary (UN Habitat, 2011). This coincides with the experience of the Emerging and Sustainable Cities Initiative (ESCI), which indicates that these programs need to be designed comprehensively on multiple scales, ranging from the neighborhood to the region (Rojas, 2009) and must take their formation process into account. For example, while in the Southern Cone, a large proportion of the informal neighborhoods resulted from massive land invasions, in the Caribbean, they were formed gradually, without community organization (Rajack and Barhate, 2004). Moreover, cities in the Caribbean lack a cohesive urban structure in their downtown areas, since they have arisen as extractive ports without civic organization. These characteristics make the integration of informal neighborhoods into the formal city particularly difficult (Harriott et al., 2004). The Integrated Urban Program of Medellín, Colombia, complements improvements to infrastructure and public spaces with cultural activities. This program helped significantly improve citizen security in the neighborhoods where it was implemented, tripled trade in the area, and strengthened community participation and leadership (UN Habitat, 2011). This type of program has also had similar

impacts in other regions. In Soweto, South Africa, these programs reduced local rates of violence and increased in the value of housing per square meter (UN Habitat, 2013).

- 2.11 These programs have been evaluated positively in terms of improved access to and coverage of basic services, health, education, satisfaction with living standards and security conditions, greater investment by households in their homes, and an increase in their prices. Titling programs in Peru led to a significant increase in the levels of residential investment (Field, 2005; Field and Torero, 2003). However, improvement programs could encourage greater informality, since they raise the expected benefits of informal urbanization (Abramo, 2003). For example, in Buenos Aires, Argentina, by reducing the risk of eviction, they increased informally built-up areas by 12% (Galiani and Schargrotsky, 2010). To mitigate this, programs need to be complemented with policies that address the demand for housing and urban land. Lastly, the impact assessments do not show broader access to mortgage credit and are inconclusive regarding the increase in individual incomes and on the formalization of labor relations (Perlman, 2010).

C. Urban policies and programs need to be selective and sustainable

- 2.12 Successful policies and programs are those that generate a positive development dynamic for society at large, improve the physical environment in which people live, and make appropriate use of fiscal resources.

1. The conservation of urban historical heritage and the regeneration of degraded areas should include citizen participation and promote activities to ensure that such interventions are economically sustainable

- 2.13 The policies that have proven most successful in the recovery of urban areas and conservation of historical centers have catalyzed private-sector investments and have generated sustainable economic uses for the recovered structures, such as cultural and recreational activities under public-sector or PPP leadership (Rojas and Lanzafame, 2012). Such policies make it possible to mitigate, or even reverse, population loss and the abandonment of urban centers. These programs need to be accompanied by specific policies that prevent social segregation and preserve population diversity in the upgraded areas (Monkkonen, 2010). It is important for these policies to reassess the value of the local culture when intervening in areas historically segregated from the rest of the city, as in the case of Kingston, Jamaica (Clarke, 2006).
- 2.14 Initiatives to restore urban centers have improved the city's organization, reducing the consumption of suburban land and the costs of services and infrastructure. For example, between 1991 and 2008, the program to revitalize the downtown area of Edinburgh, Scotland, contributed to a 30% increase in its population, quadrupling the growth of the city as a whole (Rojas and Lanzafame, 2012). It has also improved land use within the urban fabric, avoiding environmental and social problems. The program to revitalize the center of Recife, Brazil, expanded residential uses from one sixth to one half of all buildings, and cut the number of vacant buildings by two thirds (Rojas and Lanzafame, 2012). The recovery of urban

areas also reduces GHG emissions and private vehicle use. In Seoul, Republic of Korea, the restoration of the Cheonggye River created a public recreational space, resulting in a fivefold increase in the number of pedestrians in the area (Lim et al., 2013).

- 2.15 Policies to conserve areas of heritage value also revitalize the city economy, creating jobs and cultural industries.⁹ The recovery of the historical center in Quito, Ecuador, helped to raise the square-meter price of the renovated buildings nearly twelvefold over an eight-year period (Rojas and Lanzafame, 2012). Cultural tourism also benefits the local economy, since “culture tourists” tend to spend a third more than other travelers. In Colorado, United States, US\$1 million invested in urban rehabilitation generates nine more jobs than the same amount invested in banking services (Rypkema, 2008).

2. Adequate planning reduces vulnerability to disasters and improves urban sustainability

- 2.16 Given their population density and concentration of economic activities, cities make a significant contribution to climate change and are also highly vulnerable to disasters. Cities occupy about 2% of land area, but generate 40% of GHGs (UN Habitat, 2013). Resolving the housing deficit in the cities in the next 20 years would double urban GHG emissions (UNEP, 2009). To prevent this, planning should promote the efficient use of water and energy in housing, since a building’s shape, location, and orientation determine its energy demand. In the region, both Chile¹⁰ and Mexico regulate the design of homes to reduce their energy consumption. The generation and use of less polluting alternative energies (solar energy, for example) is also recommended, as shown in pilot social housing experiences in Argentina and Chile.
- 2.17 When disasters strike in cities they cause very high human and economic costs (Hardoy, 2011). For example, the damage caused by the earthquakes that hit Mexico City (1985) and Port-au-Prince (2010) amounted to 3% and 120% of their respective GDPs (ECLAC, 1985 and 2010). The floods in Buenos Aires (2001) and Santa Fe (2003) in Argentina, caused losses of over a third of the annual provincial budgets (World Bank, 2012). Fortunately, urban planning, based on probabilistic risk calculations, the implementation of appropriate building standards and techniques, the treatment of drainage, urban solid waste, and urban rivers, reduce the risk of impact from natural phenomena (Simpson, 2012). The high return obtained from such planning has been documented for Mexico, Colombia, Peru, and the United States (MMC, 2005; UN-ISDR, 2013; Mechler, 2005). In New York City, urban development plans contain specific standards for building in the city’s flood-prone areas (NYC DCP, 2013). Moreover, prevention systems have proven highly effective in reducing disaster-related human losses. Másica, Honduras

⁹ The issue of heritage recovery for tourism purposes will be considered in greater depth in the tourism SFD.

¹⁰ In Chile, the Ministry of Housing and Urban Development sets progressive thermal conditioning requirements for new homes.

installed an early-warning system for floods in the mid-1990s, which, during Hurricane Mitch (1998), made it possible to evacuate the population in time to avoid loss of human life, unlike what happened in neighboring cities (Duran, 1999). In Sorsogon, Philippines, vulnerability maps have been used to plan the relocation of over 22,000 families and reinforce 30,000 buildings, thus saving US\$3.3 million per year on reconstruction costs (UN Habitat, 2013). Cities can also use territorial planning to promote greener cities, as in Japan, where cities are five times denser than those of Canada, and consume 60% less energy (OECD, 2010).¹¹

D. Urban policies and programs need to respond to citizens' needs

- 2.18 Cities should meet the demands of the people who live in them, by addressing and serving their residents' diversity and promoting citizen participation.

1. The delivery of services to citizens can be improved through new technologies and processes that include the citizenry

- 2.19 Municipal governments have a direct relationship with their citizens. However, they tend to lack the technical or economic capacity to serve them adequately (Gilbert, 2006; UN Habitat, 2013), and are particularly weak in urban municipios in the Caribbean (Opadeyi and Brown, 2008). Decentralization policies aim to remedy this weakness by transferring public decisions to the local government. The literature on fiscal federalism shows that this allows it to respond more effectively to citizens and enhance the efficiency, transparency, and predictability of the budget (Jaramillo and Alcazar, 2013). Nevertheless, decentralization did not strengthen the management capacity of local governments. Although 30% of the responsibility for public expenditure in the region has been transferred to subnational governments, the latter are only responsible for 10% of tax revenue (Corbacho, Fretes, and Lora, 2013; UN Habitat, 2012). This dependency on the central government undermines local government capacity to manage the territory. Thus, most urban master plans are not implemented due to a lack of proper tools, especially in the smaller municipios in the region (Atkins, 2012).
- 2.20 In the last five years, there have been major innovations improving planning tools by incorporating new technologies. In London, England, the metropolitan government, in association with community groups, private enterprises, and universities, created "Virtual London,"¹² an interactive, three-dimensional virtual model that shows residents images of alternative urban plans (Smith, 2012). In Australia, Melbourne is including citizens in planning through "Future Melbourne,"¹³ an editable Internet platform. It collected contributions from over 15,000 residents and institutions during 12 months as the basis for a strategic vision

¹¹ The Green LA Climate Action Plan has specific targets for renewable-energy use of 35% by 2020 (OECD, 2010).

¹² <http://www.bartlett.ucl.ac.uk/casa/research/past-projects/virtual-london-online-participation>.

¹³ <http://www.futuremelbourne.com.au>.

for the city. Copenhagen, Denmark adopted the principle of “Cities for people,”¹⁴ in which the urban plan responds to the city’s inhabitants’ mobility needs, leading to the creation of highways exclusively for bicycles (Gehl, 2010). In the region, Bogota, Colombia, and Curitiba, Brazil adopted this same principle, granting priority to pedestrian traffic and mass transit.

- 2.21 Service to citizens can also be improved through policies that increase local participation (Jaramillo and Alcazar, 2013). An example of this is the Participatory Budget pioneered by Porto Alegre, Brazil, in the 1980s. Replicated in over 200 municipalities in Brazil and other countries around the world, this instrument allows direct participation by citizens in the decisions to allocate up to 15% of the budget, and in monitoring the outcomes. Since 2006, more than one third of the population of Belo Horizonte, Brazil, has taken part in this process, approving 1,500 projects in all neighborhoods, and particularly in those with the greatest needs (UN Habitat, 2013). Experiences with voluntary citizen participation, like the *Bogotá Como Vamos* program in Colombia and the *Observatorio do Recife* in Brazil, have also improved urban management (Quiñones, A., 2011). These citizen initiatives thrive when they are consensus-based and supported by a plan of targets that are measurable and visible by society (Fundación Avina, 2012).

2. The provision of housing needs to be flexible in terms of financing, location, and tenure alternatives

- 2.22 Access to adequate housing is a universal human right (U.N., 1948), Adequate housing improves the health of its occupants and school performance by children, and reduces domestic violence (Magalhães and Di Villarosa, 2012; Scanlon and Page-Adams, 2001). Nonetheless, the limited urban land and the high cost of housing constrain access to housing for the poorest households (Bouillon, 2012). Moreover, its lengthy and burdensome production process makes it difficult for supply to respond rapidly to changes in demand, and requires an adequate financing system for both suppliers and consumers (Cesa-Bianchi, 2012). In addition, housing is subject to location externalities, such as proximity to urban services, which generates differentiated demand and leads to segmented markets (O’Sullivan, 2009; Jaramillo, 2006; O’Flaherty, 2005).
- 2.23 International evidence has shown that effective housing policies consider population diversity. Policies and interventions need to expand the forms of property tenure to reach all sectors, including support for rental housing for all segments of the population (Blanco, Fretes, Muñoz, 2013, forthcoming). The quality of rented housing is similar to that of owner-occupied homes, and better than that of informal housing (Moya, R. 2012). Moreover, it tends to be better located and occupy more densely populated land (Peppercorn, et al., 2013; Rojas and Medellín, 2011). International experience shows that adequate incentives and policies can mobilize private funding to support accessible housing. Private-sector participation is key for mortgage financing and saving, the production of owner-

¹⁴ <http://www.citiesforpeople.net/home.html>.

occupied and rented housing, finished progressively built housing, and for providing land areas with services and urban infrastructure (Chong et al., 2008).

- 2.24 Housing policies need to consider location. Encouraging the use of vacant lots in urban areas that have infrastructure and good access helps to create a more compact city. Although apparently more economical, mass housing in more distant areas raises the price of service delivery, increases GHG emissions, and does not satisfy its residents. In Mexico, for example, one quarter of the housing stock financed by the National Housing Fund for Mexican Workers (INFONAVIT) is vacant, largely because their owners refuse to live in suburban areas that lack services and are far away from their workplaces (Libertun, Brakarz, Navarrete, 2013, forthcoming). In Chile, the peripheral location of social housing stratifies households by income level and limits the integration of the poorest populations into the city. Regulations that force up the prices of high-rise buildings need to be reviewed, since the densification of cities depends on good construction codes and their proper implementation.
- 2.25 Evaluations of the Chilean experience, where housing deficits were cut from 33% in 1992 to 18% in 2003, suggest the importance of a comprehensive and differentiated policy that includes the private construction sector, a deepening of the mortgage market, and flexible programs for the poorest sectors of the population with public production involving progressive housing. Nonetheless, targeting problems persist even in this successful case. The subsidies have proven insufficient to meet demand and reach the two poorest income quintiles; high land prices have resulted in homes being built in outlying zones that are hard to access; and high mortgage costs increase arrears rates among the poorest households (Marcano and Ruprah, 2008; Ruprah and Marcano, 2007).
- 2.26 Housing quality has direct implications for the health of the people living in it. Mexico's *Piso Firme* [Solid floor] program, which replaces earthen floors with cement, significantly reduces the prevalence of parasite infections, diarrhea, and anemia, and improves the cognitive development of children (Cattaneo et al., 2009). Moreover, the beneficiaries of housing programs in El Salvador and Uruguay have also reported higher satisfaction in terms of security and quality of life (Galiani et al., 2011). Recently, the concept of housing quality has been expanded to include environmental efficiency. For example, "green mortgages" in the *Ecocasa* program in Mexico, support the construction of social housing with low energy consumption.

3. Effective urban land management incorporates physical and fiscal planning

- 2.27 Improving urban management requires increasing public revenues, promoting progressive tax systems, and optimizing spending by local governments.¹⁵ To do so,

¹⁵ The SFD on fiscal management will go into greater depth on instruments for achieving an efficient, progressive property tax system.

- the real estate property tax is an effective tool, when combined with land-use management (Ladd, 1998). Cadastral updates in Bogota, Colombia, made it possible to bring over 100,000 properties under fiscal control and to increase tax revenue by US\$24 million per year, at a cost of US\$4 million (UN Habitat, 2013). To encourage greater population density in the city, authorities imposed higher rates of property tax on underused properties and vacant urban lots. Other cities have levied the tax on the land itself rather than on what is built on it. PPPs incorporate the private sector into the financing of urban infrastructure. For example, in the case of New York City, they have been successfully used to develop public parks (Kayden, 2000; Harnick, 2011). The SFDs for the transportation, water and sanitation, and energy sectors, among others, will go into greater depth on industrial organization for the delivery of services (i.e., competition, monopoly services, multiservice firms), the financial sustainability of infrastructure services in the region, the Bank's work with governments and with service providers, with respect to issues including utilities rates and subsidies.
- 2.28 Several instruments can be used to capture appreciation in the value of urban land in advance (Smolka and Amborski, 2000). The Tax Increment Finance (TIF) tool uses expectations of future increases in property value—as a result of new public infrastructure—to underwrite the issuance of public bonds to fund the investment. In United States, TIFs have increased property values in degraded urban areas and made cities more dense (Carroll, 2008; Byrne, 2006; Smith, 2006). The City of Buenos Aires, Argentina, used improvement levies to finance the expansion of the metro in the 2000s. The Bank used this mechanism to finance community infrastructure in marginal neighborhoods in San Pedro Sula and Tegucigalpa, Honduras. Transportation nodes can also be used in public transportation projects to catalyze urban development. In Hong Kong, China, metro stations combine commercial and office developments on the same site, financed by PPPs with the developers of these projects (Jim, 2002). Recently, Porto Maravilha, Rio de Janeiro, Brazil, decided to sell future building permits to finance improvements. In terms of tax revenue, the cases of the levy on increased property values in Bogota, Colombia, and the sale of building permits in São Paulo in Brazil, are emblematic. The first case brought in US\$1 billion in revenue; and the second, US\$1.5 billion for the sale of 2.25 million square meters of building space (UN Habitat, 2013).

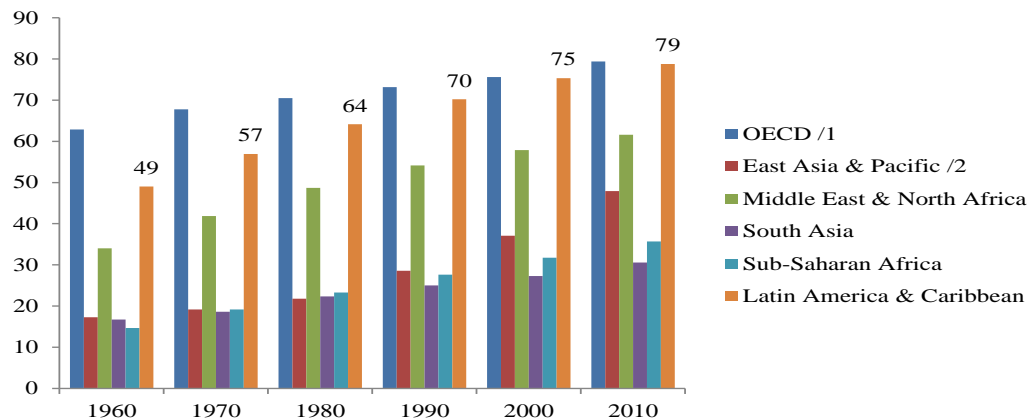
III. MAIN CHALLENGE FACING THE REGION

- 3.1 The region is urbanized—eight out of every 10 inhabitants of Latin America and the Caribbean live in cities. In just 60 years, most households have moved from a rural environment to an urban one, making cities crucial for economic and social development. The region's 10 largest cities account for one third of its GDP, similar to the average for developed countries, albeit with major differences from country to country. Whereas Lima, Buenos Aires, and Montevideo each produce over half of their respective country's GDP, the cities of Central America and the Caribbean contribute less to national GDP (MGI, 2011) even though the Caribbean cities have a high degree of primacy (Verrest, et al., 2013). Moreover, although the pace of

immigration from rural areas to the cities has slowed sharply, the urban economy's contribution to national GDP continues to expand.

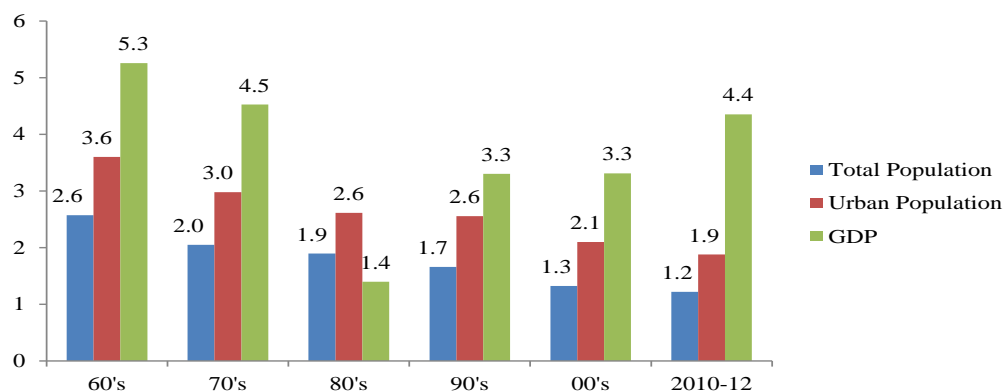
- 3.2 Urbanization has allowed major social improvements in the region, increasing the number of homes with access to basic services and infrastructure, medical care, and education. Over the last decade, this progress has contributed to a four-year increase in life expectancy, to 75 years for both sexes (ECLAC, 2012); the literacy rate has improved by three percentage points to over 90%; and the indigence rate has dropped from 20% of the population to 10%. The Human Development Index (HDI) for Latin America and the Caribbean, at 0.7, reflects these improvements, having gained 10 percentage points over the last 20 years (UN Habitat, 2010).
- 3.3 The region has made significant progress over the last decade, outpacing other developing regions such as Africa and South Asia (UNDP, 2013). With an urban population double that of Asia and Africa (as a percentage), the region is atypical in this regard (Figure A). Since 1950, the number of city residents in Latin America and the Caribbean has grown sevenfold, to a level of 450 million inhabitants today (UN-DESA, 2012). This boom, based on natural growth in conjunction with intensive rural immigration, has given the region an urbanization rate similar to that of industrialized countries, in just a third of the time (Bonet, et al., 2011).

Figure A: Urban population proportion by large regions



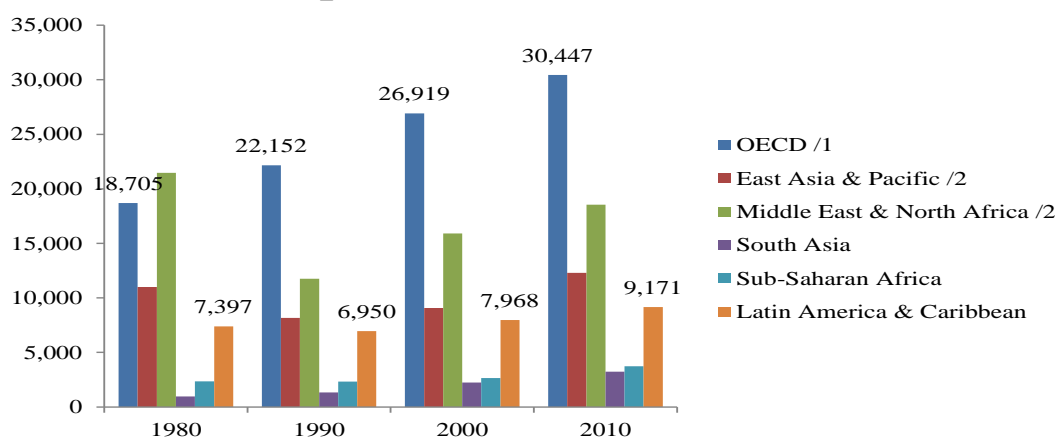
- 3.4 Nonetheless, apart from the urban population boom, the Latin American and Caribbean region has been characterized by low rates of economic growth, averaging 3% per year over the last 60 years. While this has outpaced urban population growth, it has not been sufficient to meet the burgeoning demand for urban services (Fretes and Rojas, 2009) (Figure B).

Figure B: Gross domestic product and urban and rural population in Latin America and the Caribbean (annual growth %)



- 3.5 Furthermore, while the region's urbanization rate is similar to that of the OECD, its per capita GDP is one third of the OECD level (Figure C).

Figure C: Gross domestic product by large regions (in purchasing power parity terms)



- 3.6 The region's urban development pattern diverges even more from that of the OECD, particularly in the concentration of urban poverty—125 million of the region's 180 million poor people live in cities. There is also wide diversity, not only between the region's more and less advanced countries—with HDIs that range from 0.8 in Chile to 0.4 in Haiti—but also in terms of living conditions within each country and city. The Caribbean presents major disparity in its urban development: the infrastructure coverage in the cities of Trinidad and Tobago is triple that of those of Belize (ECLAC, 2007).
- 3.7 Problems with urban service management and quality remain critical, despite the fact that urban population growth is stabilizing at around 2% per year, suggesting

that the population boom has ended ([Figure 2](#)). Nonetheless, over the next 20 years, the region's cities will add an additional 100 million inhabitants (UN-DESA, 2012), which is equivalent to the total current population of the region's eight most populated cities—São Paulo, Mexico City, Buenos Aires, Rio de Janeiro, Lima, Bogota, Santiago, and Belo Horizonte. By that time, the number of megacities of over 10 million inhabitants will have risen from four to six. Furthermore, medium-sized and small cities also show population growth of over 2%—in 1950 there were 320 cities with more than 20,000 inhabitants, whereas today there are 2,000 (UN Habitat, 2012) ([Figure 3](#)). Of these, 55 have over 1 million inhabitants, and four of them are in the Caribbean¹⁶ ([Map 1](#) and [Map 2](#)). The Bank is addressing this opportunity to work with medium-sized cities through the ESCI. Moreover, the Latin American and Caribbean subregions with the lowest urbanization rates, Central America and the Caribbean, will continue to grow through urban immigration ([Figure 4](#)).

- 3.8 Against this backdrop, the Bank's key challenge for the urban development and housing sector is to extend the full benefits of urbanization to all urban residents, both today and tomorrow. Achieving this requires support for interventions and institutional changes that systematically address the four major problems affecting the region's cities: (i) deficits in urban infrastructure and services; (ii) deficits in housing; (iii) degradation of habitat; and (iv) deficits in urban governance.
- a. **Deficits in urban infrastructure and services.** The provision of infrastructure and services to urban households has improved, with coverage expanding by roughly 10% over the last 10 years (UN Habitat, 2012) to encompass all countries and population quintiles. Nonetheless, substantial deficits persist—half of the region's households lack indoor toilets connected to the sanitary sewage system, two thirds do not have Internet access (double the rate in OECD countries), and one fifth live without household waste collection services (UN Habitat, 2010). Despite significant differences between countries ([Figure 5](#)), nearly one third of the region's urban population lives in informal neighborhoods with deficient basic services or in areas of high disaster risk. This proportion is less than the 44% prevailing in 1990, and also less than the current average of 40% for developing countries (UN Habitat, 2006); but, given the pace of population growth, the absolute number of homes in such conditions continues to rise. Lack of coordination between mobility policies and land uses compromises accessibility and increases congestion of the region's cities. The average speed of an intra-urban journey in the region has slowed over the last decade to half of what it is in OECD cities (Suzuki, Cervero, and Iuchi, 2013; CAF, 2010). Mobility issues particularly affect the poorest households, who tend to live in the least accessible areas, and spend a large proportion of their time and income on transportation (Barone and Revelo, 2003).

¹⁶ Havana, Port-au-Prince, San Juan, and Santo Domingo.

- b. **Deficits in housing.** Access to housing in the region has improved—since 2000, the percentage of households with access to housing has risen in all quintiles. Nonetheless, the absolute number of households in a housing-deficit situation has increased. The qualitative deficit affects 40 million households, who suffer from overcrowding (three or more people per room), or lack basic services or secure tenure of their homes. Moreover, there are a further 13 million households subject to a quantitative deficit, either because they live in makeshift housing, or because they share it with another household. The deficit is more prevalent the poorer the quintile, with one third of housing-deficit households belonging to the poorest quintile (Rojas and Medellín, 2011). The informality of home tenure, the only indicator to have worsened over the last decade, is greater among households headed by women, thereby further exacerbating their vulnerability (Giovarelli et al., 2005). Nearly half of the housing deficit in urban areas is attributable to the high cost of homes, and lack of access to financing. The scant development of the mortgage market, which accounts for just 1.5% of mortgages worldwide (Warnock and Warnock, 2008), is probably associated with the high degree of economic informality that prevails in the region. Lastly, the region is falling behind in the use of sustainable construction techniques and the production of adequate housing. The stock of housing in the region amounts to 250 homes for every 1,000 inhabitants, half of that recorded in European Union countries (UN Habitat, 2010).
- c. **Degradation of habitat.** Over the last decade, the quality of the urban habitat has worsened in several key respects. ESCI diagnostics show that air, water, and urban soil pollution (Cifuentes et al, 2005), compounded by visual contamination and lack of maintenance of public spaces are all endemic in the region.¹⁷ Habitat degradation is also reflected in a neglect of urban heritage. Less than half of the region's historical and cultural heritage sites (as declared by the United Nations Educational, Scientific and Cultural Organization – UNESCO), have mechanisms to preserve their value (UNESCO, 2006). Cities are also exposed to the risk of serious disasters, with the Caribbean cities particularly vulnerable to rising sea levels (ECLAC, 2012) and hurricanes (Rasmussen, 2004). The economic damage caused by disasters that have hit the region over the last two decades exceeds US\$110 billion, which is more than the damage recorded during the previous nine decades (Cavallo et al., 2010). These disasters include: the earthquake that struck Managua in 1972; the 1985 earthquake in Mexico City; Hurricane Mitch in Tegucigalpa in 1998; and the recent 2010 earthquake in Port-au-Prince. Nonetheless, only one third of the region's cities have plans for identifying and reducing disaster risks (Fraser and Lima, 2012). The last few years also witnessed increases in insecurity and the prevalence of

¹⁷ Cities in which the ESCI methodology has been applied: Montevideo, Uruguay; Trujillo, Peru; Port-of-Spain, Trinidad and Tobago; Santa Ana, El Salvador; Cochabamba, Bolivia; Managua, Nicaragua; Quetzaltengo, Guatemala; Mar del Plata, Salta, and Paraná, Argentina; Montego Bay, Jamaica; Barranquilla, Bucaramanga, Manizales, Montería, and Pereira, Colombia; La Paz, Mexico; Valdivia, Chile; Cuenca, Ecuador; Cap-Haïtien, Haiti; Asunción, Paraguay; and Goiania, João Pessoa, and Recife, Brazil.

crime—nine of the 10 cities with the highest number of homicides worldwide are in the region (UNODC, 2011). Although these extreme statistics are not typical for all cities, insecurity is one of the primary concerns of the region's urban population (Lora et al., 2010). Lastly, the fact that cities are becoming increasingly less dense is a recent trend that is generating an unsustainable pattern of land occupation. In recent years, the area occupied by cities has expanded faster than its urban population—2.4% per year (Angel et al., 2006). The spread of low-density urbanized areas raises the cost of expanding urban service networks and increases the time and resources devoted to transportation, GHG emissions (Liddle, 2013), and the occupation of polluted land areas or those of high disaster risk (UN Habitat, 2010).

- d. **Deficits in urban governance.** Little progress has been made in several key aspects of urban governance over the last decade. Despite decentralization, subnational governments have failed to significantly increase their financial and institutional capacities, and citizen participation in urban management remains weak. ESCI diagnostics show that the ability to generate internal resources remains very limited, which, together with the fact that they are generally not credit recipients, plunges cities into a vicious circle of disinvestment and lack of urban services. In fact, the rate of revenue collected from the real property tax remains low, at less than 0.5% of GDP, representing just one sixth of average property tax revenue in OECD countries (Corbacho, Fretes, and Llorca, 2013; UN Habitat, 2012). Moreover, problems persist in the management of public service rates. These weaknesses damage private sector performance. On average, it takes 55 days to complete the procedures needed to open a new business in one of the region's cities—one third less than 10 years ago, but still twice as long as in OECD cities (World Bank, 2013). At the present time, 80% of the region's citizens receive services through municipal governments, which makes it essential to improve their capacity to serve their citizens; as indicated in the ESCI diagnostic studies.

IV. LESSONS LEARNED FROM THE BANK'S EXPERIENCE IN THE SECTOR

A. Reports issued by the Office of Evaluation and Oversight (OVE)

- 4.1 The OVE analysis of the Bank's interventions in the sector during the last three decades is focused mainly on housing. The most relevant conclusions and recommendations made by those studies are as follows:¹⁸
 - a. Housing programs should: (i) prioritize the improvement of existing housing in its various modalities, such as the construction of progressive housing, microfinancing for improvements, rehabilitation, etc., since the largest housing deficit is qualitative; and (ii) develop public collateral schemes to stimulate

¹⁸ The OVE recommendations cited were extracted from the following: Ruprah, I. 2010; Ruprah, I. 2011; Soares A. and Suarez, Y. 2005; Ruprah, I. 2010; Marciano, L. and Ruprah, I. 2008a; Marciano, L. and Ruprah, I. 2008b; Martínez Nogueira, R. 2008; OVE 2009; Ruprah, I. and Marciano L. 2007.

private sector participation in the mortgage market for the poorest quintiles, particularly saving, bonus, and credit (ABC) programs.

- b. Direct subsidy programs for home acquisition should emphasize: (i) the operational structure of the approval cycle (applications, and audits before and after the subsidy is granted); (ii) the quality, transparency, and effectiveness of beneficiary information systems; and (iii) compatibility between the subsidy amount and family income profiles, to prevent the expenses of owning a home (debt service, payment of services, taxes, and maintenance) from forcing the beneficiary households into poverty (Ruprah, I. 2010).
- c. Urban development programs need to work with subnational governments, because the latter serve the population directly and have jurisdiction over most of the services financed by these programs.

B. Results of the Development Effectiveness Matrix (DEM)

- 4.2 The DEM classification for sector projects has improved significantly since 2009. The sector compares favorably to the Bank as a whole (see Table 4.1). Since 2011, all sector projects have been rated as highly evaluable.

Table 4.1: Summary of DEM results for the sector

Criterion	2009		2010		2011		2012	
	Sector	Bank	Sector	Bank	Sector	Bank	Sector	Bank
Number of projects approved	9	114	8	135	6	122	8	125
% of highly evaluable projects	33	22	50	41	100	86	100	99

- 4.3 The most important considerations in the analysis of the sector's DEMs are:
 - a. **Program logic.** In 2012, the vertical logic score for sector programs was slightly below that of the rest of the Bank's programs (7.9 compared to 8.3). However, the score for proposed solutions based on empirical evidence improved significantly with respect to 2009 (from 1.2 to 3.0 out of a total of 3.3).
 - b. **Program evaluability.** In the period 2009-2011, projects in the sector were well formulated, adequately distinguishing the causes and effects of the problems in 50% of cases, compared to 30% for the Bank as a whole. Moreover, in 2012, the sector made valuable progress, adopting quasi-experimental methodologies in 40% of its operations and ex post economic evaluations in 75% of them.
 - c. **Ex ante economic evaluation.** These evaluations garnered high scores, with very good performance in 2012 (8.4). That same year, the economic evaluations of the 2012 Procidades program operations attained the maximum rating.

C. Lessons learned from project completion reports (PCRs) and disbursement parameters¹⁹

- 4.4 Comprehensive multisector programs enhance the impacts of sector operations.** Cities bring together multiple actors and dynamics, so urban development requires the crosscutting integration of sector knowledge. An important lesson from the Bank's operational experience is that citizens can be better served, with more sustainable results, if multiple actions are coordinated in a single territory. A number of recent examples of such programs are the comprehensive development plans headed by the ESCI; the Urban Development Plan of Mérida, Mexico; and the Neighborhood Improvement Program in Uruguay. In contrast, when the sector is not considered on a crosscutting basis, synergies are not leveraged between sector actions in a given area. Lessons relating to the challenges identified in the previous section are presented below, and the proposed lines of action are presented in the final section.

1. Deficits in urban infrastructure and services

- a. Master plans guide and prioritize investments in comprehensive urban programs.** When Bank-financed programs have been included in a master plan for the city, as was the case in Valparaíso, Chile, the coordination and complementarity of the interventions has increased. As a result, positive social, economic, and environmental synergies have been achieved between the projects being financed and their environment. Moreover, when neighborhood improvement programs have been part of a master plan, they have mitigated informal urbanization and have rapidly improved the quality of life, citizen security, and legal certainty for the beneficiary households. When these programs include neighborhoods that were previously excluded from the rest of the city, they have generated important multiplier effects for the benefited communities. This SFD proposes that urban interventions be framed within a master plan.
- b. The inclusion of municipios and local communities sustains the initial success of neighborhood improvement programs.** The municipios have a leading role to play in these programs, since at the outset of their implementation they coordinate the various components and facilitate dialogue between the public and private participants, and are essential for the subsequent maintenance of the works and services in the neighborhoods concerned (Irazábal, 2009). The Bank bases this knowledge on its pioneering experience in these programs, which stems from a recognition of the dimension of informality and municipal government limitations. It is neither socially nor economically feasible to eradicate irregular settlements in the region, which in some cases account for

¹⁹ The lessons are based on the detailed analysis of 16 projects, which included a documentary review (loan proposal, loan contract, results matrix, risk matrix, midterm and final evaluation reports, and/or PCRs, and project monitoring reports (PMRs)); and structured interviews with the team leaders of those projects and several executing agencies and specialists from the Fiscal and Municipal Management Division.

40% of the total number of homes in a city. Accordingly, the Bank works with national and municipal governments to regularize the situation of these neighborhoods, fostering upgrading instead of eradication. This SFD includes citizen participation as one of the basic components of neighborhood improvement programs.

2. Deficits in housing

- a. **Housing programs need to expand range of services supplied, to address the current deficit and meet future demand from the poorest households.** ABC programs are not suitable for poor households, inasmuch as they have no access to the mortgage lending market. A policy to serve the poorest quintile needs to provide direct subsidies to the beneficiaries, while also expanding the supply of housing services. Policies should also support tenure models other than ownership, such as lease-to-own and rented housing. Until the mid-1980s, the Bank's housing operations emphasized the promotion of new housing, supporting national entities that built subsidized public housing. This model tuned out to be highly regressive, since it mostly benefited middle-income segments and failed to reduce the growing housing deficit.²⁰ For this reason, the Bank promotes direct support to the poorest beneficiaries, improving the quality of informal neighborhoods, and the rehabilitation of existing homes. Moreover, improving the functioning of the real estate and mortgage markets expands access to housing for all quintiles.
- b. **Social housing programs need to provide incentives for private-sector participation.** The private sector needs to be induced to provide home financing lines for lower-income households. The Bank has been promoting this goal through loans and partial guarantees to private financial institutions that support home purchase, home improvement, and the financing of construction materials. For example, the *Credifamilia* loan for new home purchases in Colombia; the *Rafcasa* loan for the rental of social housing, with an option to buy in Nicaragua; and the *Caja Maynas* loan for home refurbishment and progressive improvement in Paraguay, all of these led by the Opportunities for the Majority Sector (OMJ). Through the MIF, the Bank has also worked with the private sector for the financing of microloans for housing and on the *Un Techo para mi País* [A roof for my country] program in Chile, replicated in several countries throughout the region. These experiences are positive, but need to be implemented on a larger scale and more frequently to obtain a greater impact.
- c. **Housing programs and policies need to sharpen their focus on reducing the qualitative deficit.** Seventy-five percent of all households in a housing-deficit situation are living in overcrowded homes, without services, or without secure property titles. Nonetheless, most housing programs support the construction of new housing instead of improving existing homes. Unlike previous policies, this

²⁰ In response to these results, the Bank put forward a new approach, reflected in Operational Policy OP-751 of 1995/96.

SFD underscores the need to improve the quality and energy efficiency of the existing housing stock, and promote progressively built housing with adequate technical assistance.

3. Degradation of the urban habitat

- a. **The recovery of urban areas should reflect the interests of the public and private sectors and of civil society.** Operations to revitalize degraded urban areas are an important part of the Bank's portfolio in the sector. Many of the region's urban centers suffer from insufficient maintenance and disinvestment, resulting in the deterioration of their functional capacity and their architectural heritage, and degradation of their economy to the detriment of the quality of life of their inhabitants (Libertun, 2012; Chion and Ludeña Urquizo, 2008). The physical deterioration of these areas can be reversed through incentives for private investment and strategic public investments, generally in urban infrastructure, promoting local economic activities and the revival of the housing market. The recovery of these areas requires a comprehensive effort with coordinated actions between the public and private sectors and civil society. It is essential to take account of the interests of all stakeholders, including informal tradespeople, local small business owners, low-income residents, and the owners of properties of heritage value. For these programs, the use of PPPs and the cofinancing of projects with the private sector has proven highly effective. Examples of such operations include *Mejora tu calle* [Improve your street] in Mexico, a program that provides funding for community groups to upgrade urban infrastructure; and *Fedecrédito* in El Salvador, which provides support for the rebuilding of municipal markets. OMJ led both of these operations. This SFD promotes the inclusion of citizen participation in urban habitat recovery programs.
- b. **Urban renewal programs need to create an institutional structure that ensures their continuity over time.** The Bank has successfully supported comprehensive programs to recover urban centers in several countries, on both a national and a local scale. To ensure the consistency of the programs through different administrations and their sustainability over time, a specific institutional arrangement is needed to lead the urban renewal process. This ensures the efficient execution of projects and provides opportunities for participation by the community and economic stakeholders. For example, Brazil's nationwide *Monumenta* program has a PPP model, and includes a credit line to finance improvements to private properties in historical areas. The Bank has also worked through national culture or housing ministries, supporting strategic investments and seeking to include the local community in the recovery of the historical and housing heritage of central urban areas. In projects undertaken directly with municipal governments, it has been possible to develop medium-term strategies, establishing institutions to ensure program continuity.

4. Deficits in urban governance

- a. **Investment plans should take account of the territory and institutional complexity of cities, particularly in large and medium-sized cities.** These

plans should include urban mobility, housing, land uses, and the public space. Such issues are considered in the urban development plans developed by the municipal government. Nonetheless, management capacity and the ability to propose effective policies need strengthening (Slack, E. et al., 2010). The ESCI management model is appropriate for the region's medium-sized cities. The management of large cities poses a different challenge, since service delivery and regulations are fragmented across several jurisdictions, and the cities often lack a single entity to organize them. In such cases, one jurisdiction needs to lead the metropolitan coordination process. Making metropolitan cooperation arrangements sustainable requires: (i) the financing of regional projects that provide incentives for participation by all jurisdictions; (ii) the preparation of strategic and sector plans at the metropolitan level; and (iii) effective institutional coordination mechanisms, including the creation of regional authorities to manage services that are of common interest to the jurisdictions involved. These plans should be developed with citizen participation and duly consensus-based (Torres and García Botero, 2010). This SFD supports the use of results-based management and the integration of public policies between levels of government. These policies strengthen the management of subnational governments, as evidenced by the PRODEV technical cooperation programs in Colombia.

- b. **In unitary countries, the Bank needs to strengthen its technical support for national entities that specialize in municipal subloans.** Although the main protagonists of urban projects are municipal governments, in unitary countries, the Bank's relationship with the municipios tends to pass through a ministry or financial intermediary at the national level. The results of the Bank's experience with this modality have been mixed. In the 1970s and 1980s, the Bank promoted the creation of national entities as financial and technical intermediaries in municipal programs. The performance of these entities was generally satisfactory, enabling the Bank's operations to reach a larger number of municipios and generate greater value added. Subsequently, the stricter borrowing rules adopted by many of the region's countries affected these entities. Prevented from engaging in lending operations to local governments, these entities were gradually turned into technical assistance agencies, or else were disbanded. Those that remain, such as FINDETER in Colombia and Banco Multisectorial de Inversiones in El Salvador, today serve as important interlocutors with the Bank for municipal loans (Marulanda and Paredes, 2005). The Bank has been more effective in its projects with these entities when it has played a significant technical and fiduciary support role for local governments.
- c. **In federal countries, the Bank has the opportunity to support complex, long-term programs.** In federal countries, loan operations can be undertaken directly with municipios; and experience in these operations has been positive, allowing the Bank to support long-term policies with local governments, and undertake operations directly with nearly all governments in the region's capital cities, and with many medium-sized cities. Thus, innovative and successful programs have been developed, such as the Rio de Janeiro Favela Recovery Plan

(see paragraphs 2.9 and 4.6) and the PROCIDADES program for medium-sized cities in Brazil (see paragraph 4.3c). Sometimes, municipal governments have technical and financial limitations, and national governments can be reluctant to authorize external borrowing by municipios, which makes the Bank's work difficult, particularly with the smaller municipios. Lastly, it would be advisable for the financial terms and conditions of the Bank's operations to consider contractual and implementation differences between federal and unitary countries.

- 4.5 **Disbursement parameters.** The sector's operations to date have accounted for approximately 15% of disbursements from the Bank's total portfolio.²¹ The sector's project disbursement patterns have shown better performance than the Bank's set of sectors as a whole. Table 4.2 shows that 45% of sector projects are above the upper band, 37% are within the normal limits of disbursements, and just 18% are below the lower band.

Table 4.2: SPD. Disbursement pattern with respect to the country's curves

Sovereign guaranteed investment projects with eligibility and assets as of 31 December 2012	Above the upper band		Between the bands/limits		Below the lower band		Total
	#	%	#	%	#	%	#
IDB	172	36	172	36	131	28	475
Agriculture and Rural Development	9	28	15	47	8	25	32
Water and Sanitation	19	31	18	30	24	39	61
Urban Development and Housing	17	45	14	37	7	18	38
Education	13	54	7	29	4	17	24
Energy	18	51	11	31	6	17	35
Financial Markets	6	38	7	44	3	19	16
Industry	1	25	1	25	2	50	4
Social Investment	22	52	1	24	10	24	42
Environment and Natural Disasters	6	27	7	32	9	41	22
Private Firms and SME Development	1	9	6	55	4	36	11
Reform and Modernization of the State	19	24	33	42	27	34	79
Health	5	31	8	50	3	19	16
Science and Technology	3	50	2	33	1	17	6
Trade	1	13	4	50	3	38	8
Transportation	31	46	20	29	17	25	68
Sustainable Tourism	1	8	9	69	3	23	13

Source: SPD/SDV.

²¹ Approved projects by sector year-to-date: <http://www.iadb.org/en/projects/projects,1229.html>, 13 June 2013.

D. The Bank's comparative advantages in the sector

- 4.6 Since its creation, the IDB has been heavily committed to urban development and expanding access to housing in the region. Its fluid dialogue with national and municipal authorities, its track record of good practices and innovation, and its high multisector technical capacity, have afforded it privileged access to the region. The IDB has developed policies considered international examples of good practice in the sector.²² These policies—such as neighborhood improvement and comprehensive renewal of degraded urban areas—are now being replicated by other multilateral agencies, such as the World Bank, and incorporated into public policies in several countries. For example, Mexico, Brazil, and Argentina have implemented neighborhood improvement programs following the model promoted by the IDB. Recently, the World Bank's work in the urban sector has focused on reducing and managing environmental risks and on reconstruction work in cities hit by disasters, particularly in the Caribbean. In the IDB, the work of ESCI and the Environment, Rural Development, and Disaster Risk Management Division is expanding knowledge of the urban problems associated with natural risks, and this topic is likely to have an increasingly high profile in operations.²³
- 4.7 To date, the Bank has financed projects in the sector amounting to over US\$10.5 billion;²⁴ and it has used these funds to support housing for more than 1.5 million households and neighborhood improvement programs in 21 countries, providing direct benefits for over 4 million people; and to renovate degraded urban areas in over 30 cities, among others. The Bank has the specific sector knowledge needed for work with the sector, and it has recently incorporated specific incentives for multisector work (e.g. double booking), and will continue to deepen this mode of work. Multisector work in urban development makes it possible to leverage the efforts of other sectors and other national and international institutions, enhancing the outcomes of operations. The IDB is currently positioned as the sector's leading multilateral institution, placing special emphasis on tackling urban development problems in the region's medium-sized and large cities.²⁵ The ESCI, along with technical cooperation programs, knowledge products, and dissemination work enhance the quality of sector operations and cultivate closer relations with the Bank's clients. Given the foregoing, the Bank would prioritize work on improving informal neighborhoods and poor formal neighborhoods in large and medium-sized cities, expanding access to financing and to the supply of urban services for poor

²² The World Bank has supported national programs that finance housing construction in Brazil (*Minha Casa Minha Vida* [My house my life]) and Mexico. In contrast, the Bank has targeted the subnational level, supporting neighborhood improvement and directly subsidizing housing demand.

²³ For example, by developing tools for calculating the risk probability and reduction of risks associated with climate change.

²⁴ Historical data on projects approved for the urban development and housing sector, as shown at <http://www.iadb.org/en/projects/projects,1229.html> on 25 June 2013.

²⁵ Work with small cities, of fewer than 100,000 inhabitants (varies by country) is burdensome and of limited scope. Service to rural households will be developed in other SFDs.

households, revitalizing urban areas and protecting the most vulnerable from disaster risks, and strengthening the institutions that serve and provide public services to citizens. In the context of the urban development and housing sector, this entails relegating to the background interventions in which the Bank has fewer comparative advantages, like neighborhood improvement in small cities, provision of housing in rural areas, construction of infrastructure to prevent natural disasters, and construction of public buildings.

- a. **Emerging and Sustainable Cities Initiative.** The Bank's more than 50 years of experience in the sector show that subnational governments do not give priority to investment in urban management and tend to lack a methodology for prioritizing investment projects. Based on this experience, the Bank created the ESCI, a platform designed to support the region's medium-sized cities in preparing sustainable urban development plans. The ESCI focuses on these cities because they have the highest growth rate and need to improve their management quickly, this being one of the Bank's most significant innovations in the sector. The ESCI incorporates urban, environmental, and fiscal indicators to identify the critical areas in urban management and support the management and preparation of municipal investment plans. These plans enable cities to prioritize and improve the complete investment cycle and develop specific projects that can then be financed by the Bank or other financial entities. Plans have been developed for 11 cities, and another 14 are in preparation. The goal is to directly serve at least one city per country, and disseminate the methodology for adoption by other cities. For this purpose, the Bank is signing agreements with national entities such as FINDETER in Colombia and Caixa Econômica in Brazil. The success of the ESCI is evident in the high demand for it among local governments throughout the region.
- b. **Technical cooperation programs.** Technical cooperation programs have generally supported the following activities: (i) preparation of master land-use plans, or downtown renewal plans; (ii) implementation of methodologies for results-based municipal management and improving the quality of municipal investments; (iii) exchange and dissemination of good project design and management practices; (iv) strengthening of urban governance instruments (including multipurpose cadasters and geographic information systems); and (v) strengthening of national and subnational institutions, environmental authorities, and others that have responsibility for the sector's policies.
- c. **The sector's knowledge products.** The Bank plays a leading role in knowledge production in the sector, issuing notable publications including: (i) on neighborhood improvement, *Slum upgrading: Lessons learned from Brazil* (Magalhães, F. and Villarosa, F., 2012), widely used by countries in the region when designing such programs, and *Building Cities: Neighborhood Upgrading and Urban Quality of Life* (Rojas, 2009), based on the Bank's pioneering experience in this subject area; (ii) on housing issues, *Room for Development: Housing Markets in Latin America and the Caribbean* (Bouillon, 2012), the most up-to-date and complete reference of the state of housing in the region;

(iii) on the topic of recovery of downtown and heritage areas *City Development: Experiences in the Preservation of Ten World Heritage Sites* (Rojas and Lanzafame, 2012) and *Downtown Poverty: Methods of Analysis and Interventions* (Lanzafame and Quartesan, 2008), which explores urban renewal processes and their impacts on poverty; and (iv) the books *Governing the Metropolis* (Rojas, 2005) and *Regiões metropolitanas no Brasil: Um paradoxo de desafios e oportunidades* [Metropolitan regions in Brazil: a paradox of challenges and opportunities] (Magalhães, 2010), which analyze international experiences on metropolitan governance and organization.

- d. **The Sector's dissemination work.** The Bank has also worked intensively to promote the exchange of sector knowledge between countries and generate learning opportunities for its programs' executing agencies through: (i) regional workshops; (ii) field visits involving several countries; and (iii) the organization of and participation in international seminars on the sector. The workshop to evaluate comprehensive urban and heritage renewal interventions in Brazil; three workshops on sustainable cities (in Colombia, Trinidad and Tobago, and Denmark); a seminar on the Bank's experience in neighborhood improvement, in Uruguay; and a seminar on housing policies in the English-speaking Caribbean, in Jamaica are particularly noteworthy.

V. GOAL, PRINCIPLES, DIMENSIONS OF SUCCESS, AND LINES OF ACTION GUIDING THE BANK'S OPERATIONAL AND RESEARCH ACTIVITIES IN THE SECTOR

A. Goal and principles underlying work in the sector

- 5.1 The Bank's main goal in the sector is to extend the full benefits of urbanization to all residents of the region's cities. To achieve this, the proposed lines of action and operational activities respond to the diagnostic assessment in Section III, and to the Bank's comparative advantages identified in Section IV. The SFD also presents knowledge and dissemination activities, which are the foundation for the generation of future innovations in the sector. The design of interventions will include measurable objectives with respect to a baseline, specifying the appropriate methodology for evaluating their expected impact, in accordance with the Development Effectiveness Matrix for Sovereign Guaranteed and Non-sovereign Guaranteed Projects (document GN-2489), while promoting access to information on sector interventions.²⁶ Lastly, the Bank will design interventions on the basis of the specific conditions prevailing in each country, in accordance with the principles for work in the sector. These principles, arising from the analysis of international evidence (Section II) and from the lessons learned (Section IV), include:

²⁶ The sector supports the Bank's initiatives on transparency and visualization of interventions, such as MapAmericas.

- a. **Territorial and comprehensive urban interventions.** Interventions will be designed on the basis of the characteristics of a specific territory, including the knowledge of the Bank's different sectors, in pursuit of a comprehensive vision of urban development.
- b. **Selective and sustainable urban interventions.** Interventions will prioritize those that have a positive impact on the largest number of poor households; and account will be taken of their long- and short-term impact on the constructed and natural environment, on public finances, and on urban governance.
- c. **Interventions to serve citizens.** Interventions will promote citizen participation, placing special emphasis on improving the quality of life of the urban population, especially the most vulnerable households.

B. Dimensions of success, lines of action, and activities²⁷

5.2 Dimension 1. City residents gain access to quality urban infrastructure and services. Urban interventions will address the access disparities between the different segments of the population, targeting the poorest and most vulnerable households.²⁸ Neighborhood improvement programs will include the participation of the beneficiary households (paragraph 2.8). Programs will also encourage private-sector participation in the delivery urban services and will avoid fragmented investments with limited effectiveness.

- a. **Lines of action.** The lines will include: (i) improving informal neighborhoods, especially in areas where poor households are concentrated in large and medium-sized cities;²⁹ and (ii) expanding the coverage, resilience, and quality of urban infrastructure and services in poor formal neighborhoods.
- b. **Operational activities.** The activities will include: (i) supporting programs to upgrade informal neighborhoods, with urban plans that promote density, landholding regularization programs, investments in infrastructure and social services, and situational prevention of violence; (ii) promoting comprehensive investments to expand basic and community services, mass public transportation, parks, and public spaces in poor formal neighborhoods. These activities will foster private-sector contributions to reducing infrastructure and service gaps, through regulatory incentives and PPPs.
- c. **Knowledge and dissemination activities.** These activities will include: (i) completing a quasi-experimental, comprehensive evaluation of the impact of the *Favela Barrio* neighborhood improvement program in Rio de Janeiro, Brazil. The evaluation includes surveys of their inhabitants and assessments of the

²⁷ The lines of action and activities to be financed by the Bank will follow the guidelines of this SFD and others applicable to specific interventions.

²⁸ The definition of these gaps will take account of the specific needs of vulnerable population groups (particularly women, indigenous peoples, Afro-descendants, and the disabled).

²⁹ The determination of the size of a large city's population will be based on the demographic characteristics of each country.

impact of the improvements on the market value of housing. Regional workshops will be held to disseminate the results; and (ii) deepening treatment of service coverage through the econometric analysis of the per capita cost of the coverage of municipal services, by size of municipio. This study is based on census and public expenditure data and includes over 10,000 observations in municipios in Mexico, Ecuador, Brazil, and Chile. In the future, further studies will be conducted to deepen knowledge on neighborhood improvement, including the concepts of multidimensional poverty, and mechanisms to make the programs more sustainable.

- 5.3 **Dimension 2. The urban population improves its housing conditions, and the quantitative and qualitative housing deficits are reduced.** The interventions will promote the delivery of housing services with a variety of tenure modalities, addressing the households' socioeconomic characteristics and level of vulnerability. The interventions will serve the poorest households, considering their location needs, while including them in the housing design process (paragraph 2.8). These activities will promote private-sector participation in the delivery of sustainable housing services and the creation of a sustainable housing finance market that is accessible to lower-income households.
- a. **Lines of action.** The lines include promoting and expanding: (i) access to public and private financing for housing services for the poorest populations; and (ii) the housing services offering.
 - b. **Operational activities.** The activities include: (i) targeting the housing service needs of the two poorest quintiles, with a supply that includes new, improved, and progressive housing;³⁰ (ii) supporting the supply of rental housing, making the incentives involved in this type of housing equivalent to those of owned housing; balancing the rights and obligations of owners, and offering guarantees for private investment in rental housing; (iii) promoting housing programs adapted to local bioclimatic conditions that increase the density of already urbanized areas and help reduce the urban carbon footprint. These activities will address the characteristics and needs of the beneficiary population, and will strengthen the public and private institutions involved in the delivery of housing services.³¹
 - c. **Knowledge and dissemination activities.** These activities include: (i) identifying policies to promote the financing of housing services in the region; (ii) analyzing the cost of production and maintenance of large-scale social housing complexes in suburban areas, both for the public sector and for the beneficiary households in Mexico, Brazil, Chile, and Colombia. The preliminary results of this study show that extending services far from urban centers generates extra costs that are not offset by the lower price of suburban

³¹ Capital market development for home financing will be addressed by the SFD on access to financial services.

land. Both studies will be inputs for regional seminars and country dialogues; (iii) preparing a book on the different characteristics and uses of rental housing in the region, demonstrating that its quality exceeds that of informal housing and fosters a more compact urbanization process; and (iv) evaluating the impact of social housing programs on female-headed households from the two poorest quintiles in housing programs financed by the Bank in Ecuador and in Honduras. This evaluation will serve as a guide for the design of future operations. In addition, the Bank will conduct a study on effective mechanisms for generating urbanized land for the region; and the cost effectiveness of incentive systems to promote private-sector participation in social housing.

5.4 **Dimension 3. The region's cities intervene in their habitat to prevent its degradation and to make it more sustainable.** These activities will revitalize urban areas, public spaces, and degraded heritage areas, while promoting citizen and private-sector participation before, during, and after the interventions (paragraph 2.12). Steps will also be taken to help cities adopt better practices in environmental conservation, disaster risk management, and climate change adaptation and mitigation.

- a. **Lines of action.** The lines include: (i) revitalizing degraded areas, and preserving the historical heritage of the cities; and (ii) reducing disaster risk, enhancing the capacity of cities to adapt to climate change, and protecting the most vulnerable residents from its adverse impacts.
- b. **Operational activities.** The activities include: (i) rehabilitating and recovering underused public spaces and urban areas of historical heritage, while maintaining sociocultural diversity, and adopting participatory, sustainable management structures; (ii) promoting environmental conservation, the management of urban natural resources, and adaptation to climate change, while protecting the most vulnerable residents. Incentives will be sought for private-sector participation in the recovery of urban areas.
- c. **Knowledge and dissemination activities.** These activities include: (i) evaluating the impact of improvement programs in marginal neighborhoods on (real and perceived) security of public spaces in Jamaica, El Salvador, Bolivia, and Uruguay, with references to experiences in Mexico, Colombia, and Brazil. The study will be disseminated through regional seminars and a book of case studies; and (ii) systematically analyzing environmental vulnerability and disaster risks in 50 of the region's cities, to prioritize planning actions on the basis thereof. This study is being conducted through the ESCI and other divisions. Future research topics include effective private-sector participation in the recovery of historical centers, and local community involvement in environmental protection plans.

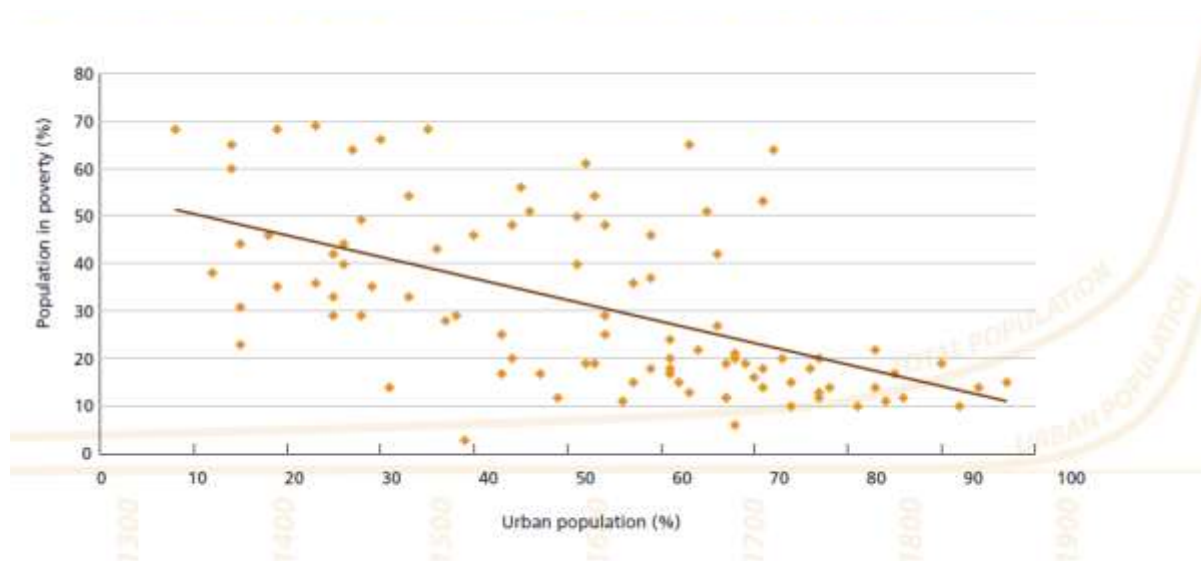
5.5 **Dimension 4. Local institutions improve their urban governance capacity.** The activities will strengthen the capacity of the institutions involved in urban governance to respond adequately to the demands of their residents and improve their quality of life. They will also promote transparent institutions with technical capacity that are open to citizen participation (paragraph 2.18).

- a. **Lines of action.** The lines include: (i) strengthening city governments and local institutions that have urban planning and citizen service responsibilities; and (ii) improving the quality and efficiency of entities providing urban public services.
 - b. **Operational activities.** The activities include: (i) supporting integrated urban planning, including the creation of master plans for environmental risk management; (ii) strengthening municipal finances through medium-term fiscal planning, the capture of increases in property values, and the strengthening the capacities of local governments to prepare and evaluate local economic development projects; (iii) increasing citizen participation³² and improving the transparency of local public expenditure planning, programming, and execution processes; and (iv) promoting efficient, progressive models for the management, operation, and maintenance of infrastructure, equipment, and urban services.
 - c. **Knowledge and dissemination activities.** These activities include: (i) completing the analysis of the capture of increases in urban property values, in Colombia, Brazil, and Argentina, as an input for the design of future operations; and (ii) examining the determinants of productivity, innovation, and competitiveness in the region's 10 most populated cities, which have seen their per capita productivity drop, both since the 1970s and in comparison with other metropolis in developing countries. This study will include a book on the region's metropolis. Future knowledge activities will include analysis of management tools to increase city density and a study of the effectiveness of PPPs for urban service management in large cities.
- 5.6 The four dimensions of success that will guide the sector's operational and analytical activities will make it possible to respond to the demands of the Bank's 26 borrowing member countries, in both the public and the private sectors. Under the sector work principles presented in this SFD, the lines of action will be coordinated through the respective country strategies, and they will be guided by the specific needs of each city in which the Bank provides support. The overarching purpose of the set of policies, programs, and studies presented in this document is to create a region where all city residents, today and tomorrow, have access to the benefits of urbanization.

³² Planning and accountability processes will promote effective participation by the population, particularly women, indigenous and Afro-descendant population groups, together with cultural and gender diversity.

FIGURES AND MAPS

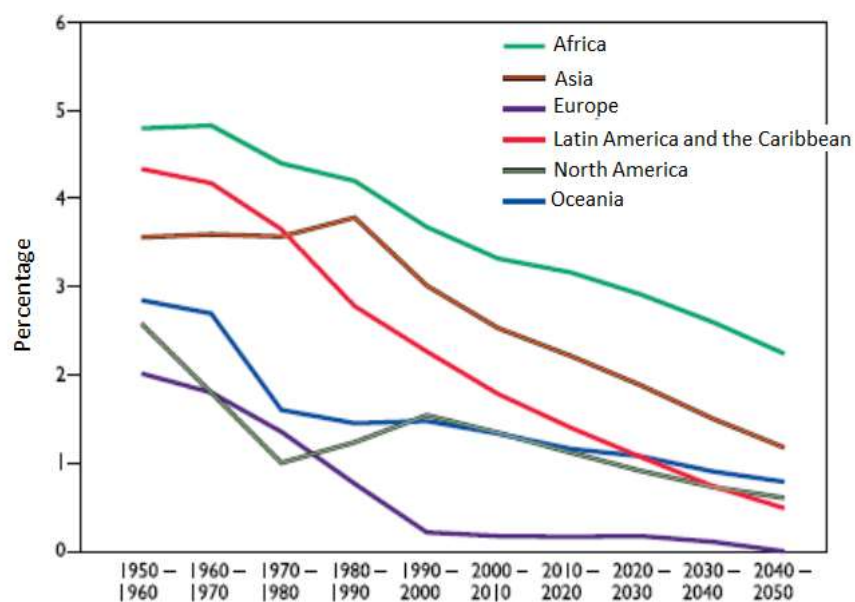
Figure 1. Relation between the urban population living in poverty and degree of urbanization



Correlation coefficient: -0.8.

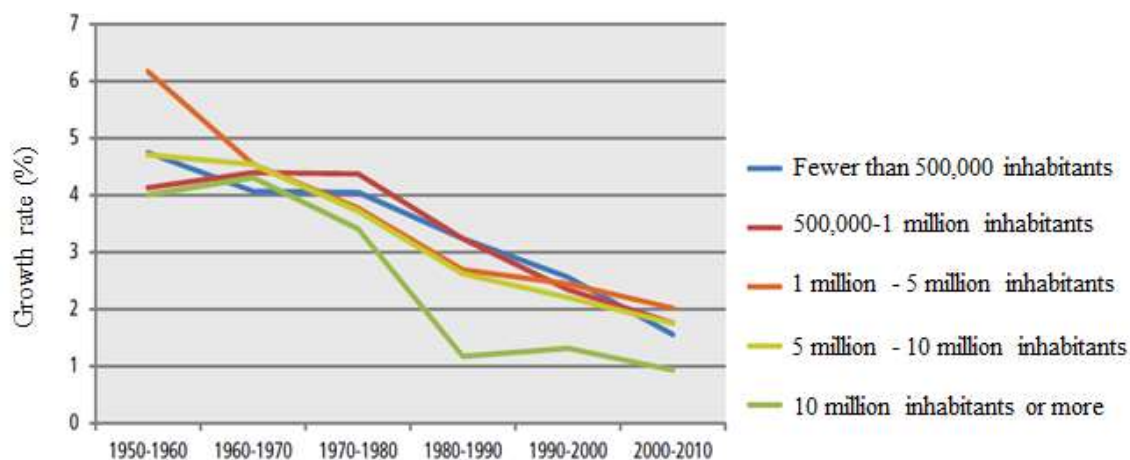
Source: UN Habitat, 2011. *State of the World Cities 2011: Bridging the Urban Divide*.

Figure 2. Global trends in urbanization and annual average urban growth rate, 1950-2050



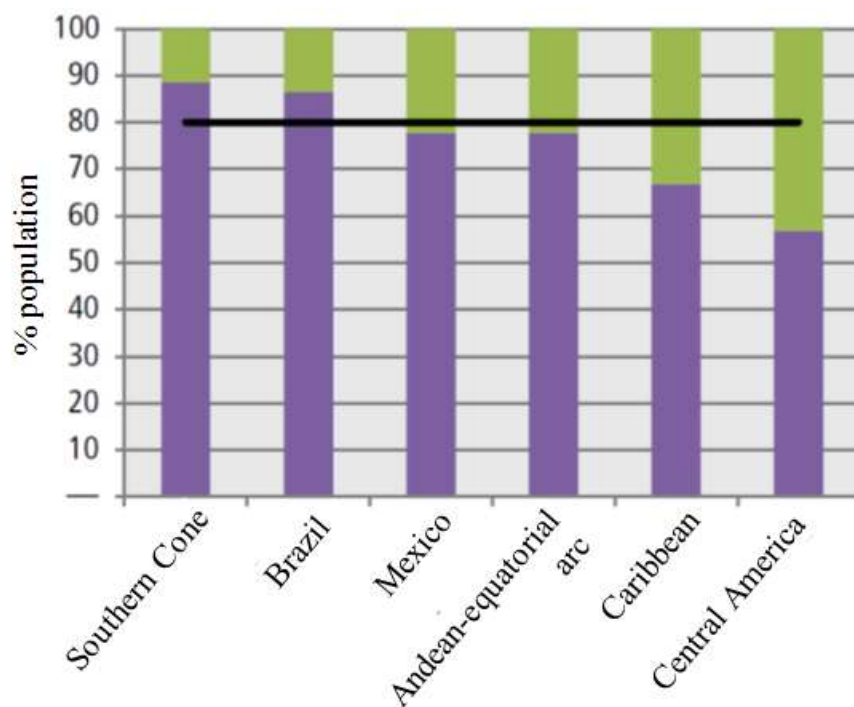
Source: UNDESA (UN Department of Economics and Social Affairs) 2007. *Urbanization Prospects: The 2007 Revision*.

Figure 3. Growth of Latin American and Caribbean cities by size class, 1950-2010.



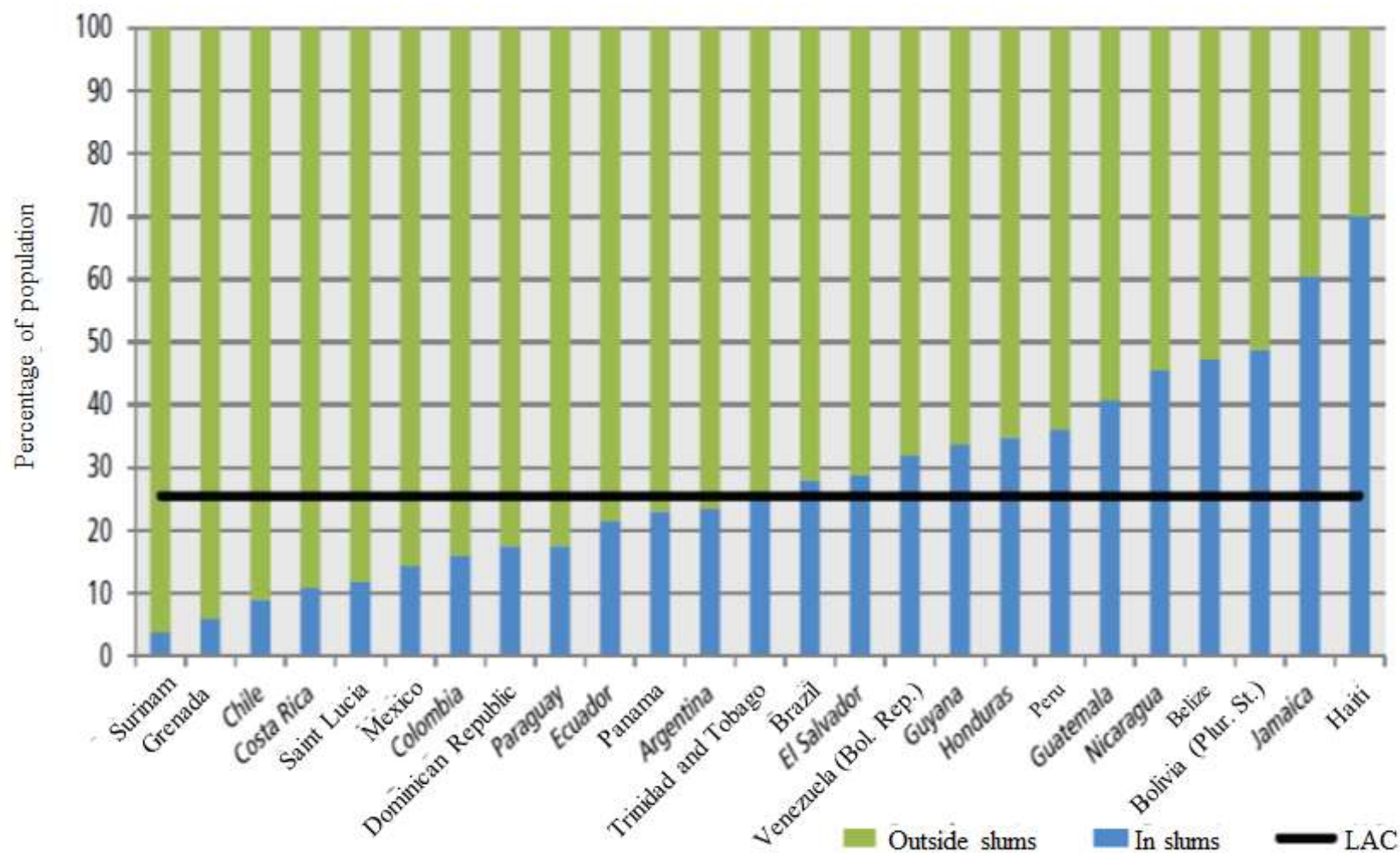
Source: UN Habitat. 2012. *State of Latin American and Caribbean Cities*.

Figure 4. Urban and rural population of Latin America and the Caribbean by subregions and large countries, 2010



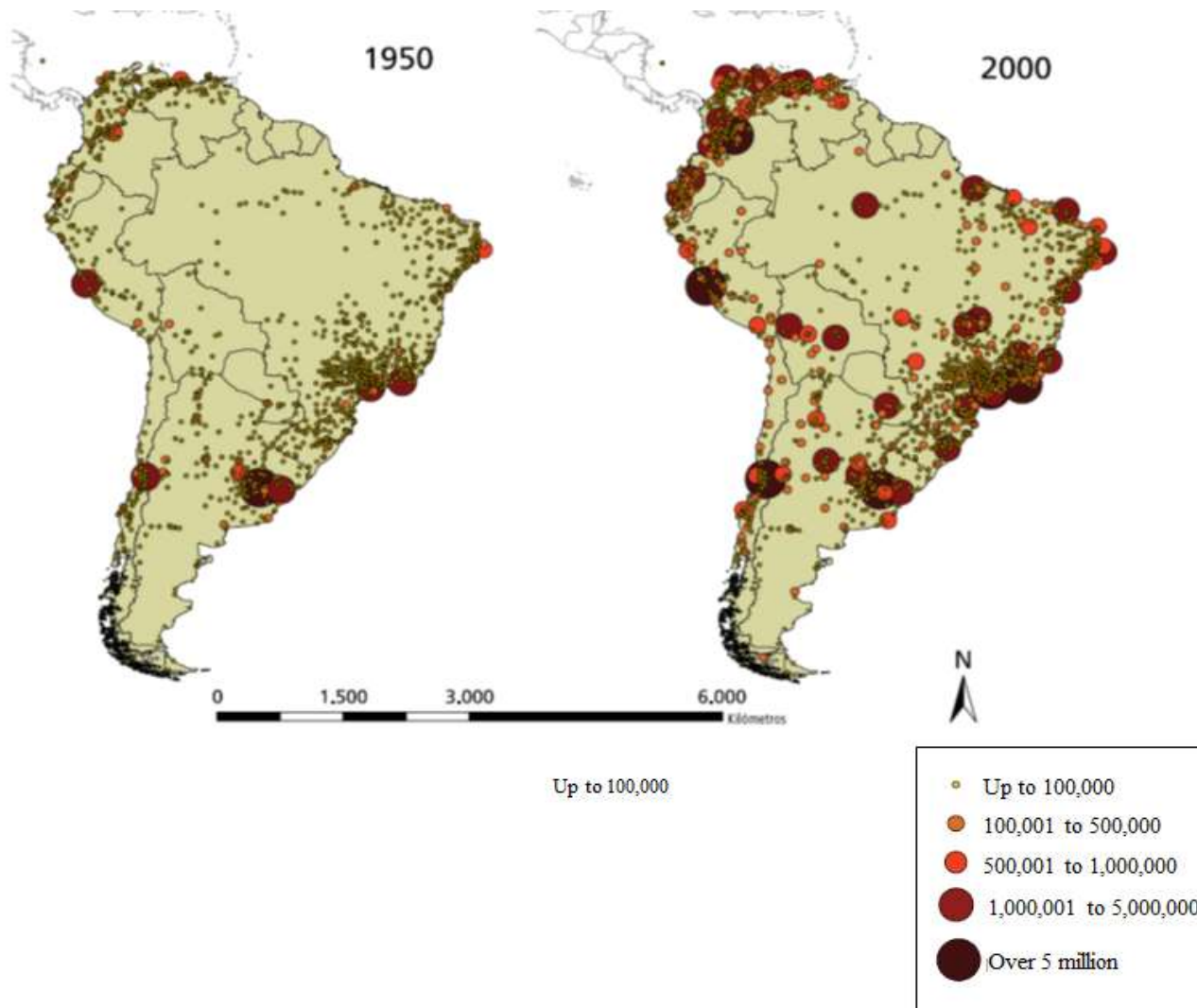
Source: UN Habitat. 2012. *State of Latin American and Caribbean Cities*.

Figure 5. Percentage of the urban population living in informal neighborhoods in Latin American and Caribbean countries, circa 2005



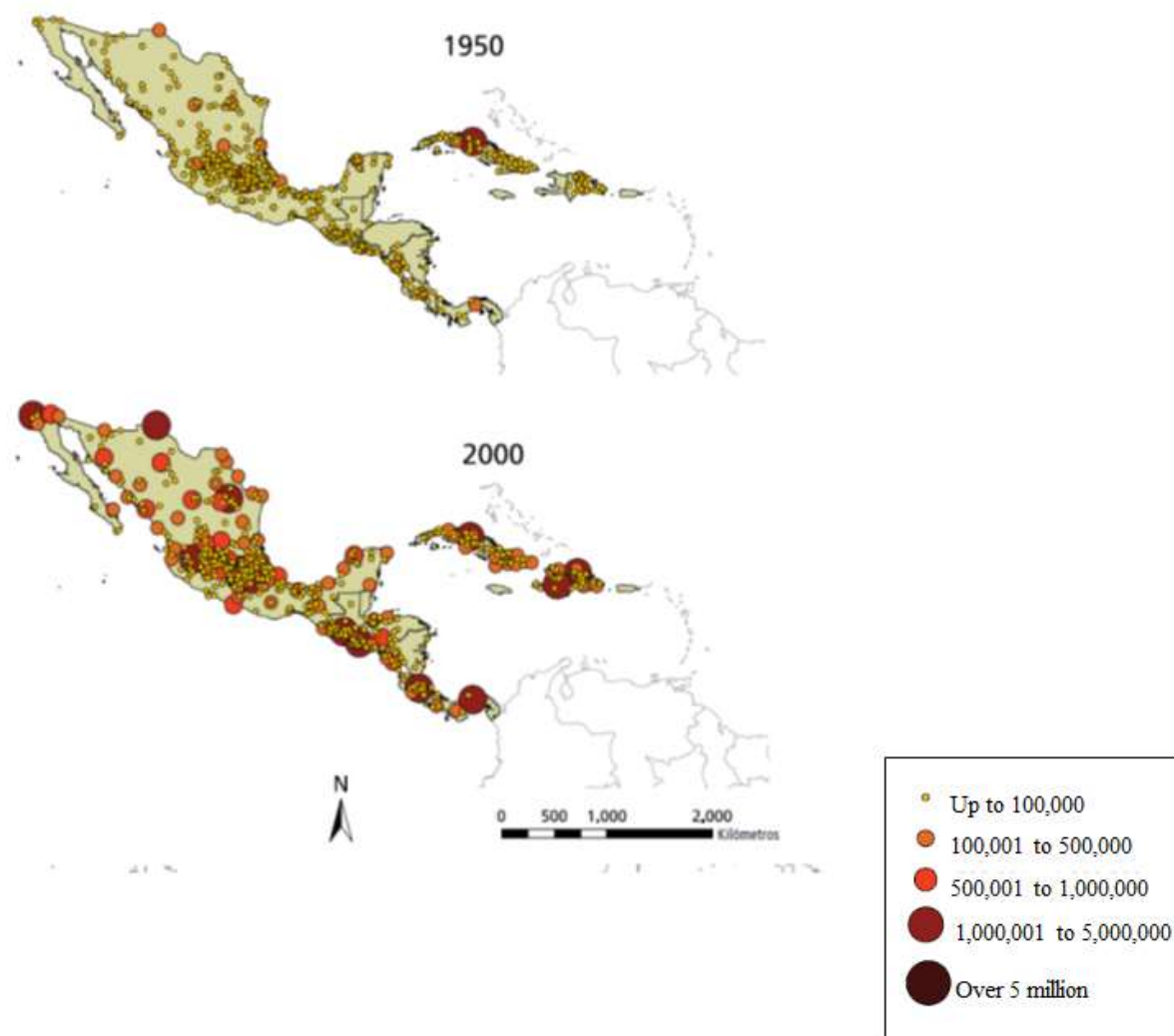
Source: UN Habitat. 2012. *State of Latin American and Caribbean Cities*.

Map 1. South America. Cities of over 20,000 inhabitants, 1950-2000



Source: UN Habitat. 2012. *State of Latin American and Caribbean Cities*.

Map 2. Mexico, Central America, and the Caribbean. Cities of over 20,000 inhabitants, 1950-2000



Source: UN Habitat. 2012. *State of Latin American and Caribbean Cities*.

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