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Managing Investment Climate Reforms:
The Peru Urban Land Reform Case Study
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Abstract

The primary objective of the case study is to learn about urban land reform in Peru, in particular to understand the factors that motivated reforms, how the reform process itself was managed, what the results or outcomes of the reforms have been, and what lessons have been learned. The urban land reform is the land policy implemented in Peru since 1996 aimed at the creation of a system able to assure formal rights to real property in the settlements in large urban areas.

The views expressed are those of the author and do not necessarily reflect official views of the World Bank.

Introduction

The primary objective of the case study is to learn about urban land reform in Peru, in particular to understand the factors that motivated reforms, how the reform process itself was managed, what the results or outcomes of the reforms have been, and what lessons have been learned. The urban land reform is the land policy implemented in Peru since 1996 aimed at the creation of a system able to assure formal rights to real property in the settlements in large urban areas.

The immediate background for this land policy is the legal reforms and pilot programs carried out by impulse of the Institute for Liberty and Democracy – ILD since 1986. For Becker (1996) the movement for urban migrant’s property rights is an elite-driven “capitalist social movement” in which ILD played a critical role. It is important to note that although the reform in terms of a deliberate state policy can be traced back to the agency elicited by the ILD since the mid 80’s, the urban migrant’s property rights movement has been progressively reforming the legal framework in parallel to the enormous change that mass migrations effected to the socio-economic and physical features of the cities. Although, a process of reversal of the reforms has slowly initiated in 2001 once the Fujimori administration that carried out substantial components of the urban land reform left the office. A plausible explanation for this reversal is that the vested interests that benefited from the ex-ante situation did not disappeared once the institutional reforms were produced, rather they were able to re-organize and influence subtle changes in the legal framework that allow recovering the advantages they benefit from the previous situation. The absence of a “policy entrepreneur” who could amalgamate and agency the dispersed interests of the urban settlers can also help explain the reverse process.

Why the urban formalization reforms in Peru would be relevant for this study of investment climate reforms? On the one hand, a mass-scale formalization program expands the formal market by incorporating millions of new players who might be able to trade their assets and access to credit and other services. On the other hand, the complementary reforms to assure sustainability of the property rights system (i.e. strengthening of accessible registration services, simplification of legal framework to expand credit, improved mechanisms to access to land by the poor, etc.), although formulated as mechanisms to assure accessibility for the poor, imply a reform applicable to society at large.

A. Reform Context

Nature and Evolution of Informal Property

It is relevant to briefly describe the historical background of urban informal property in Peru. To this end we will use the information produced during the Urban Property Rights Project Preparation Phase (World Bank:1997), which in turn intensively made use of the findings of ILD research efforts (De Soto: 1986).

Urban migration since the 1940s radically altered the structure and size of Peruvian cities. The migrants from the rural areas were largely excluded from the established legal and administrative systems that support the formal sector. This exclusion particularly applies to the legal access to property for housing. The migrants responded by establishing informal human settlements in defiance of the law. Processes for the formation of informal human settlements evolved supported by strong systems of community accepted rules and norms that operate outside the formal legal system.

A number of *processes to acquire property informally for housing purposes* have been identified:

- (a) **violent invasion.** The occupation of state or private land through sudden, or violent invasion, which typically required a critical mass to be successful. Violent sudden invasions, often initiated

by ‘professional’ invaders, were usually preceded by detailed planning, with prospective settlers contributing to the cost of the invasion. Often detailed plans were prepared, allocating land to individuals and setting aside land for common purposes (parks, schools etc). An organization was usually formed to negotiate with authorities, preserve order and organize resistance to any attempted eviction. The organization representing the invaders could apply to the Municipality for recognition as a human settlement (AAHH);

- (b) **purchase of agricultural land through cooperatives and associations and illegal use for housing purposes.** Agrarian reform in the 1970s established an environment where settlers could informally purchase agricultural land on the outskirts of Lima from private owners. Often the settlers formed associations or cooperatives, which had some legal status, to facilitate the informal acquisition of property. The housing association or housing cooperative could apply to the Municipality to approve the urban development;
- (c) **gradual invasion of state or private property.** The gradual invasion of property, usually adjoining existing settlements, large agricultural enterprises or development projects. These urban developments, called “centros poblados”, have typically evolved from workers accommodation and only take a definite shape after a lengthy period of time.

Various studies have documented the processes whereby the settlers in a successful invasion establish informal organizations to protect the collective interests of the settlement and how, over an extended period, settlements have progressed from groups of hastily erected, single room dwellings, to recognized urban neighborhoods. It is relevant to highlight here that informal communities function on the basis of voluntary norms of civility that are well known by its members, widely observed by them, and, where necessary, enforced by their own autonomous authorities (Becker: 1996). In the diagnosis presented by the ILD, the informal order is neither a cultural matter averse to formal institutions nor opposed to the concept of private property, but the refuge of those who lack the resources to comply with the burdens of inappropriate laws and bureaucratic regulations. In fact, most of the informal settlements try to adapt as much as possible to the formal rules of urbanization because it facilitates the desired path to formal recognition of the individual possessory rights established from the outset of the invasion

Both the way in which property was acquired and the focus and treatment informal housing received from the state have evolved over time. It can be said that the state’s legal response to informal housing conforms a continuum that ranges from an initial absolute repression to squatters and clandestine developers in the 40’s, to the state policy of the 90’s aimed at including the informal urban owners to the legal and economic formal system. In the 60’s the first law recognizing *barriadas* and their community organizations was enacted, and although its provisions for the regularization of the legal situation was never implemented, opened the path for the subsequent reforms. Beginning with the military regime of the 1970s, populist measures encouraged an “assistance” approach to the less privileged sectors rather than the effective formalization and recognition of property. In the 1980s, the task was entrusted to municipal governments and a limited and slow formalization process started that from its onset was strongly tinted by uncertainties that it awarded second-class, and low quality property titles, many times rejected by the Property Register. The major historical stages in the evolution of informal housing in Peru can be summarized as shown in Table 1 (World Bank: 1997, after De Soto 1986). The trend has clearly been for the law to include lessons from what was actually happening on the ground.

The relationships of the urban migrants with the political system also evolved over time. As long as the informal urban settlers grew in number and realized their identity as a strong social class (or social movement), the political system reacted by providing humanitarian assistance, developing clientelistic

relationships by which public investments in basic infrastructure was traded for votes, and different attempts of negotiation and co-optation. During the military regime of the 70's the "Sistema Nacional de Mobilización Social" (National System for Social Mobilization) openly declared the alliance between the revolutionary government and the National Shanty Towns Organization. However, sociologists and political analyst recognize that neither political parties nor government bodies in power have been able to develop sustained commitments from the informal urban communities, who seem to provide support to candidates, mayors, presidents or congressmen whatever their political flag could be, so long they receive tangible benefits in turn.

Major historical stages in the evolution of informal housing in Peru (WB: 1997, after De Soto: 1986)

Period	Theme	Key Events	Consequences	Laws/Decrees
-late 1920s		Informal development of residential neighborhoods by the formal sector.	Negotiable basis of state laws established.	First urban development laws.
Late 1920s - late 1950s	Repression	Period of gradual invasion by migrants.	Increasing state recognition of property rights acquired through gradual invasion.	
1945 - 1960s	Tolerance	Courting of settlement residents by politicians.	Reduced evictions. Massive growth in the informal sector.	Civil Code, Civil Procedures Code
1961 - 1968	Permissiveness	First legislative recognition of informal housing (limited to existing settlements).	Increasing incidence of invasion and increased expectation of gaining secure housing in cities.	Act 13517, February 1961
1968 - 1975	Planification	Attempt by revolutionary government to impose a standard model on informals as a condition for state assistance. Creation of a process to adjudicate state land (207 steps).	Demonstration of the political power of informals - invasion of Pamplona.	Decree Law 18898, Decree Law 19352
1970s		Agrarian reform implemented.	Settlements on agricultural land by cooperatives and associations.	
1975 - 1980		Process for informal settlements to become formal neighborhoods. Responsibility for settlements transferred to Municipalities.	Increasing growth of informal sector.	Decree Law 22612, 1979 New Constitution, 1979
1980 - 1983		Increased distribution of titles and recognition of informal organizations.	Strengthened organizational basis for invasions.	Council Ordinance 192
1984		Invasion planned, coordinated and carried out by the Lima City Council in Huaycán.	Recognition by the state that the formal system was unable to provide housing.	
1985		Legislative recognition of illegal land sales as a means of acquiring property for housing.	Weakening of formal system and strengthening of informal system.	Act 24071, January 1985
1988 - 1994	Simplification	New registry and simplified procedures based on informal rules. Pilot formalization projects in Lima.	Demonstration of viability of simplified formalization methodology. Growing political support.	Leg. Dec.495/496 1988, SD's 001/002-90-VC 1990, Leg. Dec. 667 1991.
1996	Mass Formalization	Creation of COFOPRI, transfer of responsibility for formalization from Municipalities to COFOPRI.	Raised expectation for titles.	Law 803, 1996 Law 26878, 1997

2002	Reversion of Reforms ?	Registry simplified procedures are reverted to allow tax payment controls	Law 27616 , 2001
		Simplified forms are restricted and Notaries participation are made mandatory	Law 27755 (art 7), 2002
		Legal framework to regularize Housing Associations is declared in-constitutional	Partial abrogation of Law 26878 (art 6,7 8)by Constitutional Tribunal in 2002

(i) Pre-reform situation

▪ **What were the main features of the pre-reform policies that were in place?**

During the 80's the urban land policies strengthened the municipal functions of land administration: titling functions were shifted from the central government to the provincial municipalities and laws were passed to allow them to transfer state owned vacant land for urban purposes. As explained before, the legal framework had gradually evolved to create legal processes of exception - as opposed to regular urbanization procedures- for the recognition of settlements and the granting of individual titles. The new legal framework transferred the task of organizing the settlements to the urban communities and recognized their informal arrangements in some aspects of the administrative processes for land regularization, however created complex and cumbersome procedures. Neither the titling procedures nor the transfer of state land for housing purposes were effective. Titling procedures were so cumbersome that took an average of 10 years and inaccessible costs to the vast majority of homeowners.

▪ **What were the economic and other consequences of the policies?**

In 1996, it was estimated that the informal housing sector in Peru comprised largely more than 1 million properties. The main economic consequences is that informality has a cost, and the result, particularly for the poor, had been the effective freezing of valuable assets, lack of access to institutional credit and public services, and the undercutting of investment incentives for small entrepreneurs. Uncertain property rights also weaken the revenue base for local governments, and their capacity to satisfy local infrastructure needs.

The consequences of the lack of recognition of rights acquired by sustained possession or the non-authorized urban development were not only economic. The informal occupation and development of land was in many aspects recognized by the state organizations through the collection of municipal taxes, the provision of basic infrastructure and credit services for self-built improvements, and the granting of possessory certificates. The impossibility that their rights be recognized by the legal system was therefore not justifiable in terms of prevailing societal norms. The consequence of this discrimination is a limited exercise of citizenship by the migrants. Legal discrimination implication is that migrants have less of a stake in the political order and less of a reason to trust it (Becker. 1996).

▪ **Which domestic interest groups had benefited from the pre-reform situation and which had lost?**

The interest groups who benefited from the pre-reform situation were the bureaucratic organizations who controlled the long and cumbersome formalization processes. The benefits were accrued in the form of bribes at different levels of the public service, or political co-optation strategies and clientelistic relationships between government officials and the urban settlers. These strategies were related not only to titling, but also to the provision of infrastructure services, which are more dependant of the activity of mayors, ministries and congressmen when property rights are not defined.

Others who benefit from the pre-reform situation were the community leaders who became professional intermediaries among the communities and the authorities and who sometimes built political careers on this intermediation.

One important interest group who benefit from the pre-reform situation is the notaries. Notaries play a critical role in the processes of transfer and registration of property in Peru and other Latin-American countries that inherited the Spanish model (in turn adapted from the Napoleonic Civil Code). In the Peruvian system registration of land rights is not mandatory. Property is transferred from the state to private individuals through administrative procedures, or among private owners through contracts that need no registration to be valid before the courts as proof of ownership. Formalization of contracts through “escrituras publicas” produced by a notary increase the security of the transaction by the provision of a more secure document in which alterations are prevented and where the date of the transaction is recorded in special books kept by the notary. The registration of the “escritura publica” in the public registry provides better security because protects the registered owner against claims that might be presented by an eventual second or third buyer of the same land. Thus, registration of title is not a mandatory but an advisable process by which an owner (whose ownership right derives from the transfer contract itself) prevents potential conflicts. On the other hand, as long as registration of mortgages is mandatory by law, **registration of title to land becomes necessary for all landowners who require credit from the formal financial system and expect to use land as collateral. Therefore, every land transfer that is to be registered, require the necessary participation of a notary preparing the “escritura publica”** that by law is the only instrument to input information to the registration system. Notaries in Peru, as in all Latin America, are a very cohesive and influential interest group. Notaries are private sector lawyers that perform a public function: provide testimony of the existence and due intervention of the parties participating in the contract, and produce the “escritura publica” which is the exact replica of the private contract drafted by the parties and that is preserved as a back up for future reference. Notaries are recognized by law as a self-regulating organization and are given the monopoly of the activity. In the early 90’s there were only 40 notaries for a city of 8 million people as metropolitan Lima. The power of notaries is entrenched in the traditional legal system established from the outset of the Republica.

Other interest group that can be mentioned is the subversive movements. The absence of active citizenship by the excluded *pobladores*, gave room to the expansion of the subversive movements who in many poor settlements substituted the state in the provision of protection and the adjudication of conflicts. In fact, Huaycan a settlement created in the outskirts of Lima in 1984 was considered “zona liberada” by the increasingly powerful guerrilla of Sendero Luminoso.

ii) Reform genesis

The formulation of the policies to reform urban property rights result of a long process initiated in 1985. Three periods can be identified: i) the initial research, public awareness campaigns and “policy entrepreneurship” that led to the approval of the 1988 law creating the Registro Predial and simplifying the legal framework; ii) the Pilot projects of 1990 – 93 that validates the effectiveness of the reform and allow

a better understanding of the constraints at the institutional level; iii) the legal reforms for the creation of COFOPRI and the launching of the National Formalization Program.

1985 – 1998: research into action and the creation of a simplified registry for pueblos jóvenes

The economic policy of the Alan Garcia government (1985-1990) expanded the public expenditure to promote consumption, isolated Peru of the international financial markets by unilaterally restricting payments to external debt, and created an increasing fiscal deficit due to the subsidies policy to the “national promotional banking system” (i.e. Banco Agrario). After one year the model collapsed, allegedly because the entrepreneurial class who benefited of the economic model did not complied with their local investment commitments. In 1987, urged by the need of a fiscal adjustment, the government passed a law to nationalize the private banks. After the cohesive mobilization against the measure by the middle class and the industrial and financial private groups, the nationalization efforts moved back. Capitals started to fly away the country, economic expectations turned negative and distrust was accentuated; together with accusations of corruption and the strengthening of the subversive movements.

In 1986, before the aborted bank nationalization, and as part of its modernization of the State research activities, the ILD carried out an agreement with the Fiscal de la Nacion (Attorney General) who under the 1979 Constitution had the so far non-implemented role of “defensor del pueblo” (ombudsman). Resulting of many public hearings and collection and systematization of complaints, the issue of citizen’s access to property rights was recognized as a priority. Three legislative initiatives related to the recognition of *pueblos jóvenes* were drafted and discussed in assemblies with urban community leaders representing 173,000 settlers. From that moment on, a dynamic relationship between the ILD and the pueblos jóvenes was created, allowing the deepening of the research in various fields such as the informal law, the administrative barriers to formalization, the quantification of the number of informal units and the value of the investments made in informal housing. The ability to transform research findings in policy proposals differentiated the ILD from the traditional leftist NGO’s who used to work on the *barriadas*, and gave merit to the understanding of the role of ILD as a “policy entrepreneur” (Messick: 2003). For Becker (1996) ILD is the only organization dedicated to the proposition that it is both feasible and intrinsically valuable to marshal massive popular support for an uncompromisingly capitalist, liberal-democratic order; and it is correspondingly, the only one to have successfully combined a legal-institutional approach to reform and a thoroughly liberal ideological standpoint with a complex political strategy that includes both “top down” (elitist) and “bottom up” (populist) elements.

In August 1986 the government passed a Supreme Decree echoing one of the ILD’s initiatives sought to eliminate the restrictions that municipal titling imposed on the titles granted in urban settlements. In 1987 ILD’s research expanded its focus to the functioning of the property system in the rural areas, where the same legal-institutional approach allowed an understanding of the problems faced by the *parceleros* who, after the failure of the collective property structures imposed by the Agrarian Reform, found barriers to formalize the subdivision of their lands in individually owned parcels. Together with the realization of the value of the assets frozen out of the market due the lack of clear titles, the interest in strategies to create the bridge among informal owners and the formal economy began to rise. As part of this effort, the ILD drafted a proposed law to create a “people’s mortgages system” by which settlements that complied with minimum construction standards would qualify to get a private insurance. After the properties’ appraisal, the value of insurance was determined and plans drafted to be used as a pre-cadastre for the insurance system. The system would include the simplification of the registration system. Under this initial institutional reform design, the personal insurance system was the key element. Insurance companies would promote a private registry or cadastre for shanty towns as a way to guarantee the loans they made to policy-holders, using the investment they had made on their houses as proof of financial backing.

After the attempt for the banks nationalization, the Garcia's government passed in April 1988 Legislative Decree 469, deemed to regulate the decentralization and expansion of credit operations to all sectors of society. It incorporated some of the provisions of the proposed "people's mortgages". In response, the ILD together with the private industries association, (Confederación Nacional de Instituciones Empresariales Privadas – CONFIEP), representatives of the main political parties, and several informal housing organizations, created the "Formal-Informal Union" to publicly discuss means to improve the initiative launched by the government. Although the law of "people's mortgages" and the registry simplification was not implemented, the experience was of great value to fine-tune the next steps of the reform.

In October 1988, ILD signed technical agreement with the Garcia's government aimed at elaborating a project for the creation of a strategy to formalize and register land titles in human settlements and to promote "popular mortgages". Under this technical agreement, ILD drafted the legal framework for the creation of the Registro Predial de Pueblos Jovenes, Urbanizaciones Populares e Hipoteca Popular - RP, which consolidated the findings of the research and public consultation campaigns carried out so far. In November 1988, Legislative Decrees 495 and 496 were passed bringing together the ILD's proposal. The very cohesive group of notaries tried to oppose the reform lobbying against the promulgation of the law, advancing a strategy that would accompany the future developments of the reform.

The **impetus for the reform** in the late 80's came directly from the policy agency efforts displayed by the ILD. A window of opportunity was the need of the Garcia's government to legitimize in front of the popular urban sectors and at the same time stick to the message that the explanation of the economic disaster was the lack of financial resources to impulse economic development. In the line of this argument, the alternative of mobilizing the "dead capital" pointed by ILD's theory came up as a plausible solution. However, the delay in the implementation of the reform and the fact that the pilot projects depended almost exclusively on funds and resources from the ILD suggest that it was not a government priority. For Becker the legislation for the reform responded to the political exigencies of both APRA and the other parties who were trying to get positioned for the incoming elections "... APRA's opponents in Congress all saw themselves well placed for victory in 1990, if only they could dissociate themselves from the Aprista record (to which they had occasionally contributed) and instead become aligned in the public mind with some very popular piece of legislation. Yet APRA also needed popular legislation it could call its own, since only by diverting public attention away from its economic management did it have a chance of averting disaster in 1990." (Becker: 1996)

The **main features of the late 1980's reform** were not the creation of new rights, but mainly the integration and simplification of the existing legal framework so far comprised by a complex array of piece-meal laws, decrees and administrative rules. The emphasis was placed on the registration aspects of formalization: i) the creation of a unified nation-wide property register specialized in informal settlements registration (and therefore parallel to the traditional real property register), which incorporates from the outset the use of computers to store information and that is parcel based to facilitate information management, and which is able to flexibly open decentralized offices driven by demand of services; ii) simplification of the administrative procedures already in place in a compact, more comprehensively body of law and regulation that explicitly declares the policy objective of integrating the informal property to the formal financial sector; iii) the incorporation of proofs of ownership used in the informal sector within the administrative procedures, allowing the use of economies of scale in the definition of maps and the identification of owners; iv) elimination of unnecessary preconditions for titling and registration, i.e. the search of tax records; iv) the use of standardized forms signed by attorneys and engineers for the lodgment of information to the registry in substitution of the "escrituras publicas" - notarized documents required in the traditional system.

1989 – 93: pilot projects validation and identification of institutional constraints

In 1990, few months before the change of government, a Supreme Decree set out the regulations and the new registry was established. Pilot formalization projects were implemented in selected informal urban settlements in Lima from 1990 to 1993. The first Pilot Project was funded by USAID and allowed the formalization of Villa El Salvador, Pamplona and Huaycan, settlements which importance derived not only from the number of families involved but because their significance as benchmarks of the urban development process of Lima, as well as the political significance they had.

In July 1990 Alberto Fujimori assumed the presidency after winning the elections in a second round against the explicitly liberal economy candidate Mario Vargas Llosa. The argument more recurrently used during the second round of the election campaign by Fujimori (and supported by APRA and other leftist parties) was the necessity of a gradualist stabilization of the national budgets (so called no-shock), opposed to the anti-popular macro-economic adjustment perceived as the only solution offered by the liberal elites. However, in February 1991, after a process of negotiation carried out with the IMF, the WB and IDB in which Hernando de Soto played a critical role, Fujimori declares the decision to re-insert Peru to the international finance system, the inevitability of the application of a macro-economic adjustment, and announces the implementation of some of the ILD initiatives, among others the “Democratization of the Government Decisions” sought to allow a more transparent exercise of the legislative and regulatory power. After passing legislation aimed at liberalizing the rural land markets, in 1991 the government passes the ILD’s regulatory proposals to formalize rural land. In April 2002, Fujimori dissolved the Congress which had been opposing to pass the legal reforms aimed at liberalizing the economy and combating subversion, and started an autocratic regime. At this stage Hernando de Soto resigned his position as a personal advisor of the President, although the ongoing pilot projects of ILD with the RP continued. In 1993, the government called for a new electoral process for Congreso Constituyente Democrático (Constitutional Congress) and as a result Fujimori entered a new period of his government, this time with majority in Congress. The new Constitution enacted in 1993 opened the path for the legal and institutional reforms aimed at a more active role of the private sector in the economy.

A second Formalization Pilot Project was launched in Oct 1992 on the outset of the new phase of Fujimori’s regime –legitimized with the election of a new Congress - and with the financial support of the World Bank and other donors. This Pilot Project carried out activities in both urban and rural areas of Lima. By 1993 the pilot projects registered about 150,000 lots in human settlements, and of these lots, individual titles were issued for between 30,000 to 40,000 lots. When the external financial assistance for the Pilot projects came to an end the RP started to face financial problems. By 1994 it was clear that although the success demonstrated during the pilot projects, the government did not place the issue of formalization as a priority. On the other hand, the interests opposed to the formalization reform started to mobilize again. For instance, in October 1994 Law 26366 creating the National Superintendency of Registries ordered the integration of RPU to the traditional system in a lapse of two years. However, in January 1995 another law provides a new deadline for the integration to 2000. The reason of this change was the renovated interest shown in the government for the formalization activities.

It is worth describing how the intervention of a private agent revived the interest of the government in the formalization issues. In 1994, when the signals of economic growth were promising and credit operations were expanding significantly, Orion (part of the Carsa Group, one of Peru’s largest consumer credit organizations) signed a technical agreement with RPU to support potential customers of Carsa in registering their property at RPU. Orion provided RPU with support (computers, facsimile machine etc) to facilitate access to RPU information and services. Orion also paid for the preparation of cadastral maps

and paid registration fees for its customers. As a result, about 140,000 additional lots were registered in RPU. Orion's purpose in assisting RPU was to broaden the market for Carsa's consumer credit services.

During the elections campaign for mayor in 1995, Jaime Yoshiyama - a character identified with liberal economy reforms and for some time sought to be the natural successor of Fujimori- was the government's candidate for Mayor in Metropolitan Lima. The political importance of Metropolitan Lima's government derives from the fact that almost half of the country population lives in the capital city which concentrates important budgetary resources, and because the position of mayor is perceived as the prior step for running for presidency. Sensitive to the success story found in the formalization pilot projects and to the positive signals shown by the private financial agents about the economic potential of the formalization, the candidate Yoshiyama incorporated to his electoral platform the issue of urban land formalization by impulse of the Municipality. However, despite of counting with the direct and explicit support of the President – and probably as a result of this open support and the perception of an excessive concentration of power - the elections were won by Alberto Andrade, a candidate perceived as not directly identified with the current political parties. Anyhow, the issue of formalization was placed again on the political agenda.

The **impetus for the implementation of the pilot projects** came from outside the government. It was the ILD who put together the proposal and the technical expertise, and the IFIs and other donors who provided the funding. It was evident that although it was the mayors who harvested the political gains of formalization at their jurisdictional levels, the municipal governments lacked the resources and the technical capacities required to take over the formalization pilot projects.

The main outcomes of this stage of the policy reform were, on the one hand, the validation of some aspects of the formalization strategy (i.e. the effectiveness of renewing the legal framework, the need to incorporate the community participation), and on the other, the realization of the limits of the formalization model. The implementation of the pilot projects phase allowed to identify that the strategy of focusing on the registration components was insufficient. Legislative Decree 495 mandated the RP to function on the basis of duly registered and approved plans, but lacked the means to tackle the many degrees of informality found along the various stages of formalization. For this reason, the pilot programs awarded clear titles only to settlements that had already walked a long way towards getting legally and technically clear title and which were not by any means the most complex cases.

Despite the results achieved, the limitations of institutional reform became obvious. These limitations were:

- (a) lack of political prioritization because it had not been part of the principal political issues of the government.
- (b) dispersed administrative jurisdictions in formalization issues. At this stage, the institutional reform was unable to cancel the ensuing bottlenecks. The diffuse administrative boundaries and hierarchies were a source of confusion.
- (c) lack of an institutional set up for close and ongoing integration, coordination and cooperation across agencies with competence over titling and registration.
- (d) lack of an institutional framework for planning formalization that could set its own governance goals and objectives.
- (d) lack of alternative mechanisms for conflict resolution.

After this stage, the ILD formalization strategy changed incorporating the need to overcome the institutional barriers created by the lack of coordination of the government agencies.

1995 – 2001: Mass-formalization and the centralized titling agency

Immediately after winning the elections for the period 1995-2000, the Fujimori's regime had renegotiated the national debt payment with the IMF through the Plan Brady, imposing important covenants to the Peruvian economy. Although successful in the external front i.e. promoting the sale of the state shares of Telefonica at US \$ 1,500M, internally the regime was suffering symptoms of tiredness expressed in the failure of the municipal elections. The policy with regard the municipal governments was to cut down their functions, i.e. the management of the "vaso de leche" program (assistance for the poor through distribution of milk in the schools) shifted from the municipalities to the central government, the IDB loans required by the mayor of Lima for municipal projects were not supported by the Ministry of Economy. These measures were perceived by opponents to the regime as strategies to cope all the spaces of power and to put shadows over potential competitors. In this line, an efficient mayor who aligned the sympathies of those opposed to re-election (that was made possible after the amendment of the Constitution in 1993) started to appear as an uncomfortable presence. Is in this context that the government decided to place property formalization at the top of its agenda.

Based in the lessons left by the pilot projects, the ILD had a role in the design of the mass-scale formalization strategy and drafting a proposal for the renovation of the legal framework.

In December 1995 the Congress passed Law N° 26557 ordering the transfer of authority related to property formalization to a single national agency that would be created by the Executive Power in compliance with the faculties it had been granted by Congress. In March 1996, Decreto Legislativo N° 803 created the Comisión de Formalización de la Propiedad Informal (COFOPRI) and set up a broader institutional framework to develop a nation-wide property formalization program.

The main features of this stage of the reform are described below:

- (a) it gives formalization, or access to and registration of formal property, top government priority;
- (b) it shifts the responsibility of formalization from the municipalities and gives COFOPRI central jurisdiction, decision-making power and exclusive competence for formalization;
- (c) it establishes COFOPRI as an Executive Branch agency chaired by a Minister of State, with members appointed by and directly reporting to the President of Peru.
- (d) it proposes the comprehensive, integral and fast implementation of a nationwide program to formalize property;
- (e) it redesigned the RP, which became the Urban Property Registry attached to the Ministry whose head also chairs COFOPRI, thus creating a direct institutional cooperation and coordination channel;
- (f) it creates a compulsory arbitration system as an alternative mechanism for conflict resolution;
- (g) it establishes a process to give an institutional solution to people's housing needs. It discourages land grabbing through a single and simple system to grant state land for residential purposes.

A critical role in the implementation of the reform is played by the Peru Urban Property Rights Project, a World Bank lending operation approved in 1998 for US\$38 millions for a total project cost of US\$66 millions to extend the urban formalization activities to several cities in Peru and to develop complementary reforms, -essentially those related to the reform of the legal and institutional aspects governing the investments in land (credit, public infrastructure services, and others). The main objective of the Project is to create system able to assure formal rights to real property in the settlements in large, predominantly poor, urban areas. With this purpose, the project supports a national formalization program initially in 8 cities and then extended to 14 cities. Other important objectives of the PUPRP are the strengthening of the organizations responsible for the program through legal and institutional improvements, training and development of long-term strategies. According to the Project Appraisal

Document (World Bank: 1998), the objectives are both economic and social. The main benefit is economic and consists in the more efficient use of land as a result of the increment of the security of tenure. This more efficient use of property would translate in higher prices, more transactions in the real estate market and the use of property as collateral for credit. Social benefits of the project would come as a result of more equitable legal system specially by an increased access to property for disadvantaged groups, increased access to infrastructure services, etc.

The project objectives were specified in terms of poverty alleviation by allowing the poor to access to increased security and means to access the market. Although, the very **creation of an efficient and sustainable property rights system is clearly an investment climate reform**. On the one hand, a mass-scale formalization program expands the formal market by incorporating millions of new players who might be able to trade their assets and access to credit and other services. On the other hand, the complementary reforms to assure sustainability of the property rights system (i.e. strengthening of accessible registration services, simplification of legal framework to expand credit, improved mechanisms to access to land by the poor, etc.) although formulated as mechanisms to assure accessibility for the poor, imply a reform applicable to society at large.

The reform built on the techniques developed by ILD, but extended the formalization process to integrate the production of individual titles. The formalization system that evolved from the initial pilot activity is based on three basic principles designed to rapidly increase, in a systematic fashion, the number of secure property owners:

- (a) property rights should be delineated as far as possible on the basis of customary proofs of ownership (rather than formalistic, bureaucratic procedures), community participation, and simplified rules;
- (b) the technology and administrative arrangements used to record information on property should be simple, robust, and upgradable;
- (c) incentives should be used to ensure that property transactions remain formal

It is relevant to mention that during the formalization program implementation there was an extensive legislative and regulatory activity. As long as the program advanced and obstacles requiring an improvement of the legal framework came up, COFOPRI drafted and got approval for several laws and dozens of Supreme Decrees. The direct relationship between the officers in charge of COFOPRI and the President made possible the highest level support to promote laws in the Congress – who had majority of the government party – and to accelerate coordination with other ministries to obtain approval of regulations.

The impetus for the reform came from the need of the government to strengthen its relationship with the urban migrants. After the successful stabilization of the national budgets through the macro-economic adjustment, the reinsertion of the country to the international finance system and the attraction of foreign investment, still the poor did not perceived clearly the economic benefits of a market economy. A national formalization program carried out by the Presidency would allow showing effectiveness in an area that traditionally had been perceived as the realm of bureaucratic passivity and corruption. Although the centralized model of operations derived from a technical diagnosis of the limitations found in the pilot projects, it also served to reduce the competences of the municipal governments and therefore to control potential political contestants.

(iii) Key reform changes

- What were the main policy changes undertaken? (already responded in the previous section)
- What was the chronology of their adoption? (already responded in the previous section)
- Did the reform require legislative action; regulatory/rule changes not requiring legislative action but undertaken by the executive branch of Government? If legislative process was utilized, how long did the process take? If executive action was utilized, were the actions binding or were subsequent amendments made?

As described before, the key reform changes required legislative action and intense regulatory changes through Supreme Decrees and other regulations.

It might be interesting to note that the legal framework for the creation of RPU in 1988 and of COFOPRI in 1996 are both Legislative Decrees, i.e. legislative power delegated by the Congress to the executive power. In both cases it was ILD who proposed the strategy and the draft legislation: in 1988 it was the result of a quite extensive process of public debate initiated two years before, but in 1996 it was just the decision of the President that was supported by the Ministries cabinet and subsequently supported by the majority in the Congress. The fact that in both cases the mechanism used to pass the law was Legislative Decrees might be indicative of the level of specialization required to put together the law or may be that congress approval would present too many obstacles for approving a coherent reform.

B. Managing the Reform Process

(i) Reform formulation

- Was there ex-ante assessment of the costs and benefits of various reform options and alternatives? If so, was such an analysis used for decision-making purposes?

The reform options discussed at the first stage – simplification of the registration system - were either to transform the national registration system or to create a parallel register specialized in informal property. This was a decision that deserved thorough analysis although it was not quantitative. It was acknowledged that the creation of a parallel register was not the most efficient solution in terms of public expenditures and also for the market agents that require a single source of information, however, the decision was to create a parallel register. The reason was that the traditional property register was an old, conservative organization which in 1988 was deemed a corrupted organization and very difficult to reform. But more importantly, because the vested interest concentrated around the *status quo* would have fiercely resisted the reform. For instance, the creation of a new register specialized in pueblos juvenes that used standardized forms instead of the escrituras publicas was not a threaten for the notaries for whom the informal settlers were not their client base. On the other hand, creating a new organization avoided the problem of entrenched corruption and organizational culture. The strategy was to develop a new registry organization aimed at incorporating the huge number of informal property that, once the benefits of the simplified model were validated and acknowledged by the citizens and companies, would facilitate the change of the traditional registry. Now that the registration system is in the process of integration, seems that the strategy was not correct and that the RP innovations will be lost.

The second stage – validation through pilot projects and identification of institutional constraints – was basically a period of small scale implementation that did not comprise assessment of different options. However, it allowed reaching some conclusions that were fundamental inputs for the design of the third

stage – mass formalization by a centralized agency - . Indeed, as said before, the design of the national formalization program built on the lessons learned during the pilot implementation.

During the third stage the options considered were basically two: where to place COFOPRI in the structure of the government, and how to assure the effective coordination of the different agencies with a stake in the formalization processes. The initial proposal was to put COFOPRI under the Ministry of the Presidency, a recently created Ministry in charge of most of infrastructure projects (i.e. construction of schools and highways). However, it was decided that the specific sector was not critical inasmuch the formalization organization responded directly to the President. On the other hand, since 1994 the registration system was experimenting a quite successful reform process under the Superintendency on National Registries. However, it was decided that the RP should be placed under the same ministry of COFOPRI to assure effective coordination between the titling and the registration agencies. It was acknowledged that this decision could put into question the independence of the RP to assess the quality and consistency of the titles produced by COFOPRI and eventually reject registration. However, considering that mass-scale formalization requires tight coordination between the titling and registration agencies, the decision was to maintain management unity and create other mechanisms of quality control.

- Were the various options and tradeoffs discussed among the various parts of government? Or did they emerge mostly from individual ministries?

In Peru there exist procedures for the approval of laws and decrees that include the distribution of the draft legislation among the different agencies of government to receive comments and objections. Also, important regulation is discussed in the Council of Ministries for further approval. These procedures usually are applied, but they do not necessarily include the systematic discussion of the policy alternatives.

The reform of the late 80's was the result of an open and public discussion. However this discussion was more oriented to refine the understanding of the issues and to mobilize the public opinion to put the issues on the political agenda, than for discussion of the different alternatives.

According to information gathered in ILD reports, the reform for the creation of COFOPRI was presented by the ILD to the Council of Ministries in a series of sessions carried out the first months of 1996

- Were the changes the first attempts at reform or were they part of a longer term reform process that was already underway?

As explained before, the urban property rights reform was underway since long ago, and became a consistent policy in a period that can be traced back to 1986.

- Was the reform part of a broader bundle of reforms or a stand-alone reform?

During the 80's the ILD produced and promoted a comprehensive set of policy reforms that included Administrative Simplification, Democratization of the Decision Making Process, Property Rights Formalization and Credit Access, the creation of the Ombudsman institution, creation of Alternative Dispute Resolution Mechanisms, among others. Some of them were adopted by different governments over time: the first Administrative Simplification Law was passed during Garcia's administration, the institution of Ombudsman and some of the transparency of the decision making processes were incorporated in the Constitution of 1993.

Bringing specific attention to the urban property rights reform, it evolved during the Garcia and Fujimori mandates. The first stage of the reform, embodied in Legislative Decree 495 that creates RPU in 1988 was not part of a comprehensive strategy but only an attempt of Garcia's government to legitimize in front of the popular urban sectors after the aborted bank nationalization and at the same time stick to the message that the explanation of the economic disaster was the lack of financial resources to impulse economic development. The second stage –pilot projects- was by definition an isolated effort. The third stage of the reform – mass scale formalization during the second Fujimori's administration - came together with the programs for the formalization of rural land and coincided with other programs of reform of the state, such as the modernization of registries.

- To what extent did “learning” and “diffusion” (local, regional, international) foster policy formulation?

On the local setting, it has been explained how the lessons learned during the first two stages of the reform process helped the fine-tuning of the formalization model.

On the international setting, as it is known, the institutional economy approach is an important part of the conceptual framework of De Soto's theory, as it is of the “Washington Consensus”. It might be said that there is a common conceptual approach that raises from the diffusion of a theory and which foster policy formulation. It also can be said that the “Washington Consensus” –although its validity was further discussed- influenced the formulation of land reform policies in Peru as long as it facilitated the financing of the resources at different stages of the policy reform process.

On the other hand, diffusion of the success stories helped in the formulation of policies in Peru, in fact, the learning about the impact of land titling in Thailand were used as arguments to promote the reform implementation.

- Which interest groups were involved in policy formulation, and how?

During the first stage - research and simplification of the registry system – there was an intensive public debate that incorporated the informal settlers representatives, business associations and political parties.

For the national formalization program under COFOPRI, the reform was elaborated basically by a technocratic organization, the ILD. But inasmuch it was based on the findings of the pilot project implementation, indirectly the informal community organizations were involved in the identification of problems and issues.

- Was there a “champion” of reforms, and, if so, was the champion at a technical or political level?

During the first two stages described above, it was the ILD who clearly lead the research, public discussion and formulation of policies and the implementation of the pilot projects. The strategy for the National Formalization Program also was formulated by the ILD.

However, the implementation of the National Formalization Program was done without any intervention of the ILD. The President Fujimori delegated the task to the National Formalization Coordinator, who received the clear mandate to carry out the implementation process and the explicit support from Presidency. This support was expressed by the ability to get the proposed legislation and regulations

passed timely, and also by the instructions that the other government organizations received to contribute with the priority set up by the president.

- To what extent were the policies “home grown”? To what extent were they tailored to local conditions, as opposed to “best practice” models imported from outside?

When the urban property reform policies were elaborated there existed no best practice models to be followed. In this sense is a “home grown” policy.

The only international experience that was observed was the Thailand land regularization program, but the legal and institutional conditions were too different to apply the Thai model in Peru. But some surveying techniques and other operational experiences were taken into account when designing the management strategies and field operations.

(ii) Reform implementation

Institutional arrangements and capacity

- What was the leadership and composition of the team responsible for implementation of reforms (e.g. career politicians, politicians with technical background or technically knowledgeable government officials)? Was this the same team that formulated the reforms?

In the first stage – research and registry simplification – the reform was designed by the ILD. The second stage - implementation of the pilot projects- was also completely executed by the ILD staff. The formulation of the national formalization program and the design of the first COFOPRI law was also an ILD contribution.

Once the initial legal framework was passed, the government broke with the ILD and formed its own team of technically knowledgeable government officials. A former ILD staff was designated the National Coordinator of the program and championed the process. With the contribution of other former ILD individuals a core initial group was created which further evolved to grow to an organization of more than 600 individuals.

- What existing or new agency was responsible for implementation of reforms? What institutional changes (including provision of special incentives) occurred?

The implementation of the reforms in the third stage – mass formalization and creation of a property rights system - was in charge of the already existing RPU and the recently created COFOPRI. An important factor for the success of the implementation agencies was the autonomy both agencies benefited from: as semi-autonomous agencies they were not placed within the structure of a ministry and had flexible financial and administrative rules (as opposed of the very rigid rules applicable for traditional public sector organizations).

It is worth mentioning that some decisions at the operational level helped to provide incentives that contributed greatly to the successful implementation. The formalization process was designed from the operational point of view as a production line. As long as it was a mass-scale operation the surveying activities, the legal and technical diagnosis, and even the field operations of compilation of proofs of ownership and the further qualification of this information, were tasks assigned to specialized groups, dependant of medium level managers of different operational areas and with no direct interaction between

themselves. This distribution of work, complemented with the use of workflow computing systems for the daily operations facilitated the management and control of timely outcomes. In fact, workers and managers were actually promoted to higher positions based on their production. But this mechanism was also a very effective device to avoid corruption. As long as the formalization activities were broken down in multiple tasks, the responsibility for granting a specific title over a particular piece of land was therefore disseminated in several persons, making it more difficult to manipulate outcomes. On the other hand, the different stages of the work were documented either in standard forms or directly to the computer, making it easy to carry out quality control and audits.

- To what extent did reforms require collaboration with other agencies and organizations?

The implementation of formalization activities requires the collaboration of several organizations. First, it is necessary to gather information produced by different organizations. Municipal documents such as resolutions about recognition of settlements, possessory certificates, previously granted titles although defective, cadastral maps, tax paying records; registration documents such as plans and deeds, mining concession documents and plans; resolutions declaring restrictions of archeological and historic nature; restrictions out of risk areas; resolutions declaring public use of certain tracts of land, and a long etc.

Sometimes, the information exists but the government organization do not have the resources to put the information together timely. Sometimes the information does not exist and have to be produced in an ad hoc manner. Therefore it was critical for the success of the formalization program to design strategies to overcome the silent resistance of certain organizations, the lack of resources to gather the information in a reasonable time, or the lack of resources to produce the needed information. The legal framework provided with effective instruments to that end: on the one hand COFOPRI was given the authority to request whatever information related to the formalization that might exist in any public organization, and the denial to provide it make the highest authority of the organization accountable of not giving it. On the other hand, COFOPRI developed regulations that allowed investing resources to get the information required. For example, in many occasions the National Institute of Culture found archeological objects in a particular area, but given the fact that lacked the resources to make a profound survey to delimitate and assess the nature and extent of the archeological site, declared the whole tract of land as protected, understanding that the bigger the area, the better chances of protecting the potentially existing valuable goods. In many occasions the attempts to protect the potentially existing interests, impeded formalization of communities that were already erected and which would be virtually impossible to reallocate. For those, COFOPRI could fund professional archeologists, proposed and supervised by the INC to carry out the surveys and delimitate on more secure grounds the extension of the archeological sites. Similar mechanisms were applied to solve problems of settlements occupying risky areas.

- Did institutions have sufficient implementation capacity?

Both COFOPRI and RPU had to build the implementation capacity needed to carry out the national formalization program. COFOPRI was created as an ad hoc organization for the Program, and RPU was severely limited when the program was launched.

The financial resources and technical assistance provided by the World Bank was critical to this end.

Availability of resources

- Were adequate resources (human, technical, financial) available?

- What were the main capabilities or skills needed? Were these available locally, or was technical assistance needed?

An important feature of the Peruvian formalization model is that from the outset it was decided that the technology used to record information on property should be simple, robust, and upgradeable. This applies to i) surveying and mapping activities, to the definition of ii) computer systems and the telecommunications features used during the project; as well as to iii) the legal activities and to v) activities of community awareness and participation.

This resulted a decisive element for meeting the human and technical resources needed. Overcoming the initial proposal of the technical managers, it was decided that to define informal property it was not cost effective to have cutting edge technology in remote sensing and millimeter-accurate mapping, as it was unnecessary to store the information in sophisticated GIS systems designed to address the future information needs. Rather, the concept of appropriate technology was incorporated from the outset, and therefore it was quite simple to train the technical personnel available locally. In field campaigns, the awareness campaigns were carried out in the community buildings and using the same instruments that community organizations use to call for assemblies.

Probably the most complex part of the program was the ongoing assessment and renovation of the legal and regulatory framework. But to that end, COFOPRI inherited the methodology developed by ILD and was capable to transfer it to local lawyers, architects and former *dirigentes* turned into community relationship experts.

By the same token, the financial resources – mainly from the WB loan - were available the first 2 years of operation. By 1999 it was perceived a restriction of counterpart funds that restricted progressively the financial capacity of the organization.

Compensating losers (if applicable)

- What steps were taken to compensate losers?

The main losers of the formalization program were the bureaucratic groups that controlled the regularization activities at different levels of government. At the highest level of the local government, most of the mayors found a good opportunity to collaborate with COFOPRI in the formalization campaigns. Before the program, the municipalities did not have the technical and financial resources to provide titling efficiently. Only by convening to facilitate the process, the mayors could benefit of the program by sharing a participation – albeit as part of the cast rather than as the star - in the political gains. Thus, the majors of the main cities in the coast, Arequipa, Trujillo, Chiclayo, supported the formalization program in their jurisdictions and gave speeches and sat near the President during the ceremonies of delivery of titles. In the case of Lima there was a sheer opposition of mayor Andrade who openly declared against COFOPRI and the illegitimate shrinkage of the local authority functions. An evident explanation is that the other mayors did not represent direct competition for the President and were keen to accept the limited share in the political gain.

At a lower level, the municipal officers in charge of regularization processes did not received anything in charge, but the possibility of being hired as a collaborator for COFOPRI during the preparation phase of the operations in each jurisdiction.

- What was the cost involved? How were the measures financed?

The pilot projects of 1990-93 were funded by different donors including the WB.

The National Formalization Program started in 1996 with resources of the Peruvian treasury. When the project was approved by the WB in 1998, there were multilateral resources made available for US \$ 38M.

Interest group involvement in process

- Who were the main interest groups involved? Which opposed reform, and which were in favor of reform?
- What approaches were used to mobilize specific interest groups and build constituencies in support of reform? Did they formally participate in implementation? If not, how did they otherwise influence the process?

The main authority opposed to the reform was the mayor of Metropolitan Lima. Also some provincial mayors and groups of urban planning professionals criticized the fact that by regularizing settlements, COFOPRI - a central agency - was undermining the function of planning the urban development of their local jurisdiction.

Other professional groups criticized other roles assigned to COFOPRI as part of its formalization functions. For example, notaries and some lawyers contended that COFOPRI had been given the legal capacity of declaring adverse possession, allegedly, because it was an exclusive function of the judges. Although, in the case of notaries, the most plausible reason of their objection was that a recent law allowed the notaries to declare adverse possession and therefore they had to share the market.

The notaries had been very active opponents to the RP's innovative simplification model. The reason, as explained before is that the notary business would be severely hampered if the standardized forms used in RPU were generalized to the whole registration system. A demonstration of their impressive lobbying capacity was evident in 1996 when the proponents of the RP model proposed the enacting of a law authorizing the generalization of standardized forms in all registries. Before the law could be implemented, the notaries lobbied and got another law eliminating the generalization of the standardized forms. More recently, in 2002 the notaries lobby managed to introduce a provision in the law 27755 of integration of registries, by which the standardized forms introduced by RP are only acceptable for operations under US \$ 17,000 and only if the form is certified by notary. In 2003, the notaries presented a demand to the Constitutional Tribunal to eliminate the standardized forms (already of their monopoly) because forms may not assure security of the transactions. The Constitutional Tribunal could not accept the terms of the demand, but in a very atypical situation, recommended that law 27755 should be regulated in a way that assures that the forms are produced in three copies, one of which should be kept in the notary "protocol". In essence, the tribunal regulated for more expensive forms that will be stored twice: one in the public register and the other in the notary archives.

As said before, the interest group in favor of the reform were basically the settlers for which benefits in security of tenure was evident. It is interesting that in some cases even some private owners that had been invaded long ago, welcomed the opportunity brought by formalization of clarifying the rights on land, because in this way the negligible value of a property occupied by years and politically impossible to recuperate, became object of negotiation of a prize that the settlers would eventually accept.

The clear beneficiaries are the citizens living in urban settlements who received clear and marketable titles to their land. To mobilize constituencies in support of the reform: i) during the late 80's the settlers participated in assemblies and discussion meetings; ii) during implementation of pilot plans, the settlers formally participate in the informational assemblies taken place in their communal lands and during the

process of collection and validation of the surveyed data; iii) during the mass-scale formalization stage, this same participation in informational assemblies and as providers of information was replicated throughout the country as a routine part of the formalization campaigns. In 1996, at the outset of the National Formalization Program, COFOPRI experimented a sudden demand from hundreds of community organizations in the urban centers, expressed in letters and street demonstrations. As a way to manage the demand and mobilize interest in favor of the program, a series of Audiencia Publicas were organized to explain the COFOPRI methodology and the schedule by which it was going to be progressively implemented to cover the different parts of the country.

During the mass-scale formalization campaigns a social control mechanism was put into practice, by which the maps of the community and the list of eligible property owners were published and discussed before the issuing of titles to allow, for a certain period of time, that complaints and objections be presented.

- To what extent did ethnic or other divisions inhibit implementation?

When the program started some cultural factors posed some operational difficulties. For example, many of the head of households only go home to sleep by night and are difficult to find at home other day than Sunday or very late at night. The formalization crews learned to better work on Sundays and make Monday the rest day.

Other socio-economic divisions required also creative solutions. For example some settlers were so poor that they even did not have identification documents. In those cases, special procedures were devised to regularize the obtaining of the I.D. and accept provisionally the declaration of neighbors.

- What efforts were made to communicate government's policy decisions to the broader public at large (e.g. public disclosure, media coverage)?

The policy making process of the first two stages described were made public by the ILD through paid advertisements published in the newspapers and public hearings held in the very communities. During the national program, the government made extensive propaganda of its achievements in formalization, i) by organizing public ceremonies of delivery of titles chaired by the President and sometimes co-chaired by the mayor; and ii) by displaying TV commercials. It is worth mentioning that this propaganda was not paid by COFOPRI or the WB program, but directly by the central government.

Assessment of Implementation Experience

- How did the actual implementation period compare with the proposed time period?

The urban property rights reform comprised three different components: i) the modification of the legal and institutional framework with regard to the production of clear and registered titles. A subset of this component was the creation of the legal and institutional conditions by which the proper incentives for the sustainability of the registered titles were to be met. Among others, the provision of affordable registration services, and the promotion of credit and other private sector usages of the formalized titles were proposed; ii) the proposition of mechanisms to prevent further invasions as a mechanism of land acquisition; iii) the formalization campaigns. The first component was developed but only in respect of the legal provisions needed to produce titles. The creation of the institutional conditions related to the sustainability of the property system was not given priority by the Fujimori government, and was only very slightly addressed during the current Toledo administration. The second component described was neither addressed so far. The explanation is that the political gains of delivering titles are easier to manage. They raise immediate tangible outcomes therefore are very easy to capitalize. Whereas the other

components are inter-sectoral by nature and require medium to long-term maturity periods for the effects to be perceived.

- Were reforms changed or reversed at any point in time? What were the main causes of such reversals (political changes, problems with implementation which required redesign, etc.)?

Already explained in previous section.

- To what extent was the government successful in signaling to the market its commitment to reform? What were the credibility enhancing or commitment signaling mechanisms utilized?

The government was successful in signaling its commitment to the provision of clear and registered titles. The message was formulated directly as a priority of the government, and the media propaganda reinforced the message. Such statement was reinforced every time the President appeared in the public ceremonies delivering titles and signaling how advanced the government was with relation to the goal of the 1 million titles before year 2000.

C. Impact of Reforms

- Who were the main winners or initial groups to benefit from reform, and what benefits accrued to them? How long did it take for winners to recognize they were benefiting from reforms? Were their benefits planned or accidental?

The main winners benefiting from the reform were: i) the settlers, who accrued the economic and social benefits of titling and registration; ii) the President, who won the political credits of the successful program, iii) the majors who allied the central government and got a share of the legitimacy; iv) the congressmen who promoted the laws that complemented the COFOPRI legal framework for formalization.

Some indicators of the benefits:

- Between July 1996 and end 2002, COFOPRI produced 1.3 Million of registered titles to individuals.
- The formalization time has been drastically reduced from almost 7 years to 45 days, due to a considerable reduction of the administrative steps (from 207 to 30) and the offices to visit (from 54 offices to 4). The average cost of the title has been reduced from US \$ 2,156 to US \$ 49.
- The number of mortgages registered in the formalized properties has been steadily increasing: in 2001 the value of the collateral rise from US \$ 66 M in 2000, to US \$ 73 en 2001 and US \$ 105 M in 2002 (an increase of 44% related to the previous periods). The trend for 2003 is to close with about US \$ 150 M. These figures reflect that an increased use of property as collateral with banks and other creditors.
- An assessment of the property market reveal that there is an increment of 25% of the value of the household as a direct result of formalization
- Socio-economic studies about the impact of the formalization show that the program – contrary to the assistance governmental programs allow a better access to the working market
- Titling program reduce the necessity of generating income within the household allowing the pursue of better-paid employment out of the household.
- That titling reduce the demand for child work in most of the families

- Who were the main losers? How much did they lose?

The main losers were the municipal governments, the public officials in charge of regularization processes, and those who participate in the traditional registration system such as lawyers and notaries.

It is very difficult to quantify how much it cost the political legitimacy gained by a successful mayor delivering titles, as well as is difficult to quantify how much the corrupt officers gained in bribes.

In the case of notaries, the estimation is feasible but also complicated. To the around US\$100 Million that might have cost the 1.3 million individual escrituras publicas (of an reasonable average of US\$ 80), it would be necessary to add the loss in all other transactions registered in RPU using standardized forms instead of "escrituras publicas"