

Support Strategies for  
Informal Production of  
Housing and Urban Services

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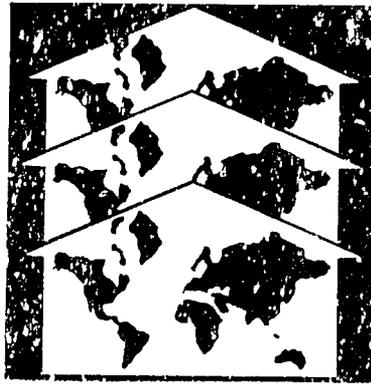
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HOUSING AND URBAN

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PROGRAMS

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# ■ SUPPORT STRATEGIES FOR INFORMAL PRODUCTION OF HOUSING AND URBAN SERVICES

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# ■ ABSTRACT

The U.S. Agency for International Development's (USAID) Office of Housing and Urban Programs (HUP) has made it a priority to incorporate informal sector concerns more explicitly into its strategies. To help advance this objective, HUP commissioned a background paper to summarize what is known about the informal sector and to provide the structure for a two-day workshop for leading experts in the field. The workshop was organized around six main themes: community participation, construction practices, employment, finance, infrastructure provision, and land tenure. This strategy paper synthesizes the information in the background paper and presents the conclusions reached during the workshop.

Among the conclusions and recommendations are the following:

- Much more information about the operation and evolution of informal land markets is needed.
- Policy changes should assist small-scale suppliers to produce higher quality building materials and become more economically stable.
- Infrastructure policy dialogue should focus on regulatory constraints that impede the flow of services to low-income areas.
- Credit programs should assist formal sector institutions in reaching lower income clients and integrating informal sector institutions into the formal economy.
- Field research methods should be used to identify constraints and bottlenecks on a country-specific basis.

# ■ PREFACE

Over the past twenty-five years, several of the regional offices of the U.S. Agency for International Development's (USAID) Office of Housing and Urban Programs (HUP) have developed activities and studies in response to the predominance of housing and urban services being provided through the informal sector. One of HUP's priorities is to incorporate informal sector concerns more explicitly into its strategies and operations. This effort is not intended to open a new program area. Instead, it is intended to give explicit and systematic recognition to a program element that has, to one degree or another, been present for a considerable amount of time.

HUP has two immediate objectives. The first is to identify program interventions that will facilitate the direct participation of the informal sector. This objective is clearly linked to existing projects that focus on the provision of land for low-cost shelter, including rationalization of titling and tenure processes and the extension of infrastructure and services. The second objective is to identify research that will help HUP better understand how the informal sector functions in areas such as construction, credit, and land allocation.

To achieve these objectives, HUP's Policy and Urban Programs Division commissioned a background paper to review informal sector resources in the areas of community participation, construction practices, employment, finance, infrastructure provision, and land tenure. The background paper provided the structure for a two-day workshop convened by HUP on January 14 and 15, 1988, in Washington, D.C. Participants in the USAID Workshop on the Informal Sector discussed a series of commissioned papers written by experts regarding potential intervention strategies and research needs. This strategy paper is a synthesis of the commissioned papers and workshop discussions and is meant to provide guidance to USAID's regional housing and urban devel-

opment offices (RHUDOs) in developing programs that rely on the kinds of initiatives and development processes that typify the informal sector's operations. The types of technical assistance and field studies discussed here are intended to stimulate policy dialogue and lead to legal reforms and deregulation, thus enhancing informal sector functioning in terms of the overall economic development of HUP's client countries.

To date, a series of seminars has been conducted in Washington to examine informal sector activities, and various RHUDOs have undertaken initiatives related to the informal sector. For example, a RHUDO/Caribbean study focused on the mobilization of informal sector resources, particularly on the way that land, labor, and capital are mobilized to produce housing. This research revealed three key issues:

- There is a vital market for secondhand building materials.
- Cash payments for occupancy and building materials are often paid in kind.
- The majority of residents in informal housing are from the urban poor, with rural migrants making up only one-third of the informal sector population.

The research showed that squatters translate illegal occupancy into capital gain by selling and renting the land and building on it to increase its value. It was also ascertained that the most pressing land issue in the Caribbean islands is not availability of land but access to it.

Another example of an initiative related to the informal sector is an examination of informal sector issues in Kenya undertaken by RHUDO/East Africa. The study found that, when deciding on the location, design, and cost for new housing, the two most crucial issues within the Kenyan housing sector are

affordability criteria and selection methods. The findings indicated that funds are not likely to be put to their optimal use if affordability criteria are out of touch with reality or if the main selection criterion is an unreliable statement of present income.

Evidence suggests that close to 95 percent of all housing for low-income households in developing countries is provided through informal mechanisms. Therefore, these processes must be fully understood in order to assist countries in increasing their provision of low-cost shelter and related services. This will require a substantial increase in the effort now directed to the informal sector by HUP and the RHUDOs. HUP's objective in publishing this strategy paper is to stimulate additional creative work among the RHUDOs to explore facets of the informal sector that impinge on the provision of shelter and services.

# ■ INTRODUCTORY REMARKS

We at the Office of Housing and Urban Programs are very interested in acquiring whatever information we need to make our programs more effective. However, we are not a research-oriented organization and, therefore, do not have the funds to support a broad-based research effort. We hope this workshop will provide us with specifics that we can use in the future to become more effective.

We all need to know more about what we have come to call the informal sector. The urbanization process is upon us; it's been here all along, yet it is not fully recognized, as is obvious from the strategies that have been developed and are in place in the development community. By *the development community*, I mean the principal people who make decisions in developing countries as well as the people from international lending agencies who advise them.

Urban areas are increasingly becoming the heart of the economy in developing countries. They provide markets for surplus agricultural goods and inputs for increased agricultural production. The modernization of the agricultural sector itself forces urbanization. Only in cities can we achieve economic specialization and diversification into commerce and manufacturing. Cities are the forces that fuel national economic growth. Although we may focus our attention on the problems of the cities, they are really centers of opportunity.

How governments respond to these opportunities depends on their image of the city and its functions. Here is where the real challenges to urban policy and urban management lie. Too often, the first reaction to the apparent disorder of a city is to impose controls, hoping that rules and regulations will produce an ideal city. Slums offend our senses, so we write laws against them. Street vendors crowd the streets, so we license and tax them. We think that small homes with only basic services are unattractive and unhealthy, so we require minimum sizes and serv-

ice standards that the vast majority of city residents cannot afford. By the time we are through, we have created a web of rules and regulations that forces much of the vitality of the city underground.

This underground is manifested in slums and what we've come to call informal settlements, where approximately half the world's urban populations live. Those of us who work in this field have in mind a number of typical characteristics when we're talking about informal settlements:

- There is no clear, written title to land.
- Structures tend to be makeshift and not built in accordance with building codes.
- The people who do the construction generally do not have building permits.
- The land may have been subdivided without regard to the laws of the municipality.
- In some cases, there is no water or sanitation services, or if they do exist, they often do not meet legal standards.

In many cases, informal settlements improve dramatically over time. As families come to believe that they will not be evicted, they improve their properties, even in the absence of clear title. Makeshift structures of scrap material evolve into stone or masonry homes. Rooms are added for comfort or to rent. Ten years later, in some cases, the families will have true ownership. In other cases, these settlements never reach what most people would consider environmentally acceptable standards: the growth is haphazard, the infrastructure is inadequate, the land titling problem is unresolved. Nevertheless, during my professional career of nearly 30 years, this process has produced just about all the low-income housing in developing countries. I don't have hard data, but I'm convinced that the informal sector has produced more than 90 percent of housing

during this period of time. This process has worked, while well-organized public sector programs have not. Governments, more or less universally, have in the past tended to resist the process of informal sector housing development. They viewed the existence of shacks and shanties as an affront to a modernizing nation. Today, there is wide agreement that this process is essential to the growth of cities.

Governments are searching for a rational way to invest the resources they have in a manner that will best support the existing informal sector system. What we in the development community are searching for is the answer to this prevailing question: How can we take the phenomena that we have all observed, understand it as effectively as possible, and adjust our actions so that we're contributing the best we can to the process?

Peter Kimm  
Director  
USAID Office of Housing and Urban Programs

# ■ POLICY CONTEXT

## The Resurgence of Interest in the Informal Sector

For the past four decades, land and housing have been provided to low- and moderate-income households in developing countries almost exclusively by that portion of the private sector known as the informal sector. That is, housing has been built by individuals and firms not formally registered as contractors, built without financing from formal financial institutions, and built without the approval of local authorities. Data from Jamaica indicate that between 1962 and 1983, approximately 70 percent of all housing units were provided this way.

Families may turn to the informal sector for many reasons: better cultural suitability, intimidation by myriad government regulations, or lack of knowledge in regard to formal sector participation. Ultimately, however, extensive reliance on informal development results from the formal sector's inability to adapt its institutions and practices to meet the basic needs of the low-income population. Easy entry into the system, use of indigenous inputs, and lack of regulation by the government make the informal sector the most economical producer of low-cost housing.

One impetus to the increased importance of informal production of housing and related services has been the world economic climate. Despite the difficult global environment, developing countries have recently made considerable progress implementing reforms to improve their economies. Many have instituted policy reforms to control inflation, improve public enterprise efficiency, increase the role of the market in allocating resources, liberalize trade, and encourage greater private savings. Such renewed commitment to appropriate macroeconomic and microeconomic policies is reassuring, but continued adjustment efforts will depend upon the

achievement of tangible results in terms of growth rates and consumption.

As Hoek-Smit (1988) points out, the changing international climate could be conducive to supporting informal sector activities. Strict macroeconomic adjustment policies that adversely affect lower income groups may generate interest on the part of politicians to address informal sector problems. The adjustment policies prescribed by the International Monetary Fund and the World Bank generally advocate changes in a country's regulatory framework that often benefit the informal sector. Similarly, import restrictions prescribed by these multilateral agencies may generate demand for goods produced with local materials by the informal sector. Finally, the decentralization movement under way in many developing countries signals a larger role for local governments to facilitate collaboration between the informal sector and local jurisdictions.

Over the years, the donor community has persuaded developing countries to believe that the answer to the housing needs of the poor is not to be found in reliance on fully constructed public housing projects. Donors argued for sites-and-services projects and upgrading programs based on cost recovery, hoping that they would be replicated on a large scale. Although not immediately affordable to the lowest income groups, such activities were envisioned to increase significantly the supply of land and housing by harnessing the energies of the informal sector, thereby benefitting all income groups through lower prices. Although there have been some success stories, notably the Kampong Improvement Program in Indonesia, the premise that a few successful projects would stimulate widespread imitation in other countries appears to have been much too optimistic.

Despite the growing consensus among the development community that informally produced shelter

is essential to the growth of the developing world, governments often view the informal sector as an unwanted intrusion, creating political difficulties that can rarely be resolved by the international donor community. However, as Lamba pointed out at the workshop, since so many jobs have been created by the informal sector, governments should redefine the concept of legitimacy and encourage informal production by creating a support system to organize and work with the informal sector. In the past, non-governmental organizations (NGOs) have been used to organize this sector, but they have usually been too varied in structure and practice to be effective.

## Constraints Imposed by Existing Regulatory and Legal Frameworks

It is important to consider ways that USAID can work with governments to revise inappropriate policies and regulatory frameworks. By doing so, the informal sector may be able to increase the production and quality of its shelter and urban services. Comparing Malaysia with Thailand, Mayo provided the workshop with a vivid example of how notable macroeconomic disruptions can result from inappropriate intervention in the regulation of land and housing markets. There is strict control of the informal sector in Malaysia; squatter settlements are often removed by force when they begin to appear. As a result, there is no opportunity for market response in the form of informal housing to changes in economic conditions such as fluctuating income levels. Concurrently, private market provision of housing is tightly controlled; because of bureaucratic impediments, the average gestation period for a private housing development in Malaysia is five to six years. By contrast, the procedures for supplying serviced land and producing housing are essentially regulation-free in Thailand.

During the mid-1970s, both Malaysia and Thailand underwent rapid increases in income levels. As a result of severe institutional constraints, the supply mechanism in Malaysia's housing market failed to respond to the rapid increase in demand. The result was a significant increase in housing prices, which drained the economy of resources that could have gone into productive enterprise. In Thailand, with no constraints on private developers, increases in housing demand were accommodated without major distortions in the public allocation of resources, such as occurred in Malaysia.

Other potential areas for interference, such as those that follow, might also benefit by research into options for remedial action:

*Land acquisition.* Inefficiencies in land market functioning result largely from poorly drafted laws, poorly run government agencies, and neglected land registration systems. In response to such inefficiencies and the demand for shelter, small-scale real estate brokers and informal subdividers use private mechanisms to convert undeveloped land efficiently into urban lots, thus providing land and housing to low-income households. Although public provision of infrastructure, particularly in the form of roads and water, significantly influences the brokers' and subdividers' ability to supply land, weaknesses in the planning function of most infrastructure agencies cause many decisions regarding the expansion of infrastructure networks to be less than completely rational. Largely unaware of their potential influence, these public agencies miss the opportunity to influence land subdivision in a positive manner. Doebele (1988) recommends that forms of community self-financed infrastructure be encouraged in the absence of public resources, which should create an environment in which microbrokers and subdividers can thrive.

*Access to financial resources.* Lower income households in developing countries conduct their financial transactions through informal savings and lending institutions and are dependent on informal sources of credit for their housing. Formal financial institutions are rarely used because they offer relatively low rates of return, are slow at providing credit, are not easily accessible, and have stringent collateral requirements. Other reasons for low utilization of formal institutions include misguided fiscal policies that constrain interest rates; biased investment strategies that direct resources to sectors of the economy other than housing and urban services; and the segregated nature of many housing finance systems, which serve only selected income or employment groups. Lacking the guarantee of a regular, recorded income, households at the lower end of the income distribution scale are completely dependent on informal sources of credit.

*Impediments to housing construction.* The vast majority of construction firms in developing countries consist of only one or two workers. Because these small builders are hired by clients on the basis of personal contacts and trust, they are usually residents of the same lower income neighborhoods where

they work. Although low-income households will build their own dwellings incrementally over time, they will usually hire a small-scale builder from the informal sector for the more technical aspects of construction. The quality of work performed by these small-scale builders is equivalent to that found in the formal sector, but the builders generally fail to comply with existing labor legislation or regulations requiring permits or licenses. Submission to regulation and licensing is both costly and time consuming, so informal sector builders remain unregistered. However, by doing so, informal sector firms have difficulty in obtaining credit and larger contracts, thus impeding their growth.

## Policy and Program Interests of USAID

The transition being made by HUP from a project orientation to a more broadly based sectoral approach will require the RHUDOs to tailor their strategies to the urban policies of countries in the regions. Each RHUDO will have to undertake systematic, comprehensive analyses of the relevant institutional actors, delivery systems, and related issues in an effort to delineate processes designed to achieve sectoral goals. Implementing the identified processes will require interaction with a broad spectrum of local urban leaders in order to encourage change. Under USAID's sectoral lending approach, Housing Guaranty Program resources will be advanced on the basis of progress in achieving policy reform as well as programmatic and institutional changes in the delivery system for shelter and related services for low-income families.

Past attempts at providing assistance to the informal sector show that strategies that concentrate on incorporating existing informal mechanisms more explicitly into HUP's programs will be most effective. To accomplish this goal, HUP will strive to develop approaches to facilitate informal sector processes that fulfill basic housing and related service needs in developing countries. It is envisioned that these programs will emphasize

- activities involving the informal sector that will have an immediate impact;
- the involvement of host country governments with the informal sector as part of an overall goal of changing governments' role from producer to facilitator of housing; and

- research regarding shelter and services provision by the informal sector in order to provide information about alternative policies.

Given the current and, no doubt, continuing dominance of the informal sector in providing housing and urban services, it should become a key element in all RHUDO strategies. Understanding the often complex mechanisms of the informal sector will demand much greater information than was considered necessary earlier in the decade. The RHUDO agenda for the late 1980s and early 1990s should include developing strategies aimed at removing impediments to the functioning of the informal sector. As the RHUDOs develop action strategies fostering urban policy change, research priorities will evolve as an integral part of the exercise of uncovering new and potentially more effective policies.

# ■ OPTIONS FOR STRATEGIC PROGRAMMING

## General Considerations for Strategy Development and Research

A sectorwide approach to informal shelter and urban services development is essential if the full potential of the informal sector is to be realized (Hoek-Smit 1988). Assistance efforts can have two basic thrusts: working with governments to relax the regulatory environment and providing direct support to the informal sector to improve its ability to operate effectively. Efforts along the former line should focus on policy dialogue designed to revise government regulations that are economically or technically infeasible, incompatible with traditional building technologies, difficult to administer, inconsistent with national development objectives, or unresponsive to the needs of the poor. If these efforts are successful, they are likely to have considerable impact on the shelter sector; in effect, the reforms would make informal sector activities legitimate. Such legitimacy will help create new sources of credit and will mobilize private and public resources for the sector.

Activities that provide direct support to informal entities should be designed to strengthen the community-based producers of shelter and providers of services. As a group, these entities are likely to remain important in the low-cost housing system, even if regulatory reforms make them legitimate. Individually, however, the impact of each on the sector is limited; given the resource constraints under which assistance programs operate, the biggest challenge will be to find efficient ways through which to channel resources, such as through intermediary NGOs.

In designing and implementing strategies for working toward sectorwide objectives, a number of considerations are paramount to success:

- Counterpart institutions should be selected on their ability to work with the informal sector. The institutions should be familiar with and accept the broad objective of replicating organizational structures on a large scale. Trade unions and nonprofit banks have been found, in some cases, to be successful in bridging the gap between the formal and informal sectors.
- The selection of supported activities, particularly in relation to building materials production and construction, should reflect an understanding of the overall market and those aspects of it in which small-scale enterprises have a competitive advantage over larger entities.
- Support should be concentrated on a limited number of activities that have the potential for significant impact and widespread replicability. Credit programs, for example, have been found to be a critical component in most informal sector activities. After initial progress in a particular area, support activities can be expanded.
- Selection of appropriate project designs and implementation methods is important. Collaboration with the informal sector should be participatory in nature and based on incremental learning and planning procedures.

There are few definitive answers to the question of linking research to strategy development in the housing sector. Kingsley (1988) points out that research should be conceived and implemented as an integral part of policy dialogue and action strategies. Although HUP will require substantial information about the informal sector, the design of regional or country-specific research agendas should not be the first step. Rather, as the RHUDOs design new program strategies to involve the informal sector in effecting policy change, they will identify the crucial information needed and methods of acquiring it efficiently.

HUP has supported a variety of research efforts designed to provide less developed country (LDC) technicians with specific, practical information on shelter sector issues. It disseminates this information through various publications and seminars. Much more detailed information is required today, however, than in the past. For example, understanding how government regulations affect the informal sector is essential to strategic planning. More research is essential, but it should go hand-in-hand with more support for the design of direct approaches to reform. Research should focus on how things work as well as offer alternative policies that will increase effectiveness. If the donor community does not start now to analyze and develop viable alternatives to urban problems, it is doubtful that the research alone will be very helpful 10 years hence.

Once the initial research on the informal sector has been completed, the next stage is to inform the key actors in the shelter sector of the research findings. This includes disseminating reports to the primary actors and, more important, restructuring the reports for a broader audience.

Training has been shown to be a useful way to initiate policy dialogue in a productive, mutually acceptable, nonconfrontational manner. USAID's shelter training activities are directed toward improving competence and skills in LDCs, communicating USAID's shelter policies, and developing a network of shelter professionals and local institutions engaged in implementing shelter programs.

## Formal Sector Reforms Related to Land Markets

Although it is known that small-scale brokers play a key role in overcoming land market inefficiencies, limited knowledge is available about how they operate and the extent of their role. It would be difficult, therefore, to recommend specific, effective action aimed at the microbrokers who operate in these complex, rapidly evolving land markets. As Doebele (1988, 15) puts it, "If one is to improve production in a factory it is often as helpful to listen to the people on the plant floor as to management specialists." More research is needed about the key players and the operation of land markets if interventions are to be designed to facilitate the informal sector's known efficiency.

Doebele stresses that, first and foremost, the

RHUDOs must be aware of the underlying reasons for land market inefficiencies and be cognizant of the harmful and unnecessary constraints imposed by existing legal and regulatory frameworks. These constraints include inadequate land registration systems, stringent land development standards, and the political manipulation of basic infrastructure provision. Research should be designed to enable the correction of such inefficiencies or the creation of linking mechanisms through which public agencies can collaborate with microbrokers or subdividers in land development activities.

One objective of this research should be to examine why the current practices of microbrokers and subdividers are efficient. Second, the RHUOs should clearly identify the detrimental implications of legal and regulatory practices. Together, these pieces of information will support the RHUOs' overall strategy of encouraging reforms aimed at eliminating abuses without damaging the efficiencies of the informal sector.

Both Doebele (1988) and Struyk (1988) argue that answers to the following questions are required to document and analyze the activities and implications of microbroker and subdivider practices:

- What are the points of interaction between the private sector and public bureaucracies active in land issues?
- What is the private sector view of the adequacy and efficiency of public institutions active in land issues?
- What is the private market view of the geographical direction in which urban growth is moving?
- What is the legal standing of land conveyed by microbrokers or subdividers to purchasers (e.g., clear title, certificate of occupancy)?
- How are these various legal instruments treated by financial institutions?
- How are subdivisions treated by the government in terms of service provision?
- Who are the microbrokers' and subdividers' clients, and does the microbroker or subdivider also arrange for land rentals or rental units for lower income households?

With the answers to these questions in hand, the RHUOs would be able to encourage the streamlining of the land development process and enable it to

be more closely related to the provision and financing of basic infrastructure.

Of particular interest to those concerned with land development is the fact that the study of land markets can serve as a surrogate for measuring a particular area's productivity changes (Doebele 1988). As the productivity (agricultural, industrial, or otherwise) of an area changes, land and housing prices will mirror these movements. Strassmann (1983) presents evidence that, in Latin America, private individuals are likely to respond to increased infrastructure with infusions of their own capital, bringing about higher densities to support higher rents. Early recognition of land that will soon be commercially productive (often indicated by informal sector activities) will allow for early installation of services, which, in turn, will boost area productivity.

In addition to collecting crucial information about how land and housing markets work, Mayo proposed at the workshop that policy analyses need to be carried out to correlate information about the different types of public sector interventions in these markets with information about market costs. In this way, priorities could be assigned to the types of investments made in land and housing, while at the same time taking into account informal sector activities. For example, public housing in Cairo favors horizontal growth, yet the proliferation of vertical housing indicates that informal market forces have found a more economical way to produce housing for the city's low-income population. By observing informal sector activities, the public sector may be able to adjust its policies to be more responsive to the needs of lower income households. Because there is a wide array of possible interventions, this will not be a simple task; however, it is one that has considerable potential.

## Access to Credit

Although there are few examples of successful attempts by formal institutions to reach further down the income distribution scale, those that exist should be documented further. India's Housing Development Finance Corporation is making about 20 percent of its mortgage loans to households below the median income level. By relaxing underwriting standards, building societies in Zimbabwe are lending to lower income households. The Grameen Bank in Bangladesh is extremely successful in its lending operations to low-income families, although it is not

involved in the area of mortgage financing. And the financing component of Sri Lanka's Million Houses Program requires far less stringent requirements for a household's land title than in other developing countries.

So that formal housing finance institutions can respond more effectively to the demand for mortgage credit by lower income households, these and other successful examples of formal institutions reaching out to lower income households should be systematically documented. This could provide substantive guidance to the RHUDOs. In the absence of such documentation and analysis, the following are offered as issues for policy dialogue and reform:

- modification of fiscal policies that constrain interest rates and inhibit domestic savings, which are essential for expanded mortgage credit operations;
- creation of less restrictive mortgage instruments, including the relaxation of underwriting standards in relation land title;
- relaxation of underwriting standards to incorporate alternative indicators of repayment ability, including, as suggested by Struyk (1988), the use of past rent payment receipts, incorporation of anticipated revenue from rented property in the borrower's income base, participation in a loan-linked contract savings scheme, and the use of loan guarantors;
- introduction of default insurance issued by the public sector to encourage housing finance institutions to lend to lower income households; and
- encouragement of housing finance institutions to initiate or improve their rapport with lower income households by instituting outreach programs and placing branch offices in poorer neighborhoods.

Formal institutions can also be encouraged to work directly with informal financial entities to increase the availability of credit. In order to choose an appropriate informal financial entity to team with a formal counterpart, it is imperative to differentiate between truly informal entities and quasi-formal institutions. The fundamental weakness of truly informal entities is a shortage of funds for long-term lending at reasonable rates. Quasi-formal institutions, such as unregulated or weakly regulated credit cooperatives, credit unions, and small savings and loan associations, on the other hand, are known to be

financially viable alternatives. However, little is known about their successful dealings with formal housing finance institutions or their own operations involving mortgage credit for lower income groups. Priority should be given to documenting and analyzing this type of activity.

In Sri Lanka, thrift and credit cooperative societies are acting as loan agents for the government's National Housing Development Authority to provide mortgage credit in rural areas; they may soon begin to work with private housing finance institutions in urban areas. In Jamaica, a pilot project is being implemented jointly by a local credit union and the Moravian Church. As a community-based organization, the church plays a major role in the preselection of loan applicants and vouches for their character in lieu of traditionally prescribed collateral requirements. As a result of the church's support, the credit union is able to apply more flexible criteria in structuring loans to lower income borrowers who would not normally qualify for credit.

In areas where credit unions and credit cooperatives are particularly strong—Ecuador is a prime example—the RHUDOs should encourage their involvement in home improvement loan and mortgage programs geared to lower income families. The work of RHUDO/Caribbean in Jamaica can serve as a model for such activities.

## Income and Employment Generation Related to Shelter

International development literature is replete with evidence of the predominance and economic viability of small-scale construction, building materials, and home-based enterprises. Several possible types of intervention supporting these activities have been identified. HUP's objective should not be to support informal sector enterprises per se; rather, it should be to identify and support informal enterprise activities that fulfill the basic shelter needs of USAID's target group while at the same time incorporating these groups into the development process. Strassmann (1988, 2) argues that the most supportable enterprises are those "that generate the most shelter employment, learning opportunities, and income."

Strassmann (1988, 9) also emphasizes that "what keeps firms in the informal sector is the immediate cost of submitting to regulation. Yet support cannot be obtained without submitting to those costly con-

trols." To overcome these problems, support contracts should assure a steady flow of work, access to financing, and ready availability of materials. Utilization of small-scale contractors in public works should be accompanied by efficient registration procedures, clear contract provisions, a stable working environment, and dependable payment schedules. Specialized institutions can be created to reduce financial risks to small-scale contractors by providing interim loans and bonding, acting as agents for these contractors in relations with government clients, speeding up procurement through official purchase orders, and guaranteeing loans.

Informal sector building material producers can participate more widely in shelter and infrastructure production if indigenous materials are used. Small firms are at a disadvantage in the context of economies of scale and face obstacles such as barriers to entry into the industry and monopolistic collusion. These phenomena should be identified and modified or, where possible, removed altogether. Strassmann (1988) suggests several elements of a strategy for supporting small-scale building material producers:

- Ascertain what products are in demand and assist small enterprises to produce them.
- Concentrate technical support on improving the quality of building materials and components.
- Facilitate small-scale production of building materials using public sector contracting for various commodities for public works and specifying realistic, yet flexible, quality control in order to maintain a continuous materials market for small producers.
- Establish low-cost channels of credit by initially extending very small, short-term loans and then gradually extending larger, longer term loans as good credit is established.

In addition to modifying the regulatory climate through the adoption of more realistic building and subdivision standards, simplifying administrative procedures to obtain licenses and permits, and providing more enterprises access to credit, the RHUDOs can support the activities of small-scale construction and building material enterprises by providing training and technical assistance. The benefits derived from upgrading small scale building contractors' technical and managerial skills is obvious, since they are involved in the majority of shelter construction in the developing world. Their incentives to partici-

pate in training exercises are enhanced productivity and improved quality of work, which will result in increased profitability. By sponsoring training, the RHUDOs can take an important step toward understanding how small-scale enterprise and the informal sector of the housing construction industry operate and how cost efficiency and effective delivery can be increased. RHUDO/Caribbean has developed a prototype curriculum for small builders in conjunction with a private trade association and Jamaican public housing authorities. This could be tested in other countries and modified according to country-specific requirements.

Recent efforts to impose separate residential and commercial zoning in urban areas of developing countries have proven counterproductive. Urban policies should encourage more productive use of a country's housing stock. Among other things, home-based enterprises include food enterprises, repair services, and textile and clothing workshops. These informal enterprises can be stimulated by implementing a competitive program of very small grants, rather than loans. Also, low-cost, joint loans, partly for construction and partly for promoting enterprises, should be explored. The shortage of working capital is one of the most difficult obstacles for small-scale entrepreneurs to overcome.

Doebele (1988), Strassmann (1988), and Struyk (1988) all emphasize the importance of rental housing as an income generator and source of low-cost housing, especially because rentals become more predominant as the densities of urban areas rise. However, little information exists with regard to rental housing. Areas of particular interest are the sources of financing for those owning and developing rental units for lower income households and whether rentals are additions to or subleases of owners' dwellings. Limited data from Kenya suggest that, as one moves up the income scale, the accumulation of free-standing rentals becomes an important and lucrative endeavor.

## Facilitating the Expansion of Urban Services

Campbell (1988) details how the informal sector has, by default, become a key actor in providing water and sanitation services to low-income neighborhoods of the developing world. This is largely because traditional infrastructure is expensive, water agencies are weak, and water policies and investments

are lamentably inadequate. Yet encouraging reforms to assist the informal sector in providing what the formal sector cannot means challenging the traditional values that dictate water and waste as responsibilities of the state. Private participation of any kind, especially by the disenfranchised, represents intrusion. These institutional values are reinforced by codified practices that are complicated and expensive and by an entrenched bureaucracy slow to approve authorized activity, let alone unauthorized interventions by the informal sector.

Because of the adjustment mechanisms currently being adopted by most developing countries as a result of their external debt position, public sector institutions are being forced to make significant changes. Given this environment, the RHUDOs can develop strategies that move public agencies toward more rational administrative and planning standards. These could cut turnaround time and construction costs, bringing the cost of serviced land down to affordable levels for lower income households. A key element of any such strategy will be an evaluation of the feasibility of various technological alternatives to traditional, currently available, water and waste disposal services. (Interestingly, most technical alternatives have been developed as informal sector responses to the lack of basic services.) Another option is to investigate the possibility for cooperation between the legal providers of water and waste disposal services and existing unauthorized providers (Campbell 1988). Finally, the productivity of the RHUDOs' assistance to target populations can be enhanced and impacts in urban infrastructure can be increased by expanding the volume of USAID credit for small-scale, short-term, marginal improvements by homeowners themselves.

As Campbell (1988, 13) convincingly argues, "The barriers to making an impact on urban infrastructure are not so much around the actions or inactions of the informal sector as around the policies, assumptions and practices of the institutions responsible for building, operating, and maintaining water and waste facilities." Viewed in this manner, the RHUDOs' options for assisting the informal sector in providing crucial urban services lie almost exclusively in providing training and technical assistance to individuals, community groups, and microenterprises that provide such services for themselves. Assistance with community organization and user participation will be required as low-cost alternative technologies are adopted. For example, in Sri Lanka, the National Housing Development Authority is

successfully overseeing community group construction of wells and roads.

Another area that has received little donor attention is the growing problem of solid waste disposal. Informal systems of waste disposal and recycling appear to provide income for a significant number of low-income households despite the health risks involved. RHUDO-sponsored training in urban management stimulated experiments by local authorities in Côte d'Ivoire to contract with small-scale firms for solid waste disposal. However, the RHUDOs' contributions in the urban services area are probably best directed toward researching, evaluating, and developing alternative technologies, since the informal sector has demonstrated its own ability to respond by designing, constructing, operating, and maintaining simple technological alternatives.

# ■ STRATEGY DEVELOPMENT

## Country-specific Assessments of Shelter and Urban Services

HUP recommends conducting country-specific assessments of shelter and urban services provision to identify information gaps and priority research tasks. These analyses will allow strategies to account for considerable variation in rates of urbanization, population size, construction costs, and economic conditions among the RHUDOs' client countries. These differences are reflected in the housing and urban service characteristics of each country, particularly in countries that have suffered from declining or stagnant per capita income.

Wide diversity in government capabilities and maturation rates of housing and infrastructure agencies also plays a large role in determining the effectiveness of housing and infrastructure development programs. The RHUDOs should structure assessments to account for each of these variables, as they have a tremendous impact on housing and infrastructure development processes and the ability of governments to function effectively in these areas. Such country-specific analyses would allow the RHUDOs to assess their options more systematically, identify possible project areas, and create better intervention strategies.

Assessments should address the following issues in order to explore potential areas of intervention:

- *Informal land development techniques.* What are the factors that make the current practices of informal microbrokers and subdividers efficient? Given this information, linking mechanisms could be created through which public agencies could collaborate with microbrokers and subdividers in land development activities.
- *Squatter settlements and clandestine neighborhoods.* Since some type of informal settlement is necessary to provide urban shelter to low-income households, what means exist or need to be developed to gauge the degree of improvement needed to increase the welfare of residents without being unaffordable or leading to their displacement by higher income groups attracted to the improvements?
- *Informal financial institutions and mechanisms.* Is it better to work with the informal system as it exists, or should attempts be made to formalize it?
- *Traditional building materials and practices.* If traditional materials or practices are adequate in terms of structural safety and cost, then higher standards should be deemed inappropriate. Facilitating this subsector rather than formalizing it should be the goal. The role of the informal sector in lowering housing costs should not be compromised.
- *Employment and income generation.* The potential for shelter to be economically productive is not exclusively connected to the informality of that shelter. The productive aspect of shelter should be promoted in both the informal and formal sectors.
- *Provision of infrastructure.* How can the informal sector become involved with infrastructure provision? How can the actions of governments, which are generally held responsible for providing infrastructure, facilitate the increased involvement of the informal sector?
- *Deregulation.* A goal of deregulation should be to allow the regulated formal sector to enjoy some of the advantages of the unregulated informal sector. To do so obviously requires a thorough understanding of the relationship between deregulation and decentralization and the informal sector itself.

The usefulness of country-specific assessments is further illustrated by the following example. Suppose that, in one country, land suitable for the next stage of urban expansion is predominantly owned by the government, and the responsible public agency is open to trying new approaches to urbanization. The RHUDOs' strategic options would be very different in a country where the land resources are in fragmented private ownership, formal land sale laws and practices are archaic, and the government demonstrates no capacity or intent to intervene. The RHUDOs may find that the balance between working with the formal sector and facilitating the informal sector might vary even within one country. For example, one might find a receptive water authority in a country whose formal sector is lax in addressing financing or land issues.

Country-specific assessments might allow the RHUDOs to discover that they possess very little information about a topic that could have a significant policy impact if it were to become a priority for additional research. On the other hand, the RHUDOs may discover that they have sufficient information to address an option previously considered unavailable. Or they may find that certain topics do not warrant concern. Once this exercise is complete, comparative analyses will be of tremendous value in two areas: facilitating the development of appropriate strategies regarding informal sector processes and eliminating barriers and constraints that encourage people to resort to informal practices.

Once the RHUDOs have identified possible areas for intervention, more detailed analyses will be required for the design of specific programs. RHUDO/Asia suggests the development of a methodology for an informal sector assessment that would cover all, or some, areas of potential intervention. The initial step should be to establish a context for intervention. For example, a visit to a target country would allow the identification of the general nature of problems affecting serviced land provision for low-income groups, the policy and institutional issues that impinge on the informal sector, and the responsiveness of the government and private sector. The next step would include the design of specific programs having multiple goals aimed at achieving broad-based changes in urban policies that would contribute to the achievement of informal shelter sector objectives.

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- . 1988. Small-scale construction methods, building materials, and home-based enterprises in the informal sector. Paper presented at USAID Workshop on the Informal Sector, Washington, D.C.
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# ■ APPENDIX A

## Agenda of the USAID Workshop on the Informal Sector

Thursday, January 14, 1988

- Morning Session** Moderator: Howard Sumka, USAID Office of Housing and Urban Programs
- 9:00-9:30 Introductory Remarks: Peter Kimm, Director, USAID Office of Housing and Urban Programs
- 9:30-11:00 Land Tenure  
Paper: William Doebele, Harvard University  
Discussant: Robert Buckley, Water and Urban Development Division, World Bank
- 11:00-11:15 Coffee break
- 11:15-12:45 Construction and Employment  
Paper: W. Paul Strassmann, Michigan State University  
Discussant: Robert Buckley, Water and Urban Development Division, World Bank
- 12:45-2:00 Lunch
- Afternoon Session** Moderator: William Gelman, Assistant Director, USAID Office of Housing and Urban Programs
- 2:00-3:30 Access to Infrastructure  
Paper: Tim Campbell, University of California, Berkeley  
Discussant: Lisa Peattie, Massachusetts Institute of Technology
- 3:30-3:45 Coffee break
- 3:45-5:15 Resource Mobilization and Credit  
Paper: Marvin Miracle, Consulting Economist  
Discussant: Claude Bovet, Housing Finance Consultant

Friday, January 15, 1988

- Morning Session** Moderator: Paul Vitale, Assistant Director, USAID Office of Housing and Urban Programs
- 8:30-9:30 The Informal Sector and the Dynamics of Housing Policy Evaluation  
Paper: Janice Perlman, New York University
- 9:30-10:30 Nongovernmental Organizations and Self-Help Settlement Projects  
Paper: Davinder Lamba, Mazingira Institute, Kenya
- 10:30-1:30 Adjourn
- Afternoon Session** Moderator: Amy Nolan, USAID Office of Housing and Urban Programs
- 1:30-3:00 Developing a Research Strategy  
Paper: Raymond J. Struyk and Thomas G. Kingsley, Urban Institute
- Interfacing with USAID's Housing Guaranty Program  
Paper: Marja Heek-Smit, University of Pennsylvania
- 3:00-3:15 Coffee break
- 3:15-5:00 Continuing discussion and final remarks by presenters and moderators

# ■ APPENDIX B

## Participants in the USAID Workshop on the Informal Sector

John H. Austin USAID/S&T/HEA Washington, D.C.	Paul Davis USAID/LAC/PD Washington, D.C.	Len Ishmael University of Pennsylvania Philadelphia, PA	Steven Mayo World Bank Washington, D.C.
Aaron L. Benjamin USAID/PRE/H Washington, D.C.	William Doebele Harvard University Cambridge, MA	Donald Kennedy USAID/PPC/WID Washington, D.C.	Tom McAndrews USAID/PRE/H Washington, D.C.
Larry Birch Virginia Polytechnic Institute Alexandria, VA	Susan Escherich Virginia Polytechnic Institute Alexandria, VA	Earl Kessler USAID/PRE/H Washington, D.C.	Sally Merrill Abt Associates Cambridge, MA
Claude Bovet Deloitte Haskins and Sells Washington, D.C.	Michael Farbman USAID/S&T/RD/EED Washington, D.C.	Peter Kimm USAID/PRE/H Washington, D.C.	John Miller Abt Associates Washington, D.C.
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Robert Buckley World Bank Washington, D.C.	Viviann Gary USAID/AFR/PD Washington, D.C.	Michael Kitay USAID/GC/PRE Washington, D.C.	Lisa Peattie Massachusetts Institute of Technology Cambridge, MA
Tim Campbell University of California Berkeley, CA	George Gattoni World Bank Washington, D.C.	Frederick Krimgold Virginia Polytechnic Institute Alexandria, VA	Janice Perlman New York University New York, NY
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	Marja Hoek-Smit University of Pennsylvania Philadelphia, PA	Randolph Lintz Deloitte Haskins and Sells Washington, D.C.	Amy Richwine Deloitte Haskins and Sells Washington, D.C.
		David Lowe IDEA, Inc. Washington, D.C.	Jose Santos Rodriguez National Housing Institute Lisbon, Portugal

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# ■ APPENDIX C

## Reporting Cable

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E.O. 12356: N/A

SUBJECT: REPORT ON INFORMAL SECTOR WORKSHOP  
JAN. 14-15, 1988

1. SUMMARY: THE OFFICE OF HOUSING AND URBAN PROGRAMS (HUP) SPONSORED A WORKSHOP ON THE INFORMAL SECTOR AND HOW IT RELATES TO SHELTER AND URBAN DEVELOPMENT ISSUES. THE PURPOSE OF THE WORKSHOP WAS TO CONSOLIDATE OUR UNDERSTANDING OF THE INFORMAL SECTOR IN ORDER TO GUIDE INTERVENTIONS BY THE SEVEN REGIONAL HOUSING AND URBAN DEVELOPMENT OFFICES (RHUDOS). SHORT PAPERS WERE PRESENTED AND DISCUSSED BY SCHOLARS AND PRACTITIONERS IN FIVE SUBJECT AREAS: INFORMAL LAND MARKETS, SMALL-SCALE CONSTRUCTION FIRMS, ACCESS TO INFRASTRUCTURE,

INFORMAL FINANCIAL MECHANISMS, AND COMMUNITY PARTICIPATION. KEY RECOMMENDATIONS FOR A RESEARCH AND PROGRAM STRATEGY FOR AID WERE SUMMARIZED IN TWO ADDITIONAL PAPERS. THE MAIN CONCLUSIONS IN EACH AREA WERE AS FOLLOWS: IN LAND, MORE INFORMATION IS REQUIRED ON THE OPERATION AND EVOLUTION OF INFORMAL LAND MARKETS; IN CONSTRUCTION, THE MARKET FOR BOTH SHELTER REHABILITATION AND NEW CONSTRUCTION SHOULD BE ADDRESSED. AID SHOULD PROMOTE POLICY CHANGES TO ASSIST SMALL-SCALE BUILDING MATERIALS SUPPLIERS TO PRODUCE HIGHER QUALITY PRODUCTS AND BECOME MORE ECONOMICALLY STABLE; IN INFRASTRUCTURE, FOCUS SHOULD BE ON ALLEVIATING REGULATORY CONSTRAINTS WHICH IMPEDE THE FLOW OF SERVICES TO LOW-INCOME AREAS; IN CREDIT, PROGRAMS SHOULD ASSIST FORMAL SECTOR INSTITUTIONS IN REACHING LOWER INCOME CLIENTS AND INFORMAL SECTOR INSTITUTIONS IN INTEGRATING INTO THE FORMAL ECONOMY. COOPERATIVES AND LOCAL CREDIT UNION NETWORKS WERE CITED AS EXAMPLES OF GOOD BRIDGING INSTITUTIONS TO BRING BOTH SECTORS CLOSER TOGETHER. RECOMMENDATIONS WERE MADE CONCERNING APPROPRIATE CONDITIONS FOR HOUSING GUARANTY LENDING AND GOALS FOR TECHNICAL ASSISTANCE, INCLUDING REVIEW AND REDUCTION OF THE REGULATORY PROCESSES. IDEAS WERE PRESENTED FOR FIELD RESEARCH TO PROVIDE BETTER IDENTIFICATION OF CONSTRAINTS AND BOTTLENECKS ON A COUNTRY-SPECIFIC BASIS. COMMENTS ON THE DRAFT FINAL REPORT WILL BE REQUESTED FROM THE RHUDOS. A GUIDANCE CABLE OUTLINING SPECIFIC RECOMMENDATIONS PROVIDED BY THE FINAL REPORT WILL FOLLOW. END SUMMARY.

2. ON JANUARY 14 AND 15, THE OFFICE OF HOUSING AND URBAN PROGRAMS (HUP) SPONSORED A WORKSHOP ON THE INFORMAL SECTOR AND ITS RELATION TO SHELTER AND URBAN DEVELOPMENT ISSUES. THE PURPOSE OF THE WORKSHOP WAS TO CONSOLIDATE OUR UNDERSTANDING OF THE INFORMAL SECTOR IN ORDER TO GUIDE PRESENT AND FUTURE INTERVENTION BY THE SEVEN REGIONAL HOUSING AND URBAN DEVELOPMENT OFFICES (RHUDOS). THE OBJECTIVES WERE TWOFOLD: (1) DEVELOP A RESEARCH AGENDA FOR HUP WHICH WOULD DETERMINE KEY ISSUES IN WHICH AID WOULD ENGAGE DEVELOPING COUNTRIES IN POLICY DIALOGUE REGARDING THE INFORMAL SECTOR, AND (2) PROVIDE GUIDANCE TO THE FIELD OFFICES ON SHAPING PROGRAM ACTIVITIES IN THIS AREA. THIS CABLE SUMMARIZES KEY ISSUES AND RECOMMENDATIONS DISCUSSED FOR EACH TOPIC COVERED DURING THE TWO DAYS.

3. SUMMARY OF CONCLUSIONS: AS DISCUSSED IN EARLIER MEMOS TO THE FIELD, THE CENTRAL OFFICE'S FUNCTION IN DEVELOPING A STRATEGY FOR WORKING WITH THE INFORMAL SECTOR WILL BE TO SUPPORT EFFORTS ORIGINATING IN THE FIELD THROUGH THE RHUDOS. THE CENTRAL AIM IS TO CAPITALIZE ON ENTREPRENEURIAL ENERGY AND RESOURCEFULNESS CHARACTERISTIC OF THE PRIVATE SECTOR. A PART OF THE STRATEGY IS TO FOCUS ON PUBLIC SECTOR REFORMS IN REGULATIONS AND OPERATIONS OF INTERMEDIARY INSTITUTIONS RESPONSIBLE FOR DELIVERING URBAN SERVICES IN THE COUNTRY. AVENUES THROUGH WHICH AID COULD PROMOTE SUCH REFORM INCLUDE ATTACHING CONDITIONALITY REQUIREMENTS TO HOUSING GUARANTY LOANS WHICH ADDRESS BROAD SECTORAL REFORMS (E.G., DEREGULATING THE HOUSING FINANCE SECTOR) AND WORKING CLOSELY

WITH AID MISSIONS AND OTHER DONORS TO PRESS FOR THESE REFORMS. FURTHER RESEARCH IS REQUIRED AS AN INTEGRAL PART OF A POLICY ACTION-ORIENTED STRATEGY. THE GOAL IS TO CHANGE THE CONVENTIONAL WISDOM HELD BY MANY HOST COUNTRY OFFICIALS THAT PROVIDING SHELTER AND INFRASTRUCTURE IS SOLELY THE RESPONSIBILITY OF PUBLIC SECTOR INSTITUTIONS.

4. NEXT STEPS: THE FINAL REPORT, WITH RHUDO COMMENTS INCLUDED, WILL OUTLINE INFORMAL SECTOR RESEARCH AND POLICY ACTION STRATEGIES FOR THE HG PROGRAM. SELECTED COMPONENTS OF SUCH POLICY ACTION STRATEGIES ARE BRIEFLY DISCUSSED FOR EACH SUBSECTOR IN THE PARAGRAPHS BELOW. THE FIRST STEP IN THE RESEARCH STRATEGY FOR THE RHUDOS TO CONSIDER SHOULD BE TO DEVELOP INFORMATION MATRICES (ASSESSMENTS) IN THE FIELD FOR INDIVIDUAL COUNTRIES ON THE LAND, HOUSING, CONSTRUCTION, AND FINANCE SUBSECTORS. RHUDOS WOULD DOCUMENT THE CURRENT PRACTICES IN EACH OF THESE SUBMARKETS, INCLUDING THE REGULATORY STRUCTURE, RESPONSIBLE PUBLIC INSTITUTIONS, AND THE INFORMAL INTERMEDIARIES WORKING IN THEM. THIS EXERCISE WOULD IDENTIFY GAPS IN OUR KNOWLEDGE AND SPECIFIC CASES WHERE THE INFORMAL SECTOR HAS BEEN PARTICULARLY SUCCESSFUL OR UNSUCCESSFUL AT SUPPLYING LAND, SHELTER, AND INFRASTRUCTURE TO LOW-INCOME FAMILIES. HUP WOULD PROVIDE GUIDELINES TO THE RHUDOS FOR PREPARING THESE MATRICES AND COMPILE AND DISSEMINATE THE RESULTS TO THE FIELD. THE FIELD OFFICES WOULD THEN CONDUCT POLICY DIALOGUE AND, POSSIBLY, DEMONSTRATION ACTIVITIES BASED ON THE RESEARCH FINDINGS. THESE EFFORTS WILL PROMOTE REFORMS DESIGNED TO ENABLE FORMAL SECTOR INSTITUTIONS TO WORK IN A MORE SUPPORTIVE AND COLLABORATIVE WAY WITH INFORMAL LAND AND CREDIT MARKETS. A GUIDANCE CABLE OUTLINING SPECIFIC RECOMMENDATIONS PROVIDED BY THE FINAL REPORT AND INCLUDING RHUDO INPUT WILL SOON FOLLOW.

#### 5. SUMMARY OF SECTOR DISCUSSIONS AND RECOMMENDATIONS:

##### A. LAND:

1. WILLIAM DOEBELE, HARVARD, PRESENTED A PAPER TITLED QUOTE INTERVENING IN THE INFORMAL URBAN LAND SUPPLY: NEGLECTED OPPORTUNITIES UNQUOTE. HE FOCUSED ON THE NEED TO LEARN MORE ABOUT HOW INFORMAL LAND MARKETS FUNCTION IN ORDER TO INTERVENE EFFECTIVELY IN INCREASING THE SUPPLY OF LAND AVAILABLE FOR HOUSING AND INCOME-GENERATING ACTIVITIES. HE DESCRIBED HOW THESE INFORMAL LAND MARKETS PROVIDE CRUCIAL EMPLOYMENT OPPORTUNITIES AS WELL AS HOUSING FOR LOW-INCOME FAMILIES. HE SHOWED HOW LAND PRICES AND VALUES REFLECT THE DYNAMICS OF LAND USE INTENSITY AND PRODUCTIVITY. DOEBELE CONCLUDED THAT MORE INFORMATION IS REQUIRED ON THE OPERATION AND EVOLUTION OF LAND MARKETS. INFORMATION ON LAND PRICES AND USES, FOR EXAMPLE, CAN BE USED AS SURROGATES FOR UNDERSTANDING WHAT IS HAPPENING ECONOMICALLY IN AN URBAN AREA.

2. STEVE MAYO, WORLD BANK, DISCUSSED DOEBELE'S PRESENTATION, REITERATING THAT MUCH COULD BE LEARNED FROM HOW PRIVATE LAND AND HOUSING MARKETS WORK. HE PRESENTED EXAMPLES OF HOW PRIVATE MARKETS IN CAIRO PROVIDE HOUSING AT A LOWER COST TO SOCIETY THAN THAT TRADITIONALLY PROVIDED BY THE PUBLIC SECTOR: PRIVATE LAND MARKETS GROW VERTICALLY INSTEAD OF HORIZONTALLY, REDUCING URBAN SPRAWL AND THE CONSEQUENT LOSS OF SCARCE AGRICULTURAL LAND. MAYO DESCRIBED THE NEED FOR POLICY ANALYSES WHICH RELATE INTERVENTIONS TO PUBLIC AND PRIVATE COSTS. HE CITED AS AN EXAMPLE MALAYSIA, WHERE 55 STEPS ARE REQUIRED TO DEVELOP LAND AND WHERE RESTRICTED SUPPLY HAS FORCED DRAMATIC INCREASES IN HOUSING PRICES. CONTRAST TO THAILAND: 2 APPROVALS ARE NEEDED TO DEVELOP LAND AND HOUSING PRICES ARE STABLE AMIDST RAPID GROWTH.

##### B. SMALL-SCALE CONSTRUCTION AND EMPLOYMENT:

1. PAUL STRASSMANN, MICHIGAN STATE, PRESENTED A PAPER TITLED QUOTE SMALL-SCALE CONSTRUCTION METHODS, BUILDING MATERIALS, AND HOME-BASED ENTERPRISES IN THE INFORMAL SECTOR UNQUOTE. STRASSMANN STRESSED THAT SMALL CONSTRUCTION FIRMS NEED FINANCE, TRAINING, A STABLE ECONOMIC ENVIRONMENT, AND ACCESS TO GOVERNMENT CONTRACTS. HE CITED STUDIES WHICH SHOW HOW LOW-INCOME HOUSEHOLDS USE SKILLED LABOR (SMALL CONTRACTORS IN THE INFORMAL SECTOR) EXTENSIVELY TO BUILD OR IMPROVE THEIR HOMES. THESE CONSTRUCTION ENTREPRENEURS, HOWEVER, COULD IMPROVE SKILLS AND MOVE INTO LARGER PROJECTS FOR HIGHER PROFITS IF THEY WERE NOT CONSTRAINED BY THE LACK OF CAPITAL OR CONTRACTING OPPORTUNITIES. STRASSMANN RECOMMENDED THAT AID PROMOTE POLICY CHANGES WHICH ASSIST SMALL-SCALE BUILDING MATERIALS SUPPLIERS TO PRODUCE HIGHER QUALITY PRODUCTS TO INCREASE THEIR PROFITABILITY AND BECOME MORE ECONOMICALLY STABLE.

2. ROBERT BUCKLEY, WORLD BANK, REINFORCED THE NEED FOR DEMAND STUDIES AND STRESSED THE IMPORTANCE OF THE RENTAL HOUSING SECTOR. HE DISAGREED WITH STRASSMANN'S RECOMMENDATION FOR GOVERNMENT TO PROVIDE LOW-COST CREDIT. HE SAID, HOWEVER, THAT SUBSIDIES SHOULD NOT BE ELIMINATED ENTIRELY BUT NEED TO BE FOCUSED, TAILORED, AND CAREFULLY MEASURED; SINCE HOUSING IS A RELATIVELY LOW-RISK INVESTMENT ACTIVITY, THEN THE CONSTRAINTS ON ITS SUPPLY ARE MAINLY DUE TO REGULATIONS WHICH KEEP THE MARKETS FROM WORKING. THE CHALLENGE THEN BECOMES TO PROMOTE CREATIVE REFORMS WHICH WILL DISSOLVE THESE REGULATORY CONSTRAINTS AND ALLOW RESOURCES AND CREATIVITY TO FLOW MORE FREELY FROM THE INFORMAL SECTOR INTO THE HOUSING SECTOR. SUBSIDIES MAY BE USED IN A LIMITED WAY TO GET THE MARKETS MOVING AGAIN.

##### C. WATER AND SANITATION:

1. TIM CAMPBELL, UC-BERKELEY, RECOMMENDED RESEARCH AND PROGRAMMATIC ACTION FOR AID AT THREE LEVELS. AT THE HOUSEHOLD LEVEL, AID SHOULD EMPHASIZE THE ROLE OF COMMUNITY ORGANIZATION AND PARTICIPATION IN PROVIDING WATER AND SANITATION SERVICES. HE CITED, AS EXAMPLES, FOOD FOR WORK PROGRAMS AND TECHNICAL ASSISTANCE TO WATER COMPANIES TO HELP THEM INITIATE AND MANAGE COMMUNITY PROJECTS. AT THE TECHNICAL LEVEL, AID SHOULD SPONSOR RESEARCH AND DEVELOPMENT AND SOCIAL AND ECONOMIC IMPACT ANALYSES OF DIFFERENT TECHNOLOGIES. AT THE POLITICAL AND ADMINISTRATIVE LEVELS, AID SHOULD DEVELOP CASE STUDIES OF SUCCESSFUL COMMUNITY PROJECTS IN WATER AND SANITATION. AID SHOULD FORMULATE ALTERNATIVE REGULATIONS AFFECTING THE INFRASTRUCTURE SECTOR AND PROMOTE STRATEGIC SANITATION PLANS WHICH ADDRESS LOCAL CONDITIONS IN DIFFERENT CITY NEIGHBORHOODS.

2. LISA PEATTIE, MIT, ARGUED THAT WHILE COMMUNITY PARTICIPATION IN PROVIDING WATER AND SANITATION HAS ITS MERITS, IT IS NOT THE ANSWER TO MEETING THE GROWING DEMAND FOR THESE SERVICES AMONG LOW-INCOME FAMILIES. THE CASE OF HOUSING, WHERE SELF-HELP AND COMMUNITY PROJECTS HAVE BEEN SUCCESSFUL, IS DIFFERENT FROM THAT OF INFRASTRUCTURE. UNLIKE HOUSING, ALLOWING THE COMMUNITY TO CHOOSE INDEPENDENT SOLUTIONS IN WATER AND SANITATION IS OFTEN QUITE INEFFICIENT: SEVERAL WATER LINES RUN PARALLEL UP THE HILLS IN THE BRAZILIAN FAVELAS, WHICH PEOPLE PAY INDIVIDUALLY TO INSTALL. FURTHERMORE, THE POLITICAL IMPLICATIONS OF FINDING INDEPENDENT SOLUTIONS IS THAT COMMUNITIES FEEL THAT THE GOVERNMENT NO LONGER CONSIDERS ITSELF RESPONSIBLE FOR PROVIDING THE SERVICES TO LOW-INCOME AREAS. PEATTIE SUGGESTED THAT THE ABILITY TO MAKE URBAN INFRASTRUCTURE TECHNOLOGY MORE APPROPRIATE TO INDIVIDUAL SITUATIONS IS LIMITED, PARTICULARLY IN SANITATION. LOCAL GOVERNMENTS SHOULD MAKE PRIMARY AND SECONDARY NETWORKS AVAILABLE TO LOW-INCOME NEIGHBORHOODS WHILE PROMOTING COMMUNITY PARTICIPATION.

## D. RESOURCE MOBILIZATION AND CREDIT:

1. MARVIN MIRACLE, CONSULTING ECONOMIST, PRESENTED A PAPER TITLED QUOTE INFORMAL FINANCIAL INSTITUTIONS AND MECHANISMS AND HOUSING DEVELOPMENT IN TROPICAL AFRICA UNQUOTE. THE PAPER COMPARES THE CHARACTERISTICS OF INFORMAL AND FORMAL SAVINGS AND LENDING INSTITUTIONS, DISCUSSES AREAS REQUIRING RESEARCH, AND CONSIDERS WAYS INFORMAL FINANCIAL MECHANISMS CAN BE USED TO MEET HOUSING NEEDS OF LOW-INCOME FAMILIES. MIRACLE RECOMMENDED RESEARCH ON HOW INFORMAL FINANCIAL INSTITUTIONS AND MECHANISMS VARY BETWEEN AND WITHIN COUNTRIES. HE ALSO SUGGESTED STUDYING MACRO POLICIES AFFECTING INFORMAL FINANCIAL INSTITUTIONS AND MECHANISMS AND RECOMMENDED CONSIDERING HOW TO APPLY AGRICULTURAL CREDIT OUTREACH INNOVATIONS TO HOUSING FINANCE.

2. CLAUDE BOVET, HOUSING FINANCE CONSULTANT, SAID THAT AID SHOULD WORK WITH FORMAL SECTOR INSTITUTIONS TO PROD THEM TO REACH DOWN TO LOWER INCOME CLIENTS. AID SHOULD ALSO ASSIST INFORMAL SECTOR INSTITUTIONS TO MOVE INTO THE FORMAL ECONOMY. HE ARGUED THAT SIMPLIFYING FINANCIAL REGULATIONS AND MECHANISMS IN BOTH SECTORS WOULD FOSTER ECONOMIES OF SCALE BADLY NEEDED BY THE INFORMAL SYSTEM AND REDUCE THE REGULATORY CONSTRAINTS ON THE FORMAL SYSTEM. INNOVATIVE ATTEMPTS TO LINK FORMAL AND INFORMAL SECTORS SHOULD BE DOCUMENTED AND THE PRODUCTS DISSEMINATED. EXAMPLES EXIST IN CALI, COLOMBIA, AND IN A PILOT PROJECT IN KINGSTON, JAMAICA, DESIGNED AND SPONSORED BY RHUDO/CAR. ACCORDING TO THE RHUDO/ CAR REPRESENTATIVE AT THE WORKSHOP, THE PROJECT IS BEGINNING TO CHANGE THE MINISTRY OF HOUSING'S POLICY TOWARD CLIENTS IN THE INFORMAL SHELTER SECTOR.

6. JANICE PERLMAN, NEW YORK UNIV., PRESENTED A PAPER TITLED QUOTE MISCONCEPTIONS ABOUT THE URBAN POOR AND THE DYNAMICS OF HOUSING POLICY EVOLUTION UNQUOTE. SHE ARGUED THAT THE CITY IS NOT THE PROBLEM, BUT ONE SOLUTION TO ECONOMIC AND SOCIAL DEVELOPMENT. IN CONTRAST TO MYTHS OF MARGINALITY, URBAN MIGRANTS HAVE POTENTIAL FOR IMPROVEMENT AND DEVELOPMENT. MEMBERS OF THE INFORMAL ECONOMY ARE THERE LARGELY BY CHOICE, NOT BY DEFAULT. FORMAL AND INFORMAL ECONOMIES ARE CLOSELY LINKED; INFORMAL SECTOR JOBS OFTEN SERVICE THE FORMAL SECTOR. PERLMAN SUGGESTS THE IMPACT OF MACROECONOMIC AND DEVELOPMENT POLICIES ON URBAN AREAS EXCEEDS THAT OF URBAN POLICIES PER SE. THUS, THERE IS A NEED TO INCLUDE URBAN IMPACT ANALYSES WITH OTHER POLICY ANALYSES.

7. DAVINDER LAMBA, MAZINGIRA INSTITUTE, DISCUSSED THE ROLE OF NONGOVERNMENTAL ORGANIZATIONS (NGOS) IN SUPPORTING INFORMAL AND COMMUNITY-BASED ORGANIZATIONS (CBOS). HE PRESENTED EXAMPLES FROM KENYA AND MOZAMBIQUE OF HOW CBOS COULD CARRY OUT SUCCESSFUL EMPLOYMENT AND INFRASTRUCTURE PROJECTS. HE ARGUED THAT SELF-HELP PROJECTS SHOULD NOT BE ROMANTICIZED; THEY ARE SURVIVAL TECHNIQUES USED WHEN GOVERNMENTS CANNOT PROVIDE THE NEEDED SERVICES. IN FACT, HE INDICATED THAT SUPPORT FROM NGOS WAS NOT ENOUGH FOR CBOS TO BE SUCCESSFUL; GOVERNMENT POLITICAL SUPPORT AND ENCOURAGEMENT WAS ESSENTIAL. THE MOZAMBIQUAN CASE WAS SUCCESSFUL PARTLY BECAUSE OF THE COMMITMENT OF THE GOVERNMENT TO RELAX STANDARDS. GOVERNMENTS NEED TO SUPPORT NGO EFFORTS TO GENERATE EMPLOYMENT AND EXTEND BASIC SERVICES TO THE URBAN POOR.

8. DEVELOPING A RESEARCH AGENDA: TOM KINGSLEY, THE URBAN INSTITUTE, PRESENTED RAY STRUYK'S PAPER TITLED QUOTE LEARNING MORE ABOUT INFORMAL HOUSING: AN AGENDA FOR POLICY-ORIENTED RESEARCH, DOCUMENTATION, AND DEMONSTRATION UNQUOTE. THE PAPER OUTLINES A RESEARCH AGENDA FOR PROGRAM DEVELOPMENT IN INFORMAL SECTOR HOUSING AND URBAN INFRASTRUCTURE. FOR EACH

AREA, THE AUTHOR SUGGESTS RESEARCHING HOW THESE MARKETS WORK, THEN DOCUMENTING HOW AND WHERE INFORMAL/FORMAL ARRANGEMENTS HAVE SUCCEEDED OR FAILED. THIS MAY BE FOLLOWED BY DEMONSTRATION PROJECTS WHICH INCORPORATE THE LESSONS LEARNED FROM THE RESEARCH. STRUYK FOCUSES ON THE FOLLOWING ELEMENTS IN EACH AREA:

A. IN HOUSING FINANCE, RENTAL HOUSING SHOULD BE A RESEARCH PRIORITY, AND EXAMPLES OF SUCCESSFUL ARRANGEMENTS BETWEEN FORMAL AND INFORMAL INSTITUTIONS IN IDENTIFYING CREDIT-WORTHY BORROWERS SHOULD BE DOCUMENTED, AS WELL AS EXAMPLES OF FORMAL INSTITUTIONS LENDING TO LOW-INCOME HOUSEHOLDS.

B. IN LAND, STUDY SMALL-SCALE LAND BROKERS TO BETTER UNDERSTAND HOW LAND MARKETS WORK. RESEARCH ISSUES REGARDING LEGAL STATUS OF LAND AND HOW LEGAL TITLES AND THEIR VARIATIONS ARE TREATED BY FINANCIAL INSTITUTIONS. CROSS-COUNTRY COMPARISONS SHOULD BE MADE AND A STATEMENT (SET OF GUIDELINES) DEVELOPED ON THE METHODOLOGY TO BE USED TO GUIDE ANALYSES OF THIS TYPE.

C. IN SMALL-SCALE RESIDENTIAL CONSTRUCTION, DOCUMENT CASES WHERE LOWER STANDARDS HAVE BEEN GENERALLY APPLIED (E.G., JAMAICA, KENYA) AND WHERE CREDIT IS BEING PROVIDED TO CONTRACTORS, DEVELOPERS, AND SMALL MATERIALS PRODUCERS. ALSO, ASSESS THE APPLICABILITY OF SMALL BUSINESS CREDIT PROGRAMS TO SMALL BUILDERS.

D. IN INFRASTRUCTURE, LEARN MORE ABOUT THE FREQUENCY AND SOURCE OF UNAUTHORIZED INSTALLATIONS. ANALYZE CURRENT ARRANGEMENTS BETWEEN FORMAL AND UNAUTHORIZED PROVIDERS OF INFRASTRUCTURE.

9. DEVELOPING A PROGRAM AGENDA: MARJA HOEK-SMIT, UNIV. OF PENN., WROTE AND PRESENTED A PAPER TITLED QUOTE GUIDELINES FOR THE DEVELOPMENT OF A SUPPORT STRATEGY FOR THE INFORMAL SECTOR IN HOUSING, INFRASTRUCTURE, AND SERVICES PROVISION UNQUOTE. THIS PAPER ATTEMPTS TO FORMULATE A PRELIMINARY STRATEGY TO SUPPORT AND GUIDE THE INTERVENTIONS NOW UNDERWAY IN THE INFORMAL SECTOR. HOEK-SMIT SUGGESTS THAT AID SHOULD ADOPT A SECTORWIDE APPROACH BASED ON AN UNDERSTANDING OF REGULATORY AND LEGAL CONSTRAINTS ON THE INFORMAL SECTOR. AID SHOULD ALSO SUPPORT STRATEGIES WHICH FOCUS DIRECTLY ON IMPROVING THE EFFICIENCY OF THESE GROUPS. FOR EXAMPLE, SELECT AND ASSIST INSTITUTIONS THAT CAN WORK WITH THE INFORMAL SECTOR. THE PAPER INCORPORATES AND EXPANDS UPON THE RECOMMENDATIONS OF INDIVIDUAL AUTHORS.

A. HOUSING FINANCE: TRY TO MAKE THE FORMAL HOUSING FINANCE SECTOR MORE ACCESSIBLE TO LOWER INCOME GROUPS. SPECIFICALLY, PROVIDE TECHNICAL ASSISTANCE AND TRAINING TO INTERMEDIARY INSTITUTIONS AND HELP CHANGE THEIR TRADITIONALLY RISK-AVERSE BEHAVIOR TOWARD TARGET GROUPS.

B. LAND: IMPROVE THE EFFICIENCY OF URBAN LAND DELIVERY PROCESSES BY FORMAL INSTITUTIONS: SIMPLIFY CADASTRES, STANDARDS, TECHNICAL REGULATIONS, AND ACQUISITION PROCEDURES OF STATE-OWNED LAND. DEVELOP LEGAL FORMS OF LAND OWNERSHIP WHICH WAIVE CURRENT STRINGENT COLLATERAL REQUIREMENTS. ALSO, DEVELOP MECHANISMS THROUGH WHICH GOVERNMENT AGENCIES CAN COLLABORATE WITH INFORMAL LAND BROKERS.

C. SMALL CONSTRUCTION ENTERPRISES AND BUILDING MATERIALS PRODUCERS: PROMOTE CHANGES IN THE REGULATORY FRAMEWORK (E.G., DEVELOP REALISTIC BUILDING STANDARDS, SIMPLIFY PROCEDURES FOR OBTAINING PERMITS, ELIMINATE PREFERENTIAL PRICING PRACTICES THAT BENEFIT LARGER FIRMS). SUPPORT SMALL CONSTRUCTION FIRMS THROUGH TECHNICAL ASSISTANCE AND SET UP SPECIAL CREDIT PROGRAMS TAILORED TO FINANCIAL FLOWS IN THE CONSTRUCTION INDUSTRY.

D. INFRASTRUCTURE: PERSUADE PUBLIC AGENCIES TO ADOPT A MORE MANAGERIAL AND CONTROLLING ROLE BY REDEFINING TECHNICAL STANDARDS AND DEVELOPING STRATEGIC WATER AND SANITATION PLANS. SUPPORT PRIVATE SUBCONTRACTING OF SPECIFIC SERVICES NOW PROVIDED BY PUBLIC AGENCIES.

10. APPROXIMATELY 40 PERSONS ATTENDED THE WORKSHOP, INCLUDING AID STAFF FROM EACH OF THE REGIONAL BUREAUS, S&T, AND REPRESENTATIVES FROM OTHER DEVELOPMENT ORGANIZATIONS. HUP THANKS RHUDO/NAIROBI FOR SPONSORING DAVINDER LAMBA AND FOR PROVIDING THE STUDY ON THE INFORMAL FINANCE SECTOR IN KENYA; RHUDO/KINGSTON FOR SPONSORING ALBERT GREVE AND PROVIDING MATERIALS FOR THE WORKSHOP; RHUDO/TUNIS FOR SPONSORING SANTOS RODRIGUEZ AND FOR PROVIDING A WRITTEN RESPONSE TO OUR REQUEST FOR COMMENTS; RHUDO/BANGKOK FOR SENDING DETAILED COMMENTS AND QUESTIONS FOR OUR WORKSHOP; AND RHUDO/TEGUCIGALPA FOR PROVIDING A DESCRIPTION OF ITS ACTIVITIES IN THE INFORMAL SECTOR.

11. A DRAFT OF THE FINAL REPORT OF THE WORKSHOP PROCEEDINGS FURTHER DETAILING HOW THE OFFICE MIGHT WORK WITH THE INFORMAL SECTOR WILL BE AVAILABLE TOWARD THE END OF FEBRUARY; WE WILL REQUEST COMMENTS. A GUIDANCE CABLE OUTLINING SPECIFIC RECOMMENDATIONS PROVIDED BY THE FINAL REPORT AND INCLUDING RHUDO INPUT WILL FOLLOW. SHULTZ

# ■ APPENDIX D

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