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Thesis

Title: **Effects of Land Titles on Access to Credit. A World Bank Programme in Lima, Peru**

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Summary

This thesis focuses on the effects of land titles on access to formal credit as a means to invest in small businesses in two settlements in Lima, Peru. This was done through a programme carried out by COFOPRI and promoted by the Peruvian government and co-financed by the World Bank expecting to alleviate poverty and improve the livelihoods of the new formal settlers through three specific goals:

- To facilitate the access of the low income population to formal sector credits using their title deed.
- To promote the formal real estate sector market in poor urban neighborhoods
- To provide incentives to invest in small enterprises, housing and basic services.

This land titling programme is based on the theory of Hernando De Soto which argues that informal properties can be turned into tradable commodities and thus be used to accumulate capital and invest it into better houses. Investment may also be made in starting small businesses but this has not materialised. The objective of this research is to ascertain why this has not happened given the fact that the project was specifically designed to enable beneficiaries to use their title deeds as collateral to gain capital for starting small business.

My findings focused on different aspects of accessibility to formal credits from the perspectives of both borrowers and lenders in an attempt to answer my main research question:

Why has the increase in access to formal credit been less than foreseen by the Land Titling Programme?

In order to help me answer this question, I have divided it into the following sub-questions:

1. What are the lending criteria the banks apply to the poor?
2. What is the household need for formal credits in relation to business investment?
3. How far can vulnerable household assume the risk of formal credit?
4. What have been the sources of finance used by the beneficiaries of this programme so far?
5. What have been the other benefits of having a land title?

Since De Soto argues that formalizing land tenure will alleviate poverty by increasing access to formal credit using a title deed as collateral, the concepts of informality, access to formal credit by the poor and poverty have been studied on chapter 2.

This is an explanatory study and was conducted in two human settlements located in extremely poor areas in the Northern Cone of Lima, Peru. I used both quantitative and qualitative research instruments namely: a survey, in-depth interviews, case studies and two focus group discussions. With the beneficiaries of the land titling programme I conducted surveys, in-depth interviews and focus group discussions to complement the information received. I also conducted in-depth interviews with senior officials from different micro finance lending institutions and from the World Bank and COFOPRI to be able to triangulate my data.

The main research findings were that no title deed is required to obtain access to formal credits. Commercial banks and micro finance lending institutions in Peru base their assessment on the ability to repay from the borrower.

Another aspect of De Soto's theory is that he assumes that all poor people are efficient entrepreneurs in possession of *dead capital* that is capital that cannot be used as collateral to access to formal loans, and therefore cannot develop themselves as entrepreneurs. But of the seventy survey respondents I found that only three were micro entrepreneurs (4%), meaning that not everybody is an entrepreneur but only a very small number. The majority who are not entrepreneurs will not request a loan to develop businesses that they don't have. Affordability and vulnerability are two concepts that De Soto does not take into consideration because when poor and vulnerable people request a formal loan it will hardly lead to business development and this may explain why fewer people than expected requested access to formal sources of credit to develop their small businesses.

I conclude the thesis with a consideration of the value of De Soto's theory and make recommendations which I believe would improve the development of poor settlements in poor urban areas in Peru.

Key Words: Access to formal credits, vulnerability, De Soto, COFOPRI, informality, Peru

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Abbreviations

ACP Acción Comunitaria del Perú (*Community Action of Peru*)

COFOPRI Comisión de Formalización de la Propiedad Informal (*Informal Real Estate Formalization Commission*)

FP Formalized plots

HHs Households

ILO International Labour Organization

ILD Instituto Libertad y Democracia (*Institute Liberty and Democracy*)

INABIF Instituto Nacional de Bienestar Familiar (*National Family Welfare Institution*)

INEI Instituto Nacional de Estadística e Informática (*National Institute of Statistics and Information*)

IGN Instituto Geográfico Nacional (National Geographical Institute)

LTP Land Titling Programme

ME Microenterprise

MFI Microfinance institution

PCDPI Proyecto de Consolidación de los Derechos de la Propiedad Inmobiliaria (*Real Estate Rights Project*)

PCDPU Proyecto de Consolidación de los Derechos de la Propiedad Inmobiliaria (*Urban Real Estate Rights Project*)

RPU Registro de la Propiedad Urbana (*Urban Cadastral Registry*)

SB Small business

SJL San Juan de Lurigancho (District where one of the studied settlements is located)

SUNARP Superintendencia Nacional de los Registros Públicos (*National Land Registry*)

UNDP United Nations Development Programmes

WB World Bank

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CHAPTER 1: INTRODUCTION

1.0 Introduction

This chapter provides information on how urban poor people have been trying themselves to solve the provision of housing in the last 50 years in Peru by invading public and private lands, and how in the 1990s the government aiming to alleviate poverty implemented several land titling projects throughout the country. A public entity was created specifically to carry out these projects. The processes and activities involved are also explained in this chapter.

Further information in this chapter includes research objectives, research questions, problem statement, a description of the study area, an explanation of the significance of the study and the research structure.



1.1 Background Information

According to the INEI (National Statistics Institute) urban population in Peru grew from 33% in the 1960s to 76% in 2007, with the biggest number of immigrants coming from the Andes to the cities. During the 1960s and because of an ineffective agrarian reform, a massive number of migrants came mainly to Lima and Arequipa (the two biggest cities in Peru) looking for job opportunities and a better future for their families. Through the 1980s another massive migration happened because of the instability created in rural areas by the guerrilla war began by Shining Path¹. The cities to which they migrated were not prepared to receive such a large influx of people, so the services collapsed and because the demand on housing exceeded the supply and the migrants had no money to buy land they had to illegally occupy any land available generally located in the outskirts of the city. That was the beginning of the shantytowns.

In the case of Lima, the city grew towards the North, South and East to what are called the Northern, Southern and Eastern “Cones”. In these *“shantytowns people first live, then construct and then install services”* (Riofrio 2002). Once settled, and due to a strong community organization and participation, the people started working in their squatter settlements improving and transforming their environment, *“housing is constructed, the basic services are organized, the public infrastructure is negotiated and the social services are supplied. Real cities emerge in the periphery in the south where before there were only squatter settlements.”* (Dario 2009).

The ILD (Institute of Liberty and Democracy), which is an NGO led by the Peruvian economist Hernando De Soto, studied this consolidation process (amongst other researchers) and realized that people in these settlements were already in possession of assets and had produced wealth with very little help from the outside world. It is within this view that he decides to develop a titling programme to give these creative settlers access to formal credit,

¹ Atuahene, B. (2006), citing the Center for Defense Information, Terrorism Project: In the Spotlight: Sendero Luminoso, July 1, 2002, <http://www.cdi.org/terrorism/sendero>.

by using their titles as collateral, to investing this money into their neighborhoods and generating new sources of income.

This formalization of properties started being executed by **COFOPRI** (Informal Real Estate Formalization Commission) as a major stakeholder together with **RPU** (Urban Cadastral Registry) through the project named: Urban Real Estate Rights Project, Phase I (PCDPU). The formalization process started as a pilot project by the ILD that gave 300,000 titles from 1991 to 1995 with financial support from USAID and the World Bank (ILD website). These results impressed the Peruvian government and in 1996 COFOPRI was created to increase and promote in urban informal settlements a formal property market in eight cities (covering 89% of all informal properties, source: COFOPRI). The reason to work only in urban areas was because the Inter-American Development Bank (IADB) was already working in a similar project in the rural areas. With this action central government was taking over land titling responsibilities in irregular settlements from local governments after they had been fulfilling this role for sixteen years.

The overall objective of the formalization was to alleviate poverty and improve the livelihoods of the new formal settlers by generating new sources of income. Within this general objective there were three specific objectives:

- To facilitate the access of the low income population to formal sector credits using their title deed.
- To promote formal real estate sector market in poor human settlements and slums.
- To incentive investments in small enterprises, housing and basic services.

From the World Bank side, its main goal was to support the government efforts to fight poverty.

In November 2006 started the second phase of the PCDPU project called PCDPI (Real Estate Rights Project) executed by COFOPRI as the main actor supported by the SUNARP (National Land Registry) and the IGN (National Geographical Institute). Its objectives were similar to Phase I but focusing on the sustainability and continuity of the formalized plots in the formal system.

As a requirement to start the formalization process, the government stated that land titles were going to be given to invasions which had taken place before March 22, 1996; the titles were granted and registered completely free of charge. Afterwards this deadline was extended until December 31, 2001 but this time the titling process was not free.

With the creation of this autonomous national organization, the procedures to grant titles became more transparent and simplified, reducing the time from 7 years to 45 days or less (COFOPRI website). The first massive granting of titles took place in Lima and Arequipa (the 2 largest cities in Peru), expanding afterwards into other six cities.

Simplification of procedures		
	Before	After
Time	7 years	45 days
Administrative steps	207	30
Offices involved	52	4
Cost per parcel in US\$	2,150	49

Table 1. 1: Simplification of procedures

Source: COFOPRI

In 1998 the WB approved US\$ 38 million with a commitment from the Peruvian government to provide counterpart funding of US\$ 28 million for the 6 years Urban Property Rights Project to support the above mentioned project with the objective of registering 1 million properties

in the biggest 8 cities by 2001. As a result of these reforms, by the end of 2001 nearly 1.2 million ex-informal settlers became nationally registered property owners. In total the number of titles granted up to the end of December 2010 was 2,400,000 (source: COFOPRI) and during Alan Garcia’s government (August 2006–July 2011) 848,004 titles were granted.

In 2004 as part of the decentralization process the land titling responsibilities carried out by COFOPRI reverted to local governments, and COFOPRI became an advisory technical organization. By legislative decree this formalization process will finish by 2012.

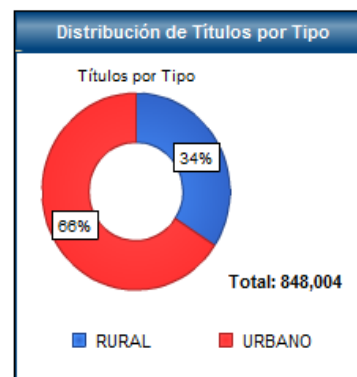


Figure 1. 1: Distribution of titles (Aug 06-Jul 11)

Source: COFOPRI

1.1.1 COFOPRI’s Formalization Processes

As explained above two organizations play major roles in this programme: COFOPRI which is responsible for formulating, approving and executing the Programme nation-wide and RPU which has responsibility for the registration of deeds. These institutions in order to achieve their objectives divided the formalization process into stages:

❖ Cofopri Processes

- **Process 0 or strategic planning**, this is the first step in which settlements are identified and informality is measured; it aims to gather general information in order to make decisions and allocate resources to solving problems in each district.
- **Process 1 or settlement formalization**. This is the stage where the physical and legal analysis is carried out in order to determine if the plots are located on public or private property and if there are any constraints on their regularization. The final products are the perimetric drawing and layout plan which can be registered at the RPU.
- **Process 2 or individual formalization**, in this period the individual owners are identified and it is verified if they meet the legal requirements for state recognition of their right to receive the property. Three steps are followed before the deed is granted:
 - Widescale dissemination in meetings to inform residents of the scope of the process and the requirements that should be met in order for a plot to be regularized.
 - Door-to-door census to verify who is physically living on the plot.
 - Verification and validation of documentation proving possession.

The final product is the title deed (for low-income settlements), and purchase agreement (for popular settlements and private property). In annex I one can find a figure explaining graphically these processes.

The following figure shows the current duration of each process, after which the beneficiary is ready to register the title deed at RPU.

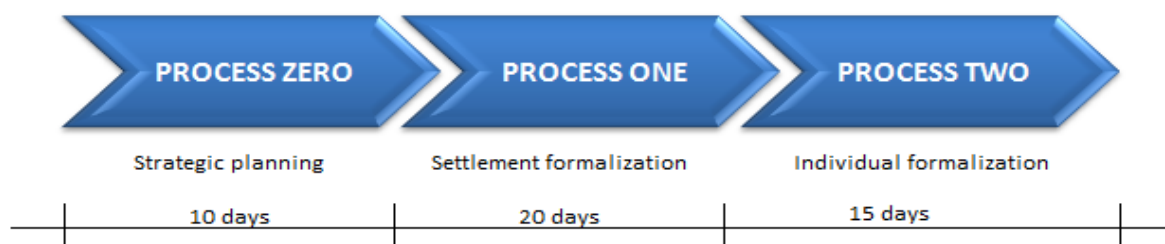


Figure 1. 2: Current duration of COFOPRI processes²

❖ **RPU Processes (Now SUNARP)**

The Urban Cadastral Registry is the organization responsible for urban and rural properties formalized by COFOPRI. These are its processes:

- **Process of Physical Analysis**, where verification of measurements, borders, areas, topographical references, point of connections and contracting parties take place.
- **Process of Legal Analysis**, in which they ensure there is no double registration of the same property, is not possible and legal security is granted.

1.1.3 Study Area

I have selected the capital city of Lima as my study area for two reasons. First, because that is where the PCDFU programme from COFOPRI started. Secondly, logistical considerations argue for Lima, since the sources that I will need to contact for like COFOPRI’s HQs, World Bank, Bank of Materials, Mibanco and other relevant actors are based there. I am selecting 2 human settlements with the same period of existence (12-10 years) and similar characteristics. These are:

- Keiko Sofía Fujimori (Ventanilla)
- Proyecto Integral Los Ángeles (San Juan de Lurigancho)

Human Settlement ³ (hs)	# Formalized Plots	# Plot Owners to Interview	% Plot Owners to Interview
HS. Keiko Sofia Fujimori (Ventanilla)	671	30	7.7%
P.I. Los Angeles (San Juan de Lurigancho)	240	40	
TOTAL	911	60	

Figure 1. 3: Human settlements selected for the study

² For the sake of clarification, where I do not specify a source in tables, figures, charts and diagrams I am the source.

³ This is the name given by the government to low-income settlements or squatter settlements.



Figure 1. 4: Location of human settlements

In this map one can see the location of the two selected urban settlements that will be studied in this thesis in the North Cone of Lima.

1.2 Problem Statement

According to De Soto (2000) informal settlers are in possession of physical assets that cannot be used in formal transactions therefore cannot be translated into capital; for this reason they are missing potential opportunities to gain access to formal and cheaper credit to invest in their dwellings and small businesses.

Within this vision COFOPRI's land titling programme has been created; to implement and execute a programme that would formalize urban informal property rights more cheaply and much faster than had been possible until then. Through this programme the government expects to alleviate poverty by allowing the beneficiaries to obtain their title deeds, formally register their properties and through this obtain access to mortgage loans from commercial banks, increase their real estate capital, improve their homes and develop small businesses.

As mentioned in the background information, COFOPRI's LT programme has improved the legal and institutional framework by reducing, simplifying and making accessible the procedures to grant titling but it does not seem to have had the same effect with respect to access and use of formal sources of credit in their target population.

According to Field and Torero (2006), *"there is no evidence that titles increase the likelihood of receiving credit from private sector banks.....the failure of commercial banks to increase their rate of lending to households that obtain property titles through government programs has important implications for the potential effects of property reform on economic growth and poverty reduction"*. In the same research they found out that the main source of credit in this programme was the Bank of Materials which is a public institution that used to lend only in kind, used to improve or construct their dwellings. So, what have been the benefits of having a title deed? Why don't people use their title deeds to invest in small businesses? What are the barriers to lending and borrowing? These are some of the questions that I will investigate during my research and finally determine what is stopping this programme from having the impact expected amongst the target group.

This leads me to the statement of the problem to which this thesis is addressed that land titling does not lead to the creation of growth-oriented small businesses. In the figure below I have explained this problem graphically.

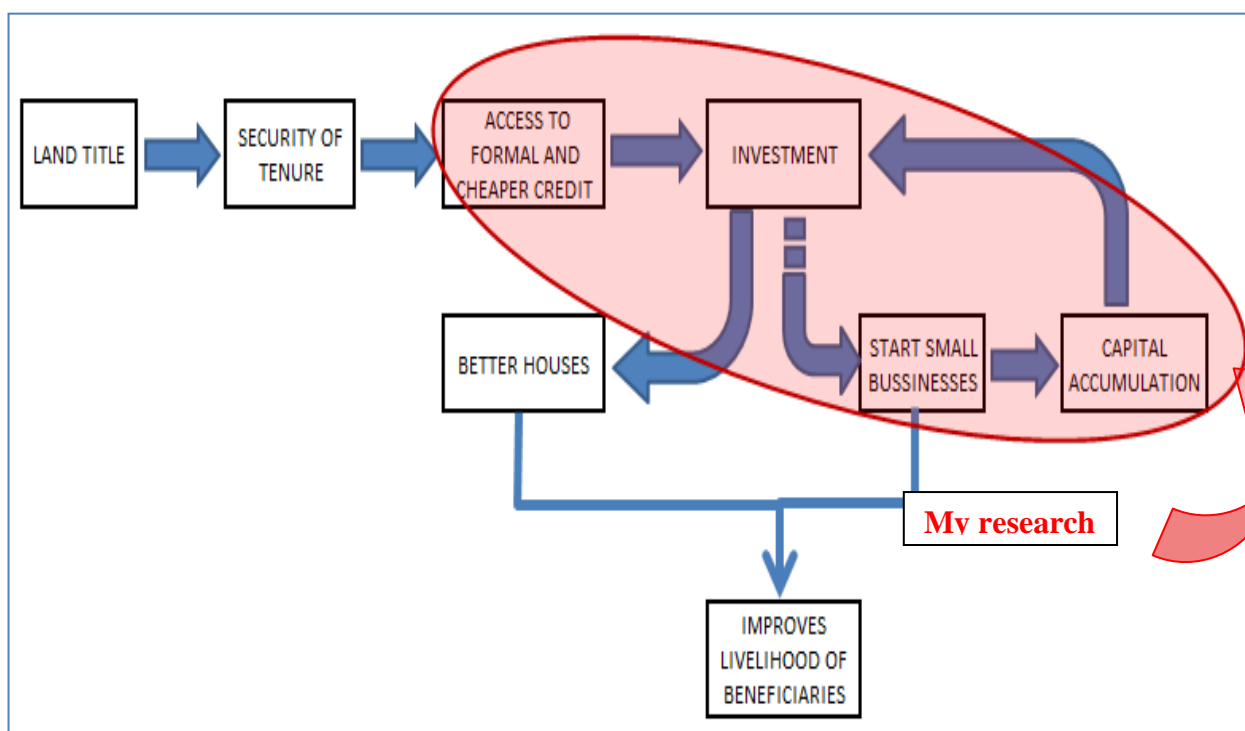


Figure 1. 5: Problem statement summary

1.3 Research Objective

The goal of the land titling programme has been based on De Soto’s idea that informal properties can be turned into tradable commodities and thus used to accumulate capital and invest it into better houses. Investment may also be made in starting small businesses but this has not materialised. The objective of this research is to find out why this has not happened given the fact that the project enabled beneficiaries to use their title deeds as collateral to gain capital for starting small business.

1.4 Provisional Research Questions

1.4.1 Overall Question

Why is the increase in use of formal credit less than foreseen by the Land Titling Program?

1.4.2 Specific Questions

1. What are the lending criteria the banks apply to the poor?
2. What is the household need for formal credits in relation to business investment?
3. How far can vulnerable household assume the risk of formal credit?
4. What have been the sources of finance used by the beneficiaries of this programme so far?
5. What have been the other benefits of having a land title?

1.5 Significance of the Study

The land titling programme is very important for the Peruvian government because through the granting of titles they aim to improve the livelihoods of poor people and to alleviate poverty by making credit available to a broad range of income groups. Besides, the same programme has been implemented in El Salvador from 1992 to 2005 (ILD website) and Tanzania as well, and the ILD is planning to carry on implementing it in another developing countries, so considering the possibility of further replication of this programme it is important to evaluate whether this programme is indeed helping to alleviate poverty by giving access to formal credit to their beneficiaries.

1.6 Scope and Limitations

This study focused on evaluating the effect of the land titling programme only with respect to access to formal credit on residents of two formalized settlements randomly selected and located in the capital city of Lima.

I have chosen this location because I wanted to measure a period of over 10 years and, since Lima is where the programme started 12 years ago, I could have a better chance to choose the settlements. These settlements are located in the North Cone and were formalized between the years 1999-2001.

1.7 Structure of the Study

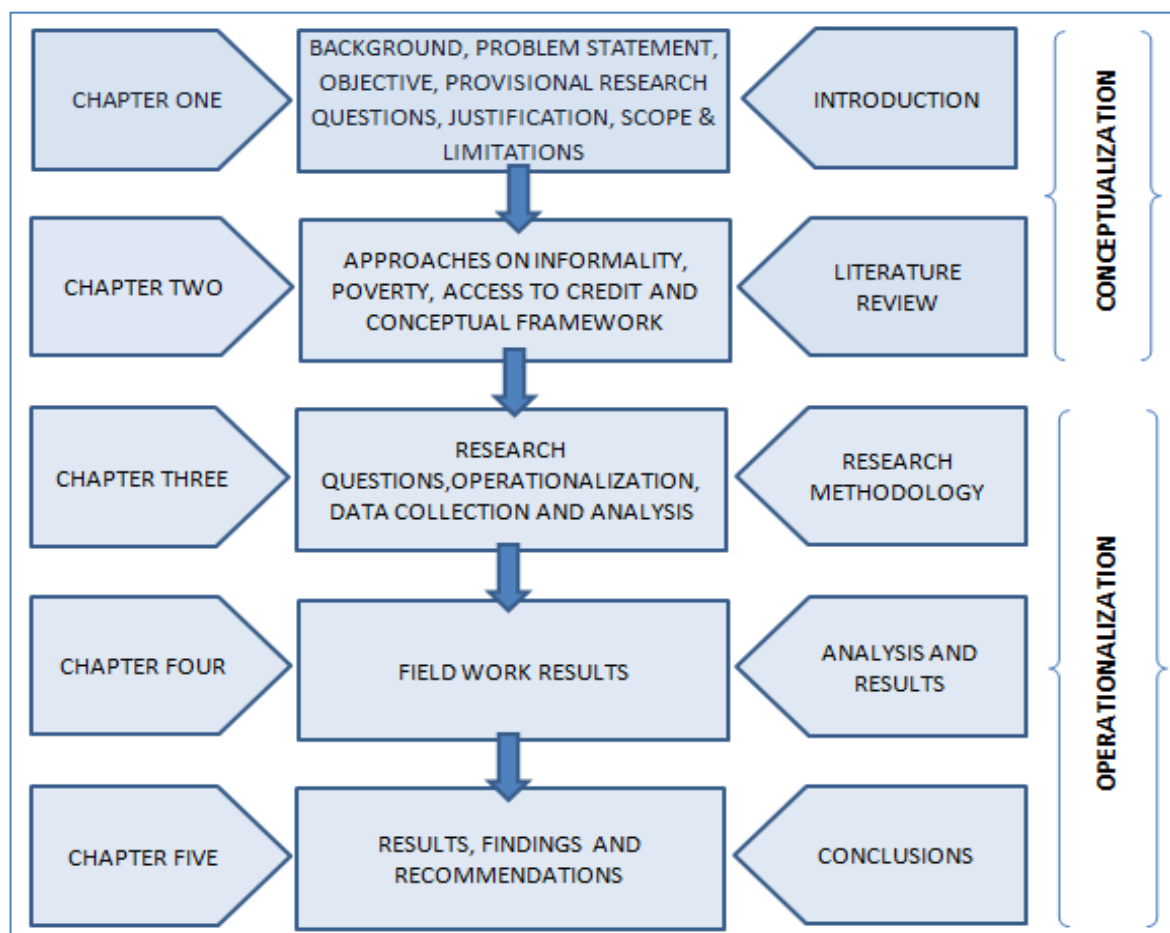


Figure 1. 6: Structure of the study

CHAPTER 2: LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.0 Introduction

This research is about the contribution of land titling to the “solution” of poverty by increasing access to formal credit (De Soto, 2000). The land titling programme analysed is based on De Soto’s theory which we will look at in the following section, the way in which access to formal credit is facilitated requires understanding of the concepts of informality and the supply and demand of formal credits; we will look as well at different approaches to poverty alleviation in order to arrive at a framework within which De Soto’s approach to poverty reduction can fit; in this section we will look at concepts of poverty, vulnerability and the livelihoods approach.

2.1 De Soto’s Theory of “Dead” and “Live” Capital

Hernando De Soto is a Peruvian economist who grew up in Europe and founded in 1981 the Institute Liberty and Democracy (ILD). He believes he has produced a model to end world poverty.

He carried out research for many years on the informal economy in the shanty towns of Peru. There he realized that despite their obvious poverty, if all the building materials, land and other assets were to be valued, the investment in hands of the poor would be an amount equivalent to sixty times all foreign investment made in Peru in the last 50 years, more or less ninety billion US dollars. In his view, the poor in Peru already had the majority of wealth but with no papers. Squatter settlers have produced this wealth with very little help from the outside world managing to change their slums into real cities and they have done this by creating their own rules and regulations concerning credit, loans and contracts in order to run their micro-economic activities. Within this view De Soto argues that residents of these shanty towns are not illegal but extralegal because although they are outside the formal written legal system they are within their own.

According to De Soto, (De Soto, H., 2000) “The Legal system is unfriendly to poor people”; there exists what he calls “legal apartheid”. He and his institute have studied the titling process in different countries in the developing world such as; Peru, the Philippines, Mexico and Egypt and concluded that the process to formalize property takes between 14 to 52 years. Even to register a company, he explains, will be more expensive and take ten times more for a poor settler than for a rich person. He suggests that we should make it friendly to the majority because they want to participate, but if they want to make safe contracts with anybody or to get a formal credit from a private bank they will need documents that proof their ownership and unfortunately they don’t have it, what they own are physical things which don’t have a legal representation, therefore their assets can’t be recognized on a broad scale. Hence, this could be a reason why poor people prefer to remain outside the legal system, and why capitalism is not working in the majority of the world. Finally he says: “If they want to have the chance to create a huge amount of wealth and have access to global economy we have to give them the tools of law”. (De Soto, 2000)

Consequently, his proposal is to formalize their real estate assets and give them legal representation of what they really own to bring the slum dwellers into the capitalist world so that they can formally register their properties, obtain their title deeds and through this get access to mortgage loans from private banks, to improve their homes and to develop small

businesses which De Soto hopes will open the doors for accumulation of capital ending world poverty.

2.2. Critiques of De Soto's Theory

There are many critiques of De Soto's theory with respect to the benefits that land titling programmes produce; they focus on a variety aspects: land values and land markets, individual vs. communal property, investment in property, access to credit, improving the property tax base and legality of informal activities amongst others. Below we will look at each of them in turn.

LAND VALUES AND LAND MARKETS

Atuahene (2006) argues that land titling programmes have a negative outcome because they encourage land invasions, recognize illegal actions, give informal settlers ownership of valueless land, increase property and land values making housing unaffordable to the poorest families and contrary to De Soto's theory they wrongly assume that the new owners will be able to collateralize their properties to have access to formal capital.

Related to the impact of titling on property and land values, Durand-Lasserve (2006) adds that formal land tenure increases the value at least by 20 up to 60% and therefore resulting in eviction of the poorest settlers as also mentioned by Atuahene.

Furthermore, Payne (2000) argues that if land titles are granted in squatter settlements it can increase the value of houses between 25-60%. This will send a message to developers and land-owners elsewhere that they can profit from such land price increases by illegally in the expectation that illegal subdivisions would become legalized; stimulating the process of unauthorised illegal development that public organizations are trying to prevent and reduce.

INDIVIDUAL OR COMMUNAL PROPERTY

De Soto has promoted individualised land tenure systems for the poor worldwide instead of customary or collective options which focus on trusteeship. Home (2004) argues that this has negative consequences for the poor because if compared with customary lands, it devalues secondary rights, concentrates ownership, promotes inequality and contributes to landlessness⁴. With respect to ownership an individual property right undermines obligations to other community members, weakening community organization, social cohesion and continuity.

Regarding inequality, Home (2004) explains that communal property provides a kind of social security for the powerless like the poorest, the old, disabled and women because there is no danger of becoming landless if land is not repaid due to land passes from generation to generation. For example in sub-Saharan postcolonial Africa we can see that tribal or customary land has kept welfare functions serving as a means of cheap, unserviced land in peri-urban areas⁵.

INVESTMENT IN PROPERTY

Durand-Lasserve (2006) says that, it is assumed that the granting of titles to land contributes to an increase in housing investment because they allow the owner access to formal bank credit. However, data from Mexico, Thailand, Peru and India show that most owners finance housing improvements without the use of formal credit. Similarly Gilbert's (2002) research in self-help settlements in Bogota shows that most of the investment in dwelling improvements

⁴ Home, R. (2004), citing Toulming & Quan (2000)

⁵ Idem, citing Hindson and McCarthy 1994)

is made at the beginning of the illegal settlement process (contrary to what De Soto posits) and is carried out with informal sources of finance; he found that very little formal finance follows the titling process.

While security of tenure may encourage housing investment, and a subsequent increase in land values, a land title is not the only way to provide that security.

Related to this point, Payne (2000) argues that an official statement that the settlement will not be removed, the provision of public services and the issuing of certificates of land use right (CLUR)⁶ are effective alternatives to titling.

LAND TITLING HELPING THE POOR

Field (2005) believes there is no question that a title deed will help the poor by increasing their sense of tenure security and will help them when later they want to sell or buy property, but according to Gilbert (2002), massive titling programmes are conducted for different reasons than helping the poor. Politically it is a vote winner with electorates and a recipe for popularity; furthermore they mean a cheap housing solution for the government because it is cheaper to provide property deeds than to settlements with services.

ACCESS TO FORMAL CREDIT

There is no evidence that land titling programmes have significantly increased access to formal credit through mortgage for poor families (Durand-Lasserve 2006). In the case of Peru, one reason for this is that beneficiaries have shown little interest in formal loans (Payne et al 2007), this is why the World Bank has implemented a component to the PCDPI named CREDICRECE whose main goal is to promote and train the beneficiaries of the COFOPRI programme in the culture of credit (application, management, responsibility etc.). It is unclear as yet how successful these have been.

Similar research in African countries has concluded that *“employment and income are key factors to obtain loans”*⁷.

From the side of the borrower the risk of losing land is feared by families, which explains why in Tanzania 80% of households interviewed would not seek formal credit if they had to use their title deeds as collateral. This shows us that the poor are reluctant to borrow from banks; banks are equally unwilling to lend to the poor. Durand-Lasserve (2006) found some of the reasons for this to be:

- The cost to managing small credits is too high compared with the returns.
- Newly formalized settlers borrow from micro-credit already based within their communities because what they want is a small loan to allow them build an extra room (rental extra income) or to improve their current dwelling.
- In Mexico, beneficiaries prefer to borrow from friends or relatives.
- Financial institutions are not interested in lending because of low households incomes.
- High political risk because communities become stronger when organized then repossession by banks become impossible when borrowers do not repay the loan.
- Most of these properties are located in hazardous areas like: sandy and unstable soil, flood plains of rivers or landslides; in that case for the lender it matters very little whether the possible borrower has a title deed or that he has a regular income and there is no

⁶ CLUR is a document that certifies the right to use a piece of land in perpetuity according to established legal procedure.

⁷ Payne, G. Et al, (2009), citing IIED (2006), “Local innovation in securing land rights in Africa: lessons from experience”, Briefing Paper, IIED, London, page 12.

doubt that he can repay the loan or that he is very reliable, in that case the family will not get the loan.

- If plots and settlement conditions do not comply with regulated standards for building permission, properties can't be registered and therefore can't be collateralized.

IMPROVING THE FUNCTIONING OF THE HOUSING MARKET

De Soto (2000) says: "Any asset whose economic and social aspects are not fixed in a formal property system is extremely hard to move in the market". Yet according to Gilbert (2002) from his experience in Latin America the opposite happens. There, illegal and informal markets work effectively, not only for invaded land but also for contraband imports and drugs. He reckons that illegality affects the prices in market; increasing the prices in the case of illegal drugs and decreasing them in the case of low-income land. He cites the example of ejido land in Mexico which is sold illegally despite the fact that it can be penalised or the example of Bogota where the market for plots with no title deed is very active.

IMPROVING THE PROPERTY TAX BASE

De Soto's theory was welcomed by the World Bank which was at that time working on its neo-liberal market driven urban development strategies which assumed that the provision of formal titles would lead to local investment in house improvements and therefore raise property values and increase municipal revenues through higher property taxes. This has been proven wrong in Karachi's squatter settlements where the central government offered titles to about 100,000 families. Only 10% accepted because the rest were afraid of not being able to afford paying property taxes. For them just the offer of individual titles was enough to ensure permanent occupation of their plots and, therefore there was no need to formalize the tenure (Payne 2000).

ONE-DIMENSIONAL CONCEPT

Concluding on the critiques section we can see that De Soto's concept seems to be quite one-dimensional only focusing on the legal aspect of land tenure, while aspects like poverty and informality may also influence access and use of formal credit.

He believes that all poor people are able to save money and in order to survive they have developed business skills; therefore all they need to make a success of their businesses is to have access to formal credit. It was explained above that De Soto's theory is focused more on enterprises and economic activities rather than on individuals, households or settlements Bromley (1994). This is why he proposes simply to formalize the informal sector assuming that all poor people living in informal settlements are entrepreneurs. Unfortunately this one-dimensional approach cannot guarantee economic development as we will confirm in the following concepts of this chapter.

2.3 Research on the Land Titling Programme in Peru: State of the Art Review

Above we reviewed the main critiques of De Soto's ideas. In this section we will look at research carried out on programmes in Peru in which his theory was implemented. My intention is to identify gaps in the fields of study which my own research can fill. The table below shows the broad range of subjects which existing research has covered: access to credit, dwelling improvement, gender, time allocation and leisure activities, tenure security, labour market and others. From these studies we can conclude that COFOPRI's Land Titling Programme has had positive outcomes in most of the areas covered with the exception of access to formal credit. I will focus my research in this area to determine why this objective was not reached by the programme.

OVERVIEW OF STUDIES OF THE LAND TITLING PROGRAMME					
AUTHOR'S NAME	FOCUS OF INVESTIGATION	PUBLISHED	PERIOD	DATA COLLECTION METHODS	CONCLUSIONS
Ayako Kagawa	access to credit and dwelling improvement	2000	4 years	Secondary and primary	legal consolidation through land titles does not prove to be a strong determinant for physical consolidation. Furthermore, security provided by legal land titles do not necessarily increase opportunity as economic consolidation.
Julio Calderon	access to credit and dwelling improvements	2001	2 years	Secondary	"There are certain merits in this program that can be replicable"; with respect to access to credit "evidence shows that the poor are as scared of borrowing for the banks as the banks are reluctant to lend to the poor".
Consortio Informat- Impet	gender	2002	2 years	Secondary	
Erica Field	time allocation and leisure activities inside and outside the home	2004	5 years	Secondary	Individuals in titled households spend fewer hours inside the home guarding property and engaging in homebased entrepreneurial activities, and a greater number of hours in both employment and private leisure activities outside the home.
Morris Felipe, Víctor Endo y Rafael Ugaz (for COFOPRI and World Bank)	ALL	2004	6 years	Baseline survey 2000	
Erica Field	tenure security	2005	4 years	Secondary	land titles in urban slums have a significant effect on residential investment: rate of housing renovation rises by more than 2/3 of the baseline level without use of credit
ERICA FIELD+ MAXIMO TORERO	access to credit	2006	3 years	Secondary	titling efforts will not automatically make collateral-based lending viable for the majority of formal-sector credit applicants. property titling does not appear to assist poor households finance micro-enterprise activities
Gustavo Riofrio	quality of plots	2006	one slum	Primary and secondary	
Julio Calderon	access to credit, services and dwelling improvements	2006	6 years	baseline survey 2004	"Six years is not enough to evaluate the success or failure of the formalization policy". "The connection almost automatic between land titles and access to formal credit has failed".
Erica Field	labor market	2007	4 years	Secondary	"My estimates suggest that titling results in a substantial increase in labor hours, a shift in labor supply away from work at home to work in the outside market and substitution of adult for child labor."
Julio Calderon	tenure security, access to credit and mercados inmobiliarios	2009	1996-2008	baseline survey 2004	He found out that % of people who used their COFOPRI title as collateral is exactly the same as people with a LT from other sources but the % of rejection from banks was higher.

Table 2. 1 Overview of some studies of the land titling programme

2.4 Poverty

The understanding of poverty has changed over the last 35 years, from the classic poverty line definition which is one-dimensional and quantitative, to the sustainable livelihoods approach which is multi-dimensional, holistic and dynamic. The concept of poverty has been discussed over time and across continents with one thing in common: poverty reduction as a goal of achieving development.

2.4.1 Approaches

There have been many approaches to the definition and measurement of poverty, some of them qualitative others quantitative, but they have all had in common characteristics such as “LACK” or “DEFICIENCY” for human survival needs namely food, drinking water, shelter, clothing and welfare. Both these characteristics conduce to “VULNERABILITY” which is a characteristic of poverty that means defencelessness, insecurity and exposure to risk, shocks and stress (Wratten 1995). I explain some of the most important and focus on the monetary and sustainable livelihoods approach because they are particularly relevant to my research.

1. The *monetary approach* has its origins in the late 19th - early 20th century and came back into the economic arena with the governments of Reagan and Thatcher in the 1980s. This approach as described by Ruggeri et al (2003) is one-dimensional: poverty is perceived in economic terms and is measured quantitatively in terms of income. It is widely used and is based on income and consumption and basically refers to material deprivation. In this case poverty is measured against some minimum level of resources named the poverty line. People are considered poor if their income is insufficient to cover certain “defined needs”. The World Bank in its World Development Report (1990) used this approach; people were deemed poor if their income/capita was below US\$ 370/year and those with less than US\$ 275 were considered extremely poor. In this case where poverty is viewed as having a single economic dimension its solution will be focused mainly on income generation and economic growth, which matches De Soto’s one-dimensional theory, focuses as well on income generation as means to alleviate poverty.
2. The *capability approach*⁸. The monetary approach was attractive because of its simplicity. However, it came into question from others who considered it to be simplistic. Amartya Sen is one of them and as an alternative he articulated the *capability approach* (Sen, 1987) which is based in the quality of life people live and sees poverty from a wider perspective than the monetary approach, by including the realisation of human potential and expansion of human capabilities in order to have the freedom to live a valued life.
3. The *participatory approach* (PA), as explained by Ruggeri et al (2003) was developed by Chambers in the 1980s and aims at involving the poor in the definition of poverty and what can be done to solve it. This is a qualitative and multi-actor approach whose objectives are to empower the poor. These approaches have been widely implemented by the World Bank, having used them in “Voices of the Poor”⁹ which is their participatory research. It was carried out among more than 60,000 poor people from 60 countries in their effort to understand poverty from a different perspective.

⁸ Ruggeri L., C. et al (2003) citing Sen, A.K. who pioneered this approach

⁹ From the WB website, Voices of the Poor

4. The *Sustainable Livelihoods approach* (SLA) (Krantz, 2001) was first introduced by the Brundtland Commission on Environment and Development (1987) and adapted and enhanced during the UN Conference on Environment and Development in 1992. This is a subjective, participatory approach that rejects the income/ consumption approach as narrow and reductionist and serving the technocratic needs of development professionals, while failing to understand the complex, diverse, local realities in which the poor live¹⁰.

Carol Rakodi (2002) explains the concept of livelihood as a realistic recognition of the multiple activities in which households engage to ensure their survival and improve their well-being. When talking about livelihood we refer to the capabilities, assets and activities required for a means of living. It is sustainable if it copes with and recovers from stresses, crisis and shocks and maintains or enhances its capabilities and assets both now and in the future, while not undermining the natural resource base¹¹.

In the figure below we can see the relation between assets, strategies and outcomes in the livelihood of a person, household or community. **Assets** are influenced by external environment (vulnerability context and policies, institutions and processes), which together with activities or **strategies** can be transformed into **outcomes**; the diagram also shows that the actions of people, households and communities themselves have an influence on these external forces. People with more assets are better suited to cope with shocks or crisis; there is an inverse relationship between assets and vulnerability.

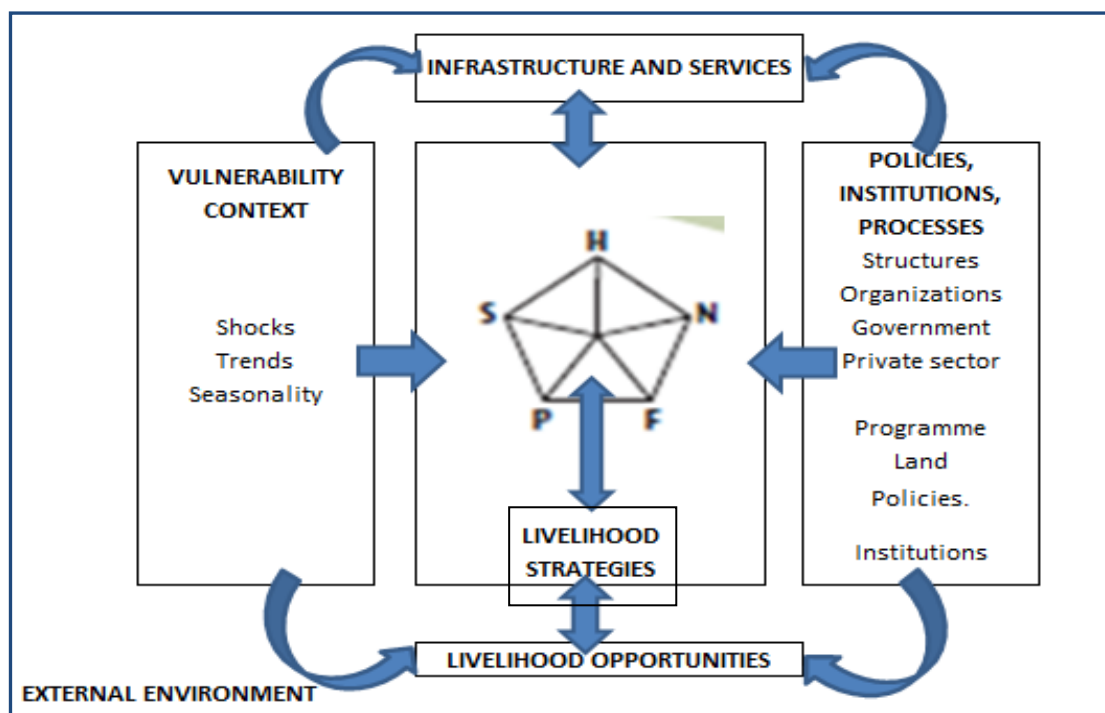


Figure 2. 1: Livelihoods framework

Source: Rakodi, C. & Lloyd-Jones, T. (200) *Urban Livelihoods: A People-Centred Approach to Reducing Poverty*, London, Earthscan, p. 3-22

¹⁰ Moser, C. (1998) citing Chambers, (1992, 1995)

¹¹ Racody, C (2002) citing Carney (1998)

Livelihood strategies are the series of activities and choices that people make in order to achieve their goals, on the basis of the resources and options available to them.

From the figure below it can be seen that the portfolio of assets is quite complex because it comprises tangible and intangible assets and resources namely:

- **natural capital**, e.g. land, water, forest;
- **physical capital**, e.g. shelter, infrastructure such as roads and transport, buildings, irrigation systems;
- **Financial capital**, e.g. cash income and remittances, credit, savings in kind and cash;
- **Human capital**, e.g. skills, knowledge, health;
- **Social capital**, e.g. formal and informal institutions, networks, access to opportunities, extended families.

Financial and social capital are the focus of this study since I will try to find out why the opportunity to access to formal credit was not used to increase financial capital in the households of the formalized squatter settlements, and how their internal networks (social capital) were key to access to other sources of credit; that doesn't mean that I will not do research on the other capitals since these have the capacity to be sold/changed/substituted into the other capitals in order to secure some of their assets.

Vulnerability. According to Moser (1996)¹² is the insecurity of the well-being of individuals, households or communities in the face of a changing environment. Environmental changes threatening welfare can be ecological, economic, social or political. With these changes often come increasing risk and uncertainty and declining self-respect. Because people move into and out of poverty, the concept of vulnerability better captures processes of change than more static measures of poverty.

Household strategies refer to the way in which households use their portfolio of assets, how they prioritize their obligations and responsibilities and how they find and use livelihood opportunities that will allow them to cope and recover from shocks and stress and to enhance their capabilities and assets. But assets can be lost permanently; therefore poverty means not only the lack of the assets themselves and the inability to accumulate them but also lack of choice with respect to alternative coping strategies. For this reason the poorest are likely to prioritize safeguarding their existing assets and avoid exposing them to risk (Rakodi, 2002, p6)

As a consequence the poorest will look for strategies that will make possible their survival rather than improving their well-being, therefore for some analysts there are doubts that poor families with no control over their assets and environment will pursue goal-oriented behaviour hence they will only try to defend themselves against further impoverishment. (Rakodi, 2002, p7).

Risk and Poverty. From the literature we have learnt that households have a portfolio of assets and manage them according to their capability to use livelihood opportunities. The amount of assets that they have will determine how vulnerable they are to shocks, stress or risk, meaning that the poorest are in the most vulnerable position because they are in possession of fewest assets. They will be afraid to engage in risky but potentially more profitable economic activities that could improve their economic situation because they might lose the little they have. Therefore they will tend to adopt strategies which enable them to maintain their status quo rather than improve their welfare. This might explain why

¹² Cited by Rakodi, C. (2002)

some people do not take on formal credit to improve their livelihoods. They will probably continue to borrow on an informal level and they will not go to a commercial bank to use their title as collateral. This ‘hypothesis’, will also be tested in my field research.

2.5 Informal Economy

After looking at the theory behind the land titling programme and in order to understand the problem in De Soto’s theory, I will look in this part at the approaches to informality.

2.5.1 Definition of the Informal Economy

In this section I focus on informal economic activities and will use the terms *informal* and *informal sector* to refer only to the informal economy unless otherwise specified. Therefore, while recognising that *informality* covers non/economic areas such as land and housing these are not dealt with in this section.

2.5.2 Theories and Approaches to Informal Economy

De Soto’s theory is one of several which attempt to explain the origins and characteristics of the informal sector. Here they will be reviewed in order to situate the theory behind the land titling programme. We will show that it corresponds to a particular understanding of the causes of poverty and informality and identify its weaknesses.

- The *dualist* approach promoted by the ILO¹³ in the 1970s, argues that the informal sector is linked to marginal activities which run separated from and unrelated to the formal sector. This theory maintains that the informal sector exists because not enough job opportunities have been generated to absorb surplus labour resulting from internal migration.
- The *structuralist* approach (ILO-PREALC)¹⁴ popularized during the 1970’s and 1980s argues that the informal sector operates on the margin of the law and is a refuge for surplus labour. Contrary to the dualist theory it considers that informal and formal sector are not only connected but also interdependent.
It recognized two forms of informal activity:
 - Survival strategies of the poor who have low human capital and thus remain poor permanently (structurally).
 - Survival strategies of those who are temporarily (“conjuncturally”) unemployed as a result of economic recession, crisis or structural adjustment policies.
- The *underground economy* approach (Portes)¹⁵, is also structuralist and, contrary to what the dualist approach says, considers that there is a linkage and articulation between formal and informal sectors focusing on labour exploitation. Labour in the informal sector is characterized as being; non-contractual, unprotected, enjoying fewer benefits, lower wages and poorer working conditions than workers in the formal sector. The labour force is integrated into local and international economies. This approach understands that informality is more engaged with lowering costs of production than being a set of survival strategies. This approach defines the informal economy as a: “*specific form of*

¹³ Rakowski, C. (1994b)

¹⁴ Idem

¹⁵ Idem

relationships of production and poverty as an attribute linked to the process of distribution". (Rakowski, C, 1994b). The example given in the following diagram explains this approach more clearly. Under the heading of "vertical production chain" we see how an architectural firm hires a principal contractor who subcontracts informal manual labour at low wage rates in order to build cheaply and become more competitive. The second part of the diagram illustrates how garbage dump and street collectors select and separate waste during the night which they will sell the next day to wholesalers; these items will be used at the end of the chain by large formal industries at a minimum price.

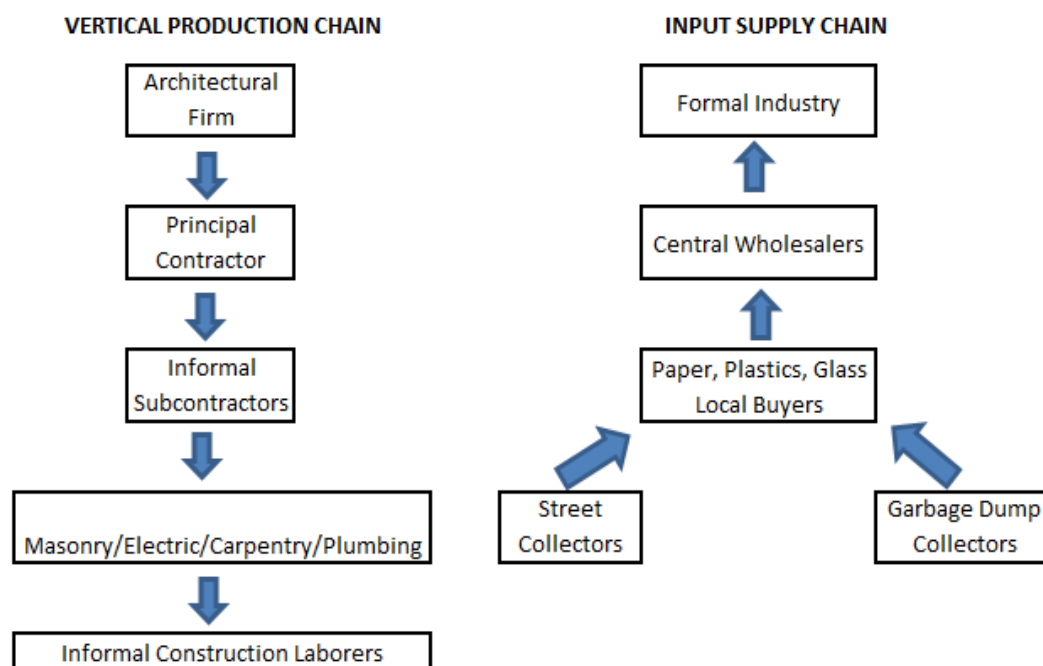


Figure 2. 2: Examples of articulation between formal-informal sectors

Source: Portes, A. (1994, p.117)

- The *legalist* approach (De Soto, 2000). This theory is well explained in section 2.2.1 above and was popularized by Hernando De Soto in the 1980s-1990s. He argues that informality has its own rules and regulations which allow it to carry out its economic activities and he calls this "extra legality". It is comprised of micro-entrepreneurs who do not have the chance to operate formally because of the high cost and extreme slowness of formal registration. De Soto wants to change the image of the informal sector from negative to positive, to survivors and heroes. As part of his theory he argues that poor people worldwide own \$9.3 trillion of "dead" capital¹⁶ and in order to convert it into "live" capital all that is needed is to formalize their property rights and these entrepreneurs will then have access to credit and to the global economy. De Soto's ideas which were put into practice by the government of Fujimori¹⁷, lead to deregulation, debureaucratization and privatization.

¹⁶ De Soto in his Book *The Mystery of Capital* explains that dead capital is the capital that can't create capital because it lacks proper documentation, therefore they can't be used as collateral for a loan, and can't be used as a share against an investment

¹⁷ Peruvian President (1990-2000)

ONE-DIMENSIONAL APPROACHES TO INFORMALITY	
AUTHOR / YEAR	INFORMAL ECONOMY
ILO (International Labour Office (1972))	They invented informal sector dichotomy: formal - informal. Informal sector is comprised of unemployed people whom far from being only marginally productive are economically efficient and profit making."
Portes Approach	He defines this as a system of intense exploitation and a way of getting cheap handlabour by paying low wages and working long hours.
De Soto (1980s)	Informality has its own rules therefore it should be called "extralegality", is comprised of micro-entrepreneurs with no chance to become formal because of its high costs. He gives informality a positive image of survivors and heroes.

Table 2. 2: One-Dimensional approaches to informality

The three approaches above are called one-dimensional approaches and are summarized in table 2.2. The single dimensions employed by each are respectively the unemployed (ILO), exploited labour (Portes) and entrepreneurs (De Soto). In contrast table 2.3 shows different approaches which are here called multi-dimensional approaches to informality where we can find different types of entrepreneurs. The multi-dimensional approaches are as follows:

- The *Neo informality* approach (Perez Sainz 1998) Perez Sainz uses the term “neo informality” because the way informal activities operate in the national and international economy have changed as a reaction to structural adjustments to globalisation. He distinguishes three new types of informal economic actors:
 - *Micro Dynamic and Small Enterprises*. This scenario, according to Perez Sainz, is the most encouraging of the three, and its main characteristic is the existence of socio-territoriality, implying agglomeration of small enterprises at a community level (community ties). The community is rich in “social capital, which is a very important element within this context by showing how economic resources are mobilised in terms of a socio-cultural framework that makes them viable.” (Perez Sainz 1998, p. 166),
 - *Subordinated/subcontracting Micro Enterprise*. This is the case in which globalisation plays an important role in the decentralization of productive enterprises. In this category are those which supply international corporations. In order to meet the companies’ huge demands for their products; they will either purchase from small enterprises (formal or informal) or subcontract small enterprises. In Peru this system is widely used and known as “maquila”. The main reason for subcontracting is to lower wage costs. Here, can also find educated people who prefer to start their own small businesses instead of working in the formal sector.
 - *Economy of Poverty (Survival Economy)*. Where the benefits of globalisation have not reached large sectors of the population they are left to carry out subsistence activities with limited resources and with few chances of growth. One of the outcomes is the creation of a “new urban poor” because of the impoverishment of the most vulnerable sectors.
- The Survivalist and Growth-oriented approach (Berner 2008). Berner categorises the informal sector and emphasises on the survivalists, explaining that they establish small businesses because of the lack of alternative income opportunities. One of their main

characteristics is the diversity rather than the specialisation of their activities, in this way they reduce risk and vulnerability. They adopt this strategy because they cannot afford to lose what little they have. Survivalists sacrifice profit for security; making the accumulation of capital difficult and therefore their graduation into small-scale businesses. Another concept inserted deeply into this group is the moral economy where reciprocity plays an important role when coping with crises. This entails the better off entrepreneur being there to help the less fortunate; this is a brake on him/her growing and keeping him/her in the same state of poverty. The growth-oriented on the contrary, become entrepreneurs by choice, take risks, specialize, maximize and accumulate profits and do what it takes to make their business grow.

In table 2.3 as mentioned before, we can see the multi-dimensional approaches which if compared with those in table 2.2 show how the concept of informality has changed over the years going from a parallel relation between formal and informal sector to a more permeable one; from an uncategorised sector to categorizing the sector and arguing that the three exist at the same time and that mobility between categories is possible in some cases.

ONE-DIMENSIONAL APPROACH AND MULTI-DIMENSIONAL APPROACHES

De Soto's assumes that all residents in informal settlements are entrepreneurs who would benefit from a land title which they could use as collateral to obtain a loan to help them achieve business growth. But we have seen in this section that reality might be more complicated than that. There is a qualitative division between informal actors, some of them are indeed entrepreneurs looking for better opportunities to improve their income and grow their businesses but there are others who are in the informal sector because they have no other option and it is their only means of survival. The need for a credit in each case will be different. The latter face an inverse relation between assets and vulnerability; (discussed already on section 2.4) they feel loans will place them at risk of losing what little they have and therefore will not seek formal credits. This leads me to conclude that we cannot assume that all members of informal sector are entrepreneurs who are willing to take risks and this may explain why they do not apply for credits. This will be tested in my field research.

MULTI-DIMENSIONAL APPROACHES TO INFORMALITY			
AUTHOR / YEAR	INFORMAL ECONOMY		
William House (1984) He recognizes a qualitative division of two sector models of the informal economy	Community of the poor		Intermediate sector
	Is located in the city in hope to find employment in the formal sector. They don't look for opportunities to grow because they consider their situation as temporary.		They have chosen their line of business based on a particular artisan skill they have with the intention to make a permanent livelihood. They invest in order to build for the future.
Farbman & Sessik (1989)	Survival Businesses	Micro-enterprises	Small Scale Enterprises
	Family-based firms, single worker located in their homes. Needs community development approach. If trained could work in small enterprises	Family-based firms with single worker, located in their homes. Serves local market.	Requires a business development approach through microcredits.
Christian Rogerson (1996)	Survivalist Enterprises		Micro Enterprises (ME)
	People unable to access an economic sector of their choice. Generally run by women, little capital and no skills training. No opportunities for expansion. Local overcrowded market.		Family-based firms with single worker, limited capital base and basic business skills. Potential to develop into larger small enterprise
Perez Sainz (1998)	Survival Economy or Economy of Poverty	Subordinated / Subcontracting ME	Micro dynamic and Small Enterprises
	Most vulnerable sectors were excluded from globalization process. People with limited resources and scarce possibilities of growth.	In order to lower wages cost and meet demands, big companies des-centralize their production by subcontracting small companies elsewhere.	Based on socio-territoriality and community ties. Small enterprises mobilize their economic resources around their social capital.
Portes & Hoffman (2003). Based on Latin American tradition.	Informal Proletariat		Petty Bourgeoisie
	Non-contracted wage workers, unpaid family labour and domestic servants. Earnings lower than formal workers and in need of additional income sources to sustain a household.		Ranked higher than formal workers. In possession of some monetary resources or/and, professional, technical or artisanal skills
Mike Davis (2006)	Sub-subsistence		Micro-accumulation
Erhard Berner et al	Survival(ist)		Growth-oriented
	(Street businesses, community of the poor, informal own-account proletariat, Sub-subsistence). Low capital, skills and technology. Ease of entry Involuntary entrepreneurs Female majority Maximizind security Diversification strategy Obligation to share		(Small-scale family enterprise, intermediate sector, petty bourgeoisie, micro-accumulation). Barriers to entry Entrepreneurs by choice Male majority Willingness to take risks Specialization Ability to accumulate

Table 2. 3: Multi-Dimensional approaches to informality

2.6 Access to Formal Credit

Another important concept in my study is access to formal credit by the poor because the conclusions in this aspect from other researchers have been that people from the Land Titling programme did not apply for formal credits despite the fact that they were granted a title deed, at least not in the amount the government expected.

I will start by explaining the characteristics of their economic environment to understand the reality in which the poor have to manage their assets, followed by the way they cope with uncertainties and the types of finance available to them and the characteristics of the providers finalizing with the perspective from the borrower and lender to access to formal credit. I expect this to clarify why not many people used their title deed to get access to formal credit.

2.6.1 Characteristics of the Economic Environment of the Poor

Matin, I. et al 2002 have described the characteristics of the economic environment poor as follows:

1. They operate in a mini-scale economy. All the business activities (production, trade, exchange, consumption, saving, borrowing and income-earning) happen in very small amounts; this creates a very high transaction cost because although the number of transactions is small the bank standard administrative cost makes it unattractive to the poor.
2. There are high levels of risk and insecurity (discussed on section 2.4 vulnerability context of the livelihoods approach) because the movement of money (income and expenditure) often do not match due to a range of factors:

Specific Factors	Environmental Factors
<ul style="list-style-type: none"> - Loss of income due to sickness - Medical expenses - Sudden death - Theft - Insecure conditions of employment 	<ul style="list-style-type: none"> - Natural hazards - Harvest failure because of drought, flooding - National economic crisis - Bank failures - Breakdown in security

Table 2. 4: Characteristics of the economic environment of the poor

These characteristics have a negative impact on the poor because:

- They do not want to interact with formal institutions.
- They prefer to diversify their economic activities and develop their social capital interacting with financial networks of individuals, groups and agencies
- Poor people will use savings and credit as substitutes for insurance¹⁸ (risk), therefore the poorer the HH the bigger the need to use these substitutes.

2.6.2 Money Management of the Poor

Although poor people may sometimes not have enough money to eat, they save a little to cope with uncertainties (Matin, I. et al 2002) and sometimes even have enough to lend among each other (*reciprocal lending*). Among these uncertainties there are: specific factors,

¹⁸ Matin, I. Et al (2002) citing Platteau and Abraham, (1984)

environmental factors, childbirth, marriage, home-building; sometimes they don't only have problems but also opportunities like to buy a plot of land or to invest in a good idea; but these uncertainties or opportunities need a lump sum of money which they have to get by themselves.

2.6.3 Access to Lump Sums by the Poor

According to Matin (2002) poor people have three ways to have access to lump sums:

1. Sale of assets
2. Mortgage and pawn which is the way how people can convert assets into cash and back again. The difference between the first and the second way is that in the second there is chance to get the asset back.
3. Converting small savings into lump sums. Here the poor don't need assets but instead they need a *flow of savings* which could be either small and irregular and that will allow them to convert it into a lump sum via:
 - *Savings deposit* will allow them to enjoy the lump sum in future in exchange for a flow of savings.
 - *Loans* allows the lump sum to be enjoyed now in exchange for a series of savings to be mad in the future (repayment)
 - Insurance is the mechanism that allows a lump sum to be enjoyed in future (unspecified time) in exchange for deposits made now and in the future;

2.6.4 Types of Finance

Having seeing briefly the different mechanisms that the poor use to access to lump sums we will focus now on the sources they use to get loans and how they access credit.

There are three types of finance that are available to them: informal, formal and semi-formal provided by microfinance institutions (MFIs).

One can see from the table below what the general characteristics of each of these types of finance and their providers are. It is important to clarify that informal providers could become semi-formal (registered RoSCAs)¹⁹ and MFIs converting from semi-formal to formal (as when ACP Peruvian NGO became Mibanco²⁰).

TYPES OF FINANCE		
INFORMAL	SEMI-FORMAL	FORMAL
Unregistered sources of credit	Micro-finance institutions	Follow local banking laws Provide conventional retail services engage in financial intermediation
PROVIDERS		
<ul style="list-style-type: none"> - money lenders - pawn brokers - traders - rotating savings (ROSCA) - credit assoc. (ASCrAs) - Deposit takers 	<ul style="list-style-type: none"> - NGO's - Cooperatives - Banks with special charter 	Banks

¹⁹ RoSCA Rotating Saving and Credit Association

²⁰ Mibanco, is a Peruvian bank whose mission is to promote economic development of low-income's majority by providing credit to micro entrepreneurs.

Table 2. 5: Types of finance

2.6.5 Types of Providers

As seen in table 2.5 each type of finance has its own source of providers whose characteristics I will now explain:

- INFORMAL PROVIDERS are a heterogeneous group. It is important to emphasize that the separation between informal providers and clients or users is unclear because they could be one or the other. There is a wide range of informal providers from individuals lending to other entities to organized group lenders but in any case their characteristics are similar as indicated on table 2.5. The main providers of informal financial credit are illustrated in the below figure.

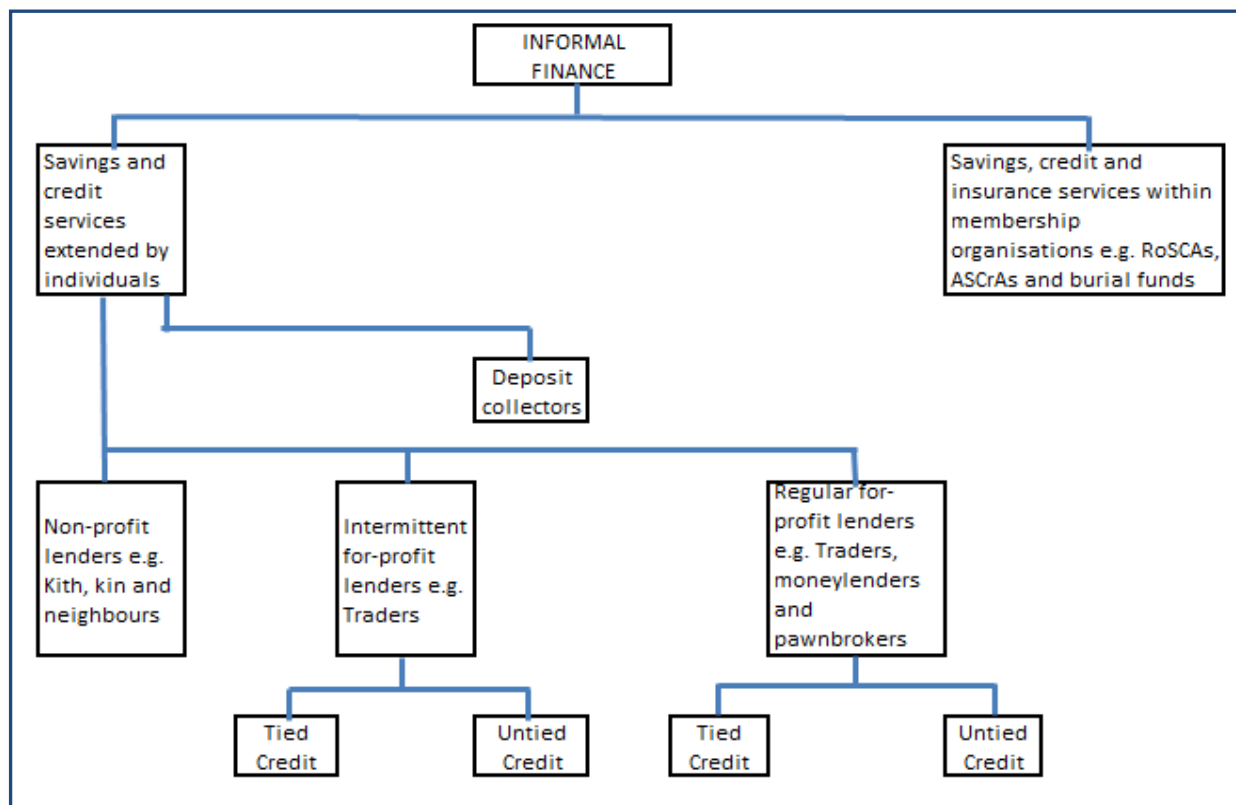


Figure 2. 3: Informal finance

Source: Matin, I. Et al (2002)

As one can see from this figure they are divided in 5 categories:

- Individuals lending on a non-profit basis (often reciprocal), between friends and relatives
- Individuals lending intermittent with a temporary surplus, who lend whenever there is surplus available, they quite often become borrowers and their provider is sometimes formal.
- Individuals who are specialists in lending using their own funds or intermediated funds. They lend on regular basis and remain lending over an extended period of time. These regular and intermittent lenders add a characteristic of tying the lending to other transactions. Individual lenders often use collateral substitutes such as: third party guarantees and tied contracts, these are used to obtain information about creditworthiness.
- Individuals who collect savings.

- Group finance by membership organizations, which collects money as a source of initial working capital for microenterprises. In this category groups of individuals put their savings together and lend to each other.

In the case of the RoSCAs the amount collected is given to each member in turn and finishes when the last member has taken his share. Borrowers can belong to different RoSCAs at the same time in order to satisfy particular needs. One can find an example of a 5 year RoSCA on Annex II.

In the case of the ASCrA²¹, the savings will accumulate until the moment one or more members need to take them on loan. The difference with the RoSCA is that the latter is time bound and the first is not. These organizations are built on solid microeconomic foundations.²²

The strongest points of the savings groups are: reciprocity, joint liability, possibility of borrowing at short notice, saving in small instalments, learn to be a disciplined saver, absence of formalities and being able to save hiding away from friends and relatives.

- SEMI-FORMAL PROVIDERS

Group comprised by microfinance institutions (MFIs) whose goal is to serve customers who have been excluded from the formal finance sector. One can see their main characteristics on table 2.5. According to Matin et al (2002) these are the main differences between MFIs and banks:

- Their repayment rates are above 95%, higher banks
- They lend to a group
- They accept that poor people need **access** to credit and not just **cheap** credit.
- They are independent of government and have high degree of autonomy from politicians and government officials.

The fact that MFIs allow borrowers to repay in small and frequent manageable instalments and that they can have quick access to repeat loans could be the reason why these programmes are so popular. These characteristics allow borrowers to repay from their everyday income. Borrowers from MFIs often participate in several other mutual finance groups at the same time.

- FORMAL PROVIDERS

According to Manfred Zeller (1994): “The majority of formal lenders in developed and developing countries require physical collateral such as land..... to assess the borrower’s creditworthiness”. Unfortunately this is one of the many assets that the poor lack therefore, the formal financial sector is benefitting those who own assets instead of those who really need it and don’t have it, like the poor. There are many studies confirming the failure of the formal financial sector to serve the poor. Added to the demand of collateral and high transaction costs there are other characteristics mentioned on table 2.6. All these characteristics might be the reason why poor people do not request access to formal credit.

²¹ ASCrA Accumulation Service and Credit Association

²² Matin (2002) citing Brink and Chavas (1991, p. 281)

CHARACTERISTICS OF PROVIDERS		
Informal Providers	Semi-Formal (MFIs)	Formal
<ul style="list-style-type: none"> -Distinction between informal providers and users is fuzzy. -Request collateral substitutes (third party guarantees, tied contracts)²³ -Transaction costs are low -Local, within the neighbourhood. -Maintain few records of users. -Procedures for loans are simple and straightforward. No literacy required -Some of them are illegal. -Small transactions (for consumption and working capital). -Lenders could become borrowers. -Could be individuals or groups. -Groups use mutual savings which are pooled and lent to each other. -Borrowing is done at short notice. -Absence of formalities. -Small size of market, borrowers. -Operate at times convenient for members -Frequently acquire bank funds to service borrowers (Madestam 2009) 	<ul style="list-style-type: none"> -Clients have been excluded from formal banking sector. -Independent of government or with high degree of autonomy. -Borrowers pay in small frequent manageable instalments. -Often weekly repayments. -Quick access to larger repeat loans. 	<ul style="list-style-type: none"> -Should follow local banking law. -Request physical collateral -High transaction costs. -Repayment rates are low -Complex administrative procedures. -Loan application procedures require reading and writing skills -Processing of loan requests take long days before approval. -Loan delivery is slow -Provides medium-long term finance. -Public institutions charge sometimes negative interest rates on loans -Rate of interest, timing and amount of repayment is fixed. -No flexibility -Operate at normal working hours

Table 2. 6: Characteristics of providers

Sources: Based on Matin, I. et al (2002), Germidis et al. (1991), Zeller, M. (1994), Basu, P. (2006)

The same way that informal lenders don't want to request a loan from a formal financial source the banks are not interested as well, I will explain this below:

ACCESS TO THE FORMAL CREDIT SYSTEM FROM THE LENDER'S PERSPECTIVE

According to Basu (2006):

- Poor people are high-risk because they have irregular volatile income streams therefore there is uncertainty about their capacity to repay.
- Applicant lacks past credit history because urban poor have been borrowing from informal lenders and they will not pass on good credit repayment records to the bank.
- Although collateral is a tool that reduces risk and uncertainty the process to repossess collateral in many countries is long and arduous.

Regarding this Gilbert (2002) argues:

- It is very difficult for the banks to verify incomes of independent workers and is therefore more interested in potential borrowers who have regular documented income.
- Most of these properties are located in hazardous areas like: sandy and unstable soil, flood plains of rivers or landslides; in that case for the lender it matters very little whether the possible borrower has a title deed or that he has a regular income and there is no

²³ Zeller, M. (1994) citing Adams and Fitchett (1992)

doubt that he can repay the loan or that he is very reliable, in that case the family will not get the loan.

ACCESS TO THE FORMAL CREDIT SYSTEM FROM THE BORROWER'S PERSPECTIVE

Following Basu (2006):

- Banks do not provide flexible products and services to meet income and expenditure patterns of small borrowers.
- Urban poor find procedures to open an account looking for a loan tiresome and excessive in cost and time.
- Potential loss of collateral makes borrower think twice before taking risks.

According to Gilbert (2002)

- Poor families are reluctant to borrow from banks because they believe that their requests for credit will be rejected on the grounds that they do not fulfil bank requirements.
- Based on the previous assumptions, people prefer to build and improve their housing using informal sources of credit such as individual and group savings, borrowing from family or neighbours and remittances from relatives living abroad.

This section can conclude with the fact that many ingredients are needed to alleviate poverty, and access to formal credit is only one of them; the service provided to the urban poor is as important as providing the loan. It is very important to think of the borrowers' needs and to establish permanent, flexible and reliable relationships with them taking into account their limitations with regards to lack of synchronization between incomes generating (production) and spending activities (consumption) (Gonzales-Vega, 1994). Poor people want as well to be able to get a loan when they need it and they want it in time and with flexible disbursement of funds and this is what they get from informal sources of credit therefore this is the reason why poor people stick to this source of funds rather than substituting them for formal sources even if they offer subsidized credits.

2.7 Research on the Land Titling Programme in Peru

The LT programme in Peru has been widely researched. In this research I have reviewed some of them in order to identify the focus they have taken and their methodologies, and in that way detect any significant gap which my own research might fill.

From table 2.1 it is easy to see that almost all the aspects of the programme have been investigated namely: access to credit, dwelling improvement, gender, time allocation and leisure activities, tenure security and labour market. These studies were carried out between 2000 and 2009, and most of them analyse a period between 2-6 years, with the exception of one, research (Calderon's, which was examined a 12 years period). Of the eleven main studies I have listed in that table, it can be seen that five focus on access to credit, two on security of tenure and three on dwelling improvements. The topics of gender, time allocation, quality of the plots and labour market have been researched as well.

Erica Field, an economist from Harvard University, has investigated these COFOPRI land titling programmes for the period 2004 – 2007 in many diverse aspects such as time allocation and leisure activities, tenure security, access to credit and labour market. Her research findings show the titling programme has had very positive results, as explained in the table, for the beneficiaries with the exception of access to credit where she concludes that "titling efforts will not automatically make collateral-based lending viable for the majority of formal sector credit applicants.

Other researchers have arrived at the same conclusion with respect to giving the beneficiaries of the programme access to formal credit.

Finally most of the research studies used as baseline data the survey that was carried out upon request of the World Bank in 2000 which seems to be the predominant data collection method used by the researchers. Very few have carried out primary data collection and only two have collected qualitative data.

Based on this table I conclude that I will focus my research on collecting qualitative, primary and secondary data and the period of the study will be of ten years, following Morris's (2004) conclusion that "six years is not enough time to measure the impact of such a programme". The methodology that I will use will be explained in the next section.

2.8 Conceptual Framework

In this thesis I present two conceptual frameworks. The first one reflects De Soto's theory which is *legalist* and in which the only requirement for obtaining credit is legality leading to the use of it. This is represented graphically in the figure below.



Figure 2. 4: De Soto's conceptual framework

The second conceptual framework corresponds to my understanding of the critiques of De Soto's and of the theories on informality, poverty and vulnerability, which includes concepts that he does not use such as the need for and use of formal credit, lending conditions, perceptions of risk and the ability to overcome them. It is the latter framework that I will use in my research.

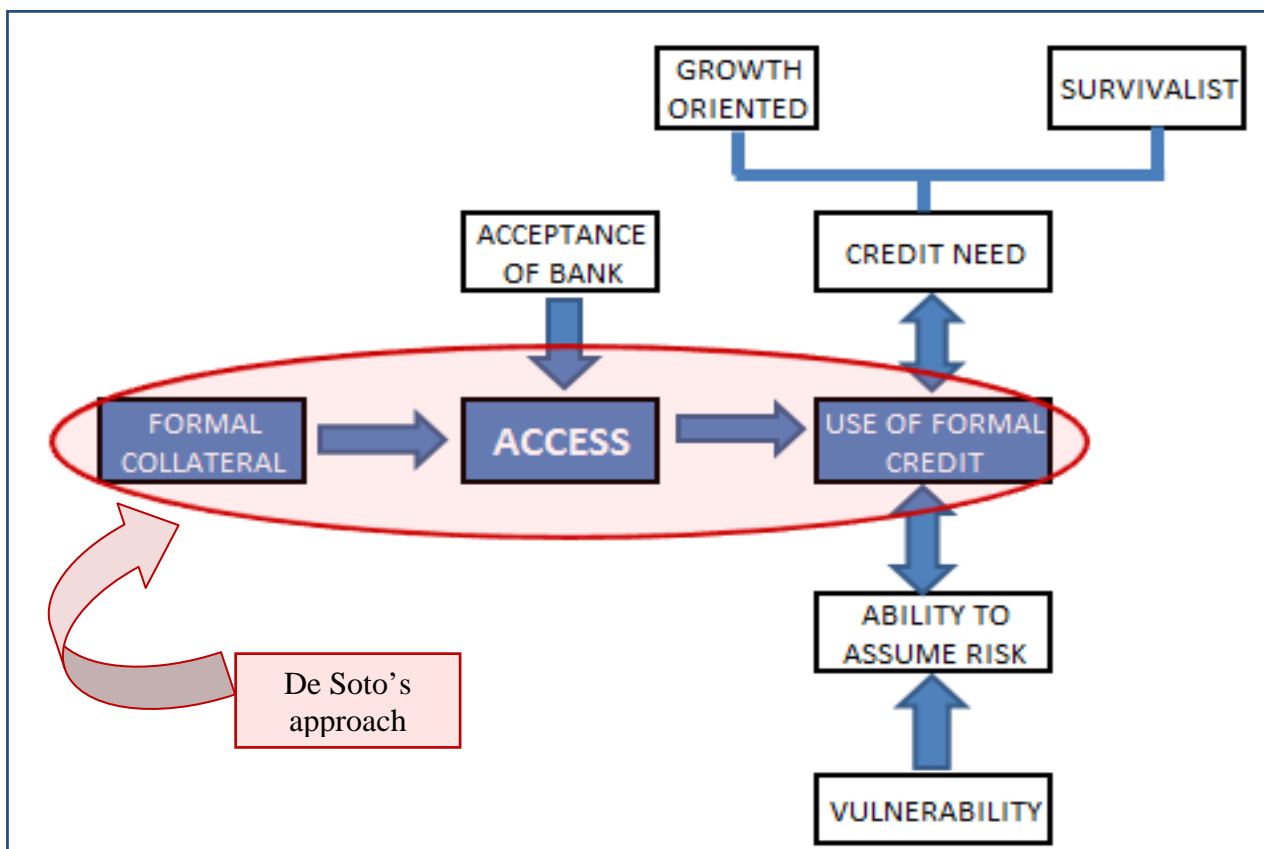


Figure 2. 5: My conceptual framework

CHAPTER 3: RESEARCH METHODOLOGY

In this chapter I explain the research methodology that I will use in this study to answer my research questions. I further describe my operationalization of variables and indicators, sample size, data collection methods and data analysis technique.

3.1 Research Questions

Overall Research Question

This thesis focuses on the effect of land titles on access to formal credit as a means to invest into small businesses in two human settlements in Lima; therefore the main research question has been formulated in this way:

Why has the increase in access to formal credit been less than foreseen by the Land Titling Programme?

Specific Research Questions

In order to help me answer my overall research question, I have divided it into the following sub-questions:

- 1) What are the lending criteria banks apply to the poor?
- 2) What is the Household need for formal credit in relation to business investment?
- 3) How far can vulnerable Households assume the risk of formal credit?
- 4) What have been the sources of finance used by the beneficiaries of this programme so far?
- 5) What have been the other benefits of having a land title?

3.2 Sample Size and Selection

In order to investigate, why the beneficiaries of the Land Titling Programme don't take more advantage of formal credit opportunities in Lima, Peru I have conducted a **case study** strategy and selected a **stratified random sample** for focus groups in the two human settlements with formalized plots, (FP) making sure that different strata in society were included such as, different gender, age, occupation and income levels and in the case of the interviews I selected **purposive sampling** because I wanted to be sure my sample included people who were growth-oriented as well as those who were survivalist and those with different levels of vulnerability.

As explained in section 2.7 I have selected from the COFOPRI records two squatter settlements that were formalized between the years 1999-2001. To obtain current data from the neighbourhoods I conducted surveys, in-depth interviews and focus groups with different actors including World Bank staff, specific public sector officials and private organizations which offer credits to poor people. I was very interested in collecting **qualitative data** because the majority of research studies in this field focused on quantitative data, and because I wanted to focus on people's feelings, experiences and opinions about having a legal title and its advantage in obtaining credits. These are the two settlements selected:

- HS. Keiko Sofía Fujimori (Ventanilla, Callao) / Cofopri Code 010480²⁴
- Three sectors in Proyecto Integral "Los Ángeles" (San Juan de Lurigancho, Lima)
 - Keiko Sofía Fujimori Sector

²⁴ These codes are being included as reference for any future researchers who might want to follow up in these projects and who might want to request information from COFOPRI in these settlements.

- Cerrito La Libertad Sector
- Nuestra Señora del Sagrado Corazón de Jesús Sector

The study settlements and sectors appear in table 3.1 below where I show how many formalized plots are to be found in each of them and the number of formalized plot owners I interviewed in each.

HUMAN SETTLEMENT ²⁵ (HS)	No. FORMALIZED PLOTS	No. PLOT OWNERS INTERVIEWED
HS. Keiko Sofia Fujimori in Ventanilla	671	30
P.I. Los Angeles in San Juan de Lurigancho (SJL)		
• Keiko Sofia Fujimori (Cofopri code 02102001)	103	
• Cerrito la Libertad (Cofopri code 02102004)	57	40
• Nuestra Señora del Sagrado Corazón de Jesús (Cofopri code 02102005)	80	
TOTAL	911	70

Table 3. 1: Human settlements selected for the study

I decided this research should be of the explanatory type because I wanted to understand if the programme has achieved its objectives in the alleviation of poverty via access to formal credit and if not why not.

3.3 Questionnaire Design

The questionnaire used in this research was carefully designed trying to include all the information that was going to help me answer my research questions and meet the objectives of my research. It helped me as well to find out the assets of my respondents. This questionnaire has four parts:

- 1 Personal data. Here I included the demographic characteristics of my respondents such as: gender, age, employment status and educational background.
- 2 Information on land, house and land title. In this section I looked for information on the land title, the characteristics of their dwellings to see how vulnerable they are to the extremely humid weather in the city in winter and to see if they live in crowded conditions or not.
- 3 Data on income generating strategies and business. This part contains questions on how they manage their daily budget and their coping strategies when money is short.
- 4 Data on loans and loan history. I asked these questions to find out if they have requested any kind of loan since they received their land title. In this section I included as well information on vulnerability and risk.

3.4 Validity

I am using triangulation to increase credibility of my results by using different research methods and sources. By sources I mean two human settlements that benefitted from the

²⁵ This is the name given by the government to low-income settlements, slum or squatter settlements.

same programme in a similar period of time. I also collected data from different lending institutions and compared them and included information that I gathered from one expert in my country who has been studying these programmes from their inception. I have used qualitative analysis in my interviews and quantitative analysis for my surveys.

Figure 3.1 shows how I triangulated different sources of data to ensure validity.

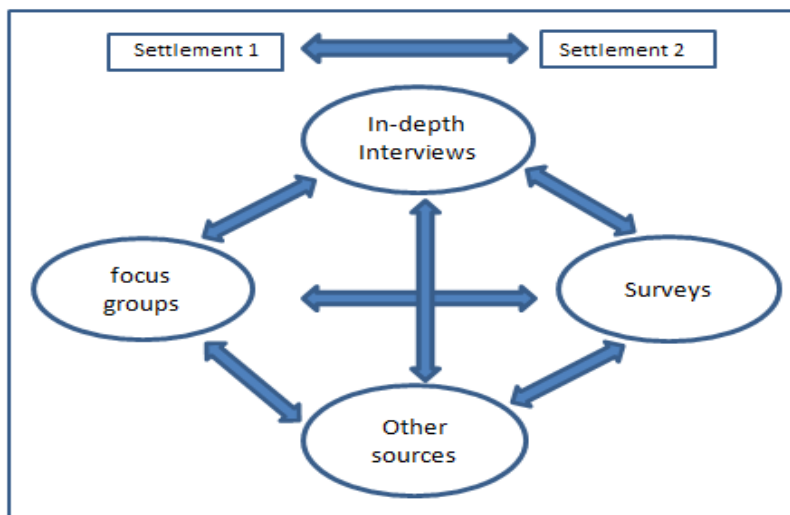


Figure 3. 1: Validity through triangulation

3.5 Reliability

The term “reliability” refers to the degree of consistency between two measures of the same thing (Black 1999). I pre-tested and re-checked my questionnaires in order to minimise errors and bias. I designed the questionnaire and the interview guidelines carefully structuring the questions that could help me answer my research questions.

3.6 Data Collection Methods

I collected both, primary and secondary data as follows:

a) Primary Data Collection – Field work

I used three main research instruments to collect primary data namely:

- In- depth interviews , with a semi-structured set of questions or topics to guide the discussion, which provided wider understanding of the reason why the increase in access to credit in this programme was less than expected.
- Focus group discussions, which were very useful tools to explore informally the land titling programme from the perspective of the beneficiaries. This method also enabled me to validate my findings through other methods that I used by using it for triangulation. The focus group also raised new questions which I incorporated in my survey and interviews.
- Surveys, were done to a selected sample of respondents with a list of questions that later were analysed statistically. This method allowed me to collect data from a bigger number of people.

b) Secondary Data Collection – Desk research

My secondary data consisted mainly of internet searches and desk research using World Bank, COFOPRI, INEI and commercial banks’ data with regards to the coverage and impact of this programme in the two human settlements selected.

3.7 Data Analysis Methods

In this research I used two types of research methods: qualitative and quantitative.

Qualitative: In-depth interviews and focus group discussions

Quantitative: Surveys

To analyse the data collected in the latter category I used the Statistical Package for Social Sciences (SPSS) and Excel to convert the data into graphics and charts. To assess the characteristics of households I used simple frequency tables, charts and cross tabulations when I needed to analyze more than one variable. For the conclusions of my research I merged the data of both slums into one file and recoded my variables in SPSS to transform my indicators into variables and via Chi-square test to answer my research questions. The original survey was in English so I had to translate it into Spanish, as well as the guidelines for the in-depth interviews and the focus groups. The qualitative information was used to complement the data from SPSS.

3.8 Operationalization: Variables and Indicators (Table 3.2)

In table 3.2 below I present an overview of my field research design in which I show my specific research questions and how I have operationalized them by concepts, variables and indicators; these variables and indicators have been formulated based on my four research questions. In Annex I one can see this table presented in much more detail in which the last column ends up with the elaboration of the appropriate questions to be asked to my interviewees in the survey and also as a guide for my questions in the in-depth, focus groups and experts interviews. I have included as well the data collection and research methods used in my field work.

Overall research question: Why has the increase in access to credit been less than foreseen by the Land Titling Programme?

Table 3. 2: Operationalization: Variables and indicators

SPECIFIC RESEARCH QUESTIONS	CONCEPTS	VARIABLES	INDICATORS
What are the lending criteria the banks apply to the poor?	Bank conditions	Collateral requirements	Repayment history, Savings, type of work, duration of employment Household's income Title deed
		Loan amounts	Minimum and maximum loan amount
		Loan request processing	Clarity of procedure Timeliness of service Juridical and bureaucratic requirements (forms, procedures to inscribe collateral, etc.)
What is the household need for credits in relation to business investment?	Type of enterprise/ type of business	Growth oriented business Survival oriented	Micro-accumulation, # employees (1 min.), skills, expansion, job history (own choice?), production No accumulation, self-employed, home-based, no skills, no expansion, petty trade, business diversification
	Need for capital	For long term investment Short term inv. Working capital	Plans for growth Identified shortage of capital (physical, financial) Cash flow
How far can vulnerable households assume the risk of formal credit?	Vulnerability	Risk taking	Fear to lose assets Fear of impoverishment Fear of ineptness
		Social capital	Extended families, networks, formal and informal institutions
		Financial capital	Remittances, credit, savings/ use of savings in kind and cash, sources of income
		Human capital	Family composition, level of education, skills, health, No. people working, type of work
		Physical capital	Housing, basic services (water, sanitation, electricity, health, medical infrastructure
		Natural capital	Land title
What have been the sources of finance used by the beneficiaries?	Access to capital	Sources of loans	Number of loans from: Private and Public banks Informal institutions / lenders
		Use of formal credit	Type and level of investment: house, business, household sustainability (consumption)
What have been the other benefits of having a land title?		Infrastructure Water connections Electricity	What have been the benefits of having a land title?

CHAPTER 4: DESCRIPTION OF CASE STUDY AREAS AND RESPONDENTS

4.0 Introduction

This chapter describes the characteristics of my respondents and of the two human settlements (slums or poor neighbourhoods) studied in this research located in the areas of Lima and Callao.

4.1 Methodology Used In Field Work

The analytical framework that I used is summarized in Fig 2.7 which shows the characteristics or profiles that I looked for when selecting my interviewees. The outcome of my interviews showed me certain trends that helped explain why we do not find the results we would have expected from De Soto’s theory. The four profiles were:

- Survivalist
- Growth-oriented
- Vulnerable
- Less vulnerable

The methodology followed to collect primary data is summarized in figure 3.1 and explained in more detail in table 4.1 below:

Sources ²⁶	Research Instruments	Number or Respondents	Notes
Keiko Sofia Fujimori in Ventanilla	Focus group	10	Stratified sample
	Survey	30	Purposive sample
	In-depth interview	6	
Proyecto Integral “Los Angeles” in San Juan de Lurigancho (SJL)	Focus group	11	Stratified sample
	Survey	40	Purposive sample
	In-depth interview	13	
Independent expert	In-depth interviews	1	N/A
Mibanco		1	
Banmat		1	
Crediscotia		1	
PCDPI and Credicrece		1	
COFOPRI		3	

Table 4. 1: Primary data sources

For the secondary data my main source regarding formalized human settlements was COFOPRI, and for statistical data INEI and Ipsos APOYO. The latter is a French-Peruvian organization specialized in social research. With respect to data and documentation regarding human settlements in San Juan de Lurigancho my source was CENCA (Urban

²⁶ There is a description of the sources in section 4.3

Development Institute) an NGO that has been working in Proyecto integral (*Integral Project*) “P.I. “Los Angeles” for over 7 years, as well as documents provided by the lending institutions.

4.2 Problems and Limitations

Before going into the analysis of the data I would like to explain some of the difficulties I had in getting data from public organizations like COFOPRI and, PCDPI and my second expert who was to have been Gustavo Riofrio, a well-known Peruvian sociologist who has been researching land titling programmes for over 15 years.

On the 28th of July, two days after the end of my field work, a change in government was to take place. This meant that staff in all public institutions were obliged to prepare for the handover of their functions to the incoming administration and that they were unavailable for the interviews which I had planned during my visit to Lima.

In particular I was unable to interview PCDPI’s General Manager from whom I had hoped to obtain a copy of the third nationwide baseline survey of the COFOPRI programme carried out in 2010²⁷. I had expected that this would show how title deeds facilitated access to formal loans taken by the beneficiaries of the programme. This data should be publicly available and uploaded on to their webpage but it was not and so I had asked for this interview. Without this data I am unable to compare official data with that collected from programme beneficiaries on the formal loans they took out. I therefore have to rely on the results of my interviews with beneficiaries and on older statistics.

I interviewed the manager of Credicrece which is a sub-programme of the PCDPI project. However, I was unable to obtain the statistical data on the results of their credit campaigns because it was not available at the time of my interview. The intended interview with Gustavo Riofrio was also affected by the preparations for a change in government; he had been appointed to chair the commission for the transfer of the Ministry of Housing and, although he had previously agreed to meet me, and despite subsequent efforts to arrange a meeting, it proved impossible.

Regarding programme beneficiaries it should be noted that they live in very vulnerable situations and are, therefore, at risk of moving in and out of poverty unpredictably and frequently. I present the data which they gave me. However, had I interviewed them six months earlier or were I to do so a year later, I would probably have obtained different results. The volatility in their well-being to some extent reduces the reliability of my data which was only collected at one point in time.

My sample of seventy survey respondents included twenty who can be categorised as “survivalists” and three who were “growth-oriented”. These groups are a bit small to allow for reliable generalisation about the nature of entrepreneurs in the settlements.

²⁷ First baseline survey was in 2000 and the second in 2004

4.3 Description of Sources and Respondents

In this section I will describe my sources of information before going on, in the following section, to presenting the data collected from them.

4.3.1 Beneficiaries of COFOPRI Land Titling Programme in “Los Angeles”.

The first group of respondents consisted of beneficiaries of the lands titling programme in “Los Angeles” settlement. Their principal characteristics can be summarized as follows.

- **Gender.** Women are more organized and do more to develop this neighbourhood than men, and the majority work in their homes. Men, on the contrary, normally work long hours outside their settlement though they try to work nearby thus saving transport costs. The number of women that completed the surveys was 27 and men was 13.
- **Age.** The majority of my female respondents was between 25 - 34 years old (48%) and 35 – 44 years old (40%). With respect to my male respondents the bigger group was between 35 – 44 years old (38%) and the second between 45 – 54 years old (31%).
- **Income.** I will refer in this respect to the table used by INEI to describe the socio-economic levels of the families in Peru. It divides the population of Peru as a whole into eight levels ranging from rich families which are classified as level A1 to extremely poor families classified as level E. In the case of “Los Angeles” 55% of the families are classified as extremely poor earning an average of 730 new soles per month.

Average income / socio-economic segments in “Los Angeles”								
Currency	A1	A2	B1	B2	C1	C2	D	E
New Soles ²⁸	16,000	9,000	3,400	2,700	1,590	1,370	1,030	730
Euros	4018	2260	854	678	399	344	258.5	183
	0%	0%	0%	0%	12.5%	17.5%	15.0%	55.0%

Table 4. 2: Average income / socio economic segments in “P.I Los Angeles”

- **Education.** Education is very important for the parents and they all are proud to say that all their children are going to school and like to put on their walls pictures of their children with their diplomas and scholarly achievements. With respect to the respondents themselves 35% completed secondary school, 32.4 % completed primary and 12.5 failed to complete their primary education.
- **Time living in their plot.** With respect to this aspect a large majority has been living on their plot between 13 – 15 years.

4.3.2 Beneficiaries of COFOPRI Land Titling Programme in “Keiko Sofia Fujimori”.

I had 30 respondents from this neighbourhood with the following characteristics:

- **Gender.** The majority of my respondents were male, 17 and 13 women. Since I had more women in the first human settlement in “Los Angeles” I decided to increase the number of male respondents to get a more balanced opinion gender wise.

²⁸ 1 euro = 3.92 new soles (9.8.2011)

- Age. The majority of my male respondents were between 35 - 49 years old (88%). With respect to my female respondents the bigger group was between 30 – 44 years old (92%).
- Income. I will refer to the same table used by INEI as I did for “P.I. Los Angeles”. In this case the majority of these families are classified between segments D and E, which means very poor and extremely poor.

Average income / socio-economic segments in “Keiko Sofia Fujimori”								
	A1	A2	B1	B2	C1	C2	D	E
New Soles	16,000	9,000	3,400	2,700	1,590	1,370	1,030	730
Euros	4018	2260	854	678	399	344	258.5	183
%	0%	0%	0%	0%	6.7%	23.3%	33.3%	36.7%

Table 4. 3: Average income / socio economic segments in “Keiko Sofia Fujimori”

- Education. The same as in “P.I. Los Angeles” parents try their best to send their children to school and are very proud to say that “*their children will go to the university and work with their brains rather than with their hands*” and they hang in their walls their academic achievements. The population in this settlement is more educated than in “Los Angeles”; the vast majority finished/almost finished secondary school (73.5%).
- Time living in their plot. With respect to this aspect a big majority has been living in their plot between 10 – 15 years (93%).

4.3.3 BanMaT

Banmat (Banco de Materiales: *Materials Bank*), is a public enterprise which is not actually a bank and is therefore, not regulated by the Financial Services Authorities (*Superintendencia de Banca y Seguros*). It was created in 1980 with the goal of reducing the housing deficit by giving loans in the form of building materials and supervising technically the constructions done with their credits. Later it was redefined as a service company whose purpose was to collaborate in the development of urban and rural communities through the construction of basic minimum housing, urban and rural infrastructure as well as providing equipment for micro enterprises of all productive sectors. Nowadays Banmat does not offer loans in the form of building materials but by giving them a credit card. The loan covers manual work, building materials and technical file and supervision. Their credits are highly subsidised by the government.

4.3.4 Mibanco

Mibanco is the leading, private commercial bank specialized in microfinance in Latin America and the Caribbean. It started operations in 1998 with the goal to become leaders in providing adequate financial services to the owners of small and micro businesses as well as to low-income sectors of the population that have difficulty obtaining access to the traditional banking system. In the last ten years this path has been followed by many other commercial banks such as: Credit Bank of Peru, Scotiabank, Interbank and cooperatives.

4.3.5 Crediscotia

Crediscotia is part of Scotia Bank²⁹. It started operations in 2008 specializing in small and micro businesses loans. Its goal is to help the micro-entrepreneurs grow in their businesses by offering them not only loans but also advice and training, whether employed or self-employed. They focus on individuals from socio-economic segments C1, C2 and D, aiming at improving the quality of life of their clients.

4.3.6 Banco Azteca

Banco Azteca (*Aztec Bank*) is part of Grupo Salinas (*Salinas Group*) which is one of Mexico's most important corporate. It started operations in Peru in 2008 and its target population is the lower income sector which accounts for 70% of the population. Banco Azteca offers personal loans that can be used to cover different needs such as: food, services bills, clothes, holidays, dwelling improvements, etc.

4.3.6 PCDPI³⁰ (*Proyecto de Consolidación de los Derechos de la Propiedad Inmobiliaria: Real Estate Rights Project*)

Is the second phase of the government project partly funded by the World Bank which started in November 2006 (PCDPU is the first phase) executed by COFOPRI as the main actor supported by SUNARP (Superintendencia Nacional de Registros Públicos: *National Land Registry*) and the IGN (Instituto Geográfico Nacional: *National Geographical Institute*). Its objectives are similar to those it had in Phase I but now focusing on the sustainability and continuity of the formalized plots in the formal system.

4.3.7 Credi Crece

This is one of the sub-programmes of the PCDPI and its main goal is to promote and train the beneficiaries of the COFOPRI programme in the culture of credit (application, management, responsibility etc.) and to keep them in the formal land system by registering any improvement or modification that has been done in their houses.

4.3.8 Experts

Dr. Julio Calderon Cockburn is a Peruvian sociologist who is a consultant for multilateral cooperation agencies such as the World Bank, Interamerican Development Bank, SNV Netherlands and GIZ. He is the author or co-author of 15 books and over 30 journal articles and book chapters on urban development, land markets and local governments, publishing them in Latin America, the United States and Europe and has investigated the COFOPRI programmes from their very beginning until 2010.

4.3.9 Secondary Data

As mentioned in section 4.1 my main source regarding formalized human settlements was COFOPRI, and for statistical data have been INEI and Ipsos APOYO. For data on human settlements in San Juan de Lurigancho my sources were CENCA and the municipality of San Juan de Lurigancho webpage. With respect to Keiko Sofia settlement

²⁹ Scotiabank is part of the International Scotiabank group of Canada

³⁰ Explained in section 1.1

the webpage of the municipality of Ventanilla was very helpful. Regarding other lending institutions I used the web pages of Edyficar, Crear, Aztec Bank and San Hilarion cooperative which is situated near Los Angeles and are the sources of loans that my respondents used.

4.4 Case Study Areas

4.4.1 "P.I. Los Angeles" in SJL

The Integral Project "Los Angeles" is located in the district of San Juan de Lurigancho (SJL). This district was created in 1967. During the 1980's the population started to grow rapidly (13.03% INEI) because of the invasions which generated many human settlements and slums. Currently the population growth is much lower (3.14% INEI, 2010); the invasions phase has turned into a development phase.



Figure 4. 1: Location of SJL in Lima province

SJL is nowadays the most highly populated district in Lima and is 2.7 times bigger than Ate, the second largest (INEI). According to the same source SJL is also the poorest district in Lima with a level of poverty of 24%. In table 4.4 one can see the whole list.

District	Population	Total # Poor	% Poverty ³¹
San Juan de Lurigancho	900,000	218,700	24
Ate	478,000	114,200	24
Villa Maria Del Triunfo	378,000	102,400	27
Comas	487,000	94,000	19
San Martin de Porres	580,000	87,500	15
Villa El Salvador	381,000	83,400	22
Puente Piedra	233,000	72,400	31
San Juan de Miraflores	360,000	68,700	19
Carabaylo	213,000	63,200	30
Los Olivos	318,000	50,500	16

Table 4. 4: The 10 poorest districts in Lima

Source INEI, 2010

The next table is similar to table 4.2 but showing the socio-economic levels of the whole SJL district. One can see that a high percentage of the families in SJL belong to level **D** earning an average of 1030 new soles monthly (264 Euros). Comparing this table with table 4.2 we can see that families in "Los Angeles" are below the average income level of the district.

Average income / socio-economic segments in SJL district (New Soles) ³²							
A1	A2	B1	B2	C1	C2	D	E
16,000	9,000	3,400	2,700	1,590	1,370	1,030	730
0%	0%	0.4%	1.7%	12.2%	15.4%	56.2%	14.0%

Table 4. 5: Average income / socio-economic segments in SJL district

Source: Ipsos APOYO Opinion y Mercado / INEI (2010)

31 Percentage of the total population which is classified by INEI as poor
321 euro = 3.92 new soles (9.8.2011)

This human settlement started at the beginning of 1984 when families mainly coming from the mountainous *sierra* and the jungle *selva* regions invaded the low-lying part of the settlement which is today known as Juan Pablo II. This area was once a sand and stone quarry. During the period of 1985-1990 another mass invasion started occupying the hills which were full of excavations left by the mining companies. The 3 sectors which I studied had been invaded between 1997 and 1998; the whole neighbourhood is composed of 11 sectors. Community leaders approached COFOPRI at the end of the 1990s requesting the formalization of their plots; this was done, a process which was concluded by 2001. Thanks to this formalization, a few years after they obtained domestic water and electricity connections from SEDAPAL and EDELNOR³³. The area is characterised by an undulating topography with steep hills rising to an average height of over 500 metres.

This community is used to communal work, known as “*faenas comunales*”, every Sunday, and that is how they managed to build their school, community centre, stairs (instead of roads because the hills are too steep and roads are impossible to build) and other infrastructure. Unfortunately they were less successful in maintaining or developing green areas. When walking around this neighbourhood you do not see open areas or parks.

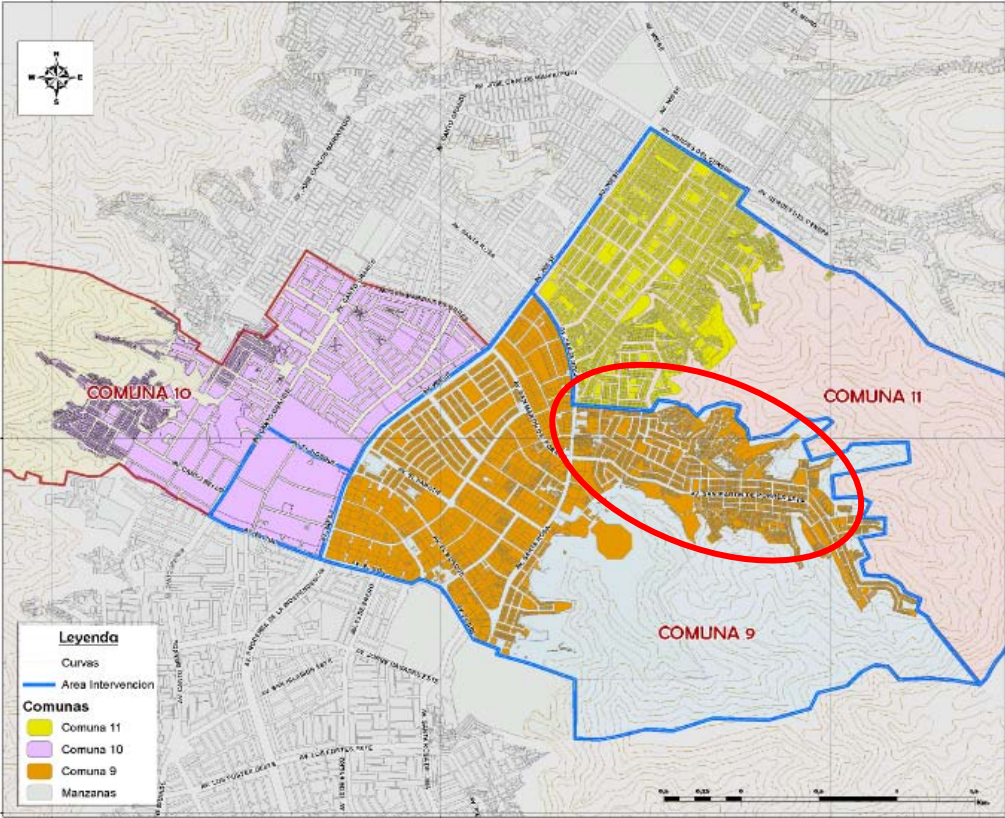


Figure 4. 2: Location of human settlements studied in SJL

“P.I. Los Angeles” is composed of 11 sectors of which I have studied three and are located in figure 4.2. They are:

- Keiko Sofia Fujimori
- Cerrito la Libertad

³³ SEDAPAL Company in charge of water connection and EDELNOR Company in charge of electricity

- Nuestra Señora del Sagrado Corazón de Jesús
In table 3.1 one can see their size and their COFOPRI code.

4.4.2 Human Settlement “Keiko Sofia Fujimori”

The settlement is located in Ventanilla which is one of the six districts of the Constitutional Province of Callao in the Northern part of the province and was created in 1969. Ventanilla comprises 6 urbanizations and more than 600 slums. It has an estimated population of 277,685 inhabitants (Municipality of Ventanilla webpage)

Ventanilla started as a satellite city copying Brasilia in the 1960s, which is the reason why many industries created their own housing associations for their workers. This project never succeeded mainly because of the lack of roads, transport and public service.



Figure 4. 3: Location of Ventanilla

In the 1970s the district started a slow consolidation process during the military government with the creation of industrial areas and the construction of important connecting roads between Lima and Callao, this gave place to important and massive occupations of land organized by the government in the 1980s (according to the municipality of Ventanilla webpage) in the low-lying areas. In the 1990s the unorganized growth of the city continued with more invasions in the sandy hills which accelerated when the government decided to relocate some families from Villa El Salvador (by the end of the 1990s).

Keiko Sofia Fujimori human settlement was founded in April 1995 when an invasion took place in another settlement called Luis Felipe de las Casas. The newly occupied area assumed the name Keiko Sofia Fujimori.

One year later they obtained electricity connections together with other 24 settlements located alongside the Pan-American Highway. The whole community worked very hard to construct their own roads and a school and by 2002 SEDAPAL installed water and sewerage networks. The hills in this neighbourhood are not as steep as in “Los Angeles” allowing them to have wide roads.

In table 4.6 the different socio-economic segments are specified. One can see that a high percentage of the families in Ventanilla belong to level **D**, same as in SJL, but the percentage of families living on level D is almost double (14% in SJL), indicating that the level of extreme poverty is larger in this district than in SJL. Comparing this table with table 4.3 we can see that families in “Keiko Sofia Fujimori” are evenly spread between segments D and E and that 12.5% more families in this settlement are poorer than the average in this district.

Average income / socio-economic segments in Ventanilla district (New Soles)							
A1	A2	B1	B2	C1	C2	D	E
16,000	9,000	3,400	2,700	1,590	1,370	1,030	730
0%	0%	0.2%	1.9%	5.3%	9.1%	59.3%	24.2%

Table 4. 6: Average income / socio-economic segments in Ventanilla

Source: Ipsos APOYO Opinion y Mercado / INEI (2010)

In figure 4.7 one can see the location of “Keiko Sofia Fujimori” and the plots lay out.

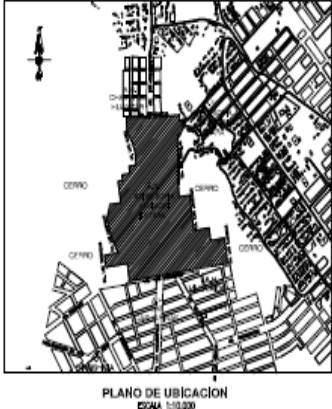


Table 4. 7: Plots layout of human settlement Keiko Sofia Fujimori in Ventanilla

CHAPTER 5: RESEARCH RESULTS AND ANALYSIS

5.0 Introduction

The following pages present the data collected for each of the specific research questions. I do this by presenting the information I obtained on each variable. At the end of the analysis of each sub-question I draw conclusions from the data collected which contribute to answering the specific research questions which are:

- Q1: What are the lending criteria the banks apply to the poor?
- Q2: What is the household need for formal credits in relation to business investment?
- Q3: How far can vulnerable households assume the risk of formal credit?
- Q4: What have been the sources of finance used by the beneficiaries of this programme so far?
- Q5: What have been the other benefits of having a land title?

Answers to these questions will together help me answer my overall research question:

- OQ: Why has the increase in access to formal credit been less than foreseen by the Land Titling Programme?

The methodology that I used appears in Annex IV which is the data analysis matrix that I prepared dividing my questions by variable, indicators and respondents.

5.1 Data Analysis

5.1.1 Q1: *What are the lending criteria that banks apply to the poor?*

There are various lending criteria that banks apply when making loans. In this section I examine how they are applied to the poor and, in particular, to the residents of the two human settlements which are the subject of the present study. Amongst others this will inform us to what extent lending criteria affect access of land title beneficiaries to credits.

I) VARIABLE: Collateral Requirements

1a) Title as collateral. Focus group members in both human settlements people told me that in the past they had borrowed money from formal sources and in no case was the title deed required as collateral, only a copy of it was needed as a proof of their address. This was confirmed by the survey in which some of them (48 out of 70) borrowed money from lending institutions and in none of the cases was the title deed requested. Although respondents only used the land title as a proof of their address, they still think that if they don't repay the loan they will lose their houses; therefore it would be important that an organization like *Credicrece* visit the settlements to inform and clarify to residents that their title deed is not used as collateral therefore their property cannot be repossessed if they do not repay the loan.

In my interviews with senior officials from banking institutions, I was informed that when lending to micro entrepreneurs no collateral is needed for loans of up to 50,000 new soles (12,755 Euros) in the Peruvian financial system. This is mainly because in the last ten years it has been proven that micro entrepreneurs generally repay well and there is no need to collateralize their title. However, banks do require a document that certifies their address such as copy of land title, water or electricity bill or a land ownership document because

they need to know if the person they are lending to really lives at that address. The client's ability to repay the loan is the most important requirement for the banks.

Another reason why banks do not ask for land titles as collateral is mentioned by many authors such as Priya Basu (2006) which is that collateral registration and its repossession is a long and arduous process. This is true in Peru where repossession is not even worthwhile because the bank ends up owning a property which will need maintenance till the moment it is sold.

The Banmat, as explained in section 4.3 is a public institution (not a commercial bank) which only lends for housing construction or improvements. It is the only lending institution which requires a title deed as collateral when lending; the title must have been registered in the National Land Registry. But this alone will not qualify a client for the loan; applicants should also be able to prove that they can repay the loan during the credit assessment done by the bank.

I was told by my Banmat respondent that in the past there has been a high default rate because many clients either thought of credits as grants to which they were entitled or realized that non payment was not sanctioned. Therefore today, Banmat insists on collateral to make it clear that there will be sanctions and that non payment will be followed up.

When talking about the title deed not being requested as collateral by private banks with a senior official from COFOPRI I was told me that in fact commercial banks only care about the borrower's capacity to repay;

"COFOPRI's goal of linking the title deed and access to credit is more with public institutions and not the private sector. The title deeds that COFOPRI issue are a requirement for individual infrastructure connections and credit for housing in national social housing programmes infrastructure to improve the quality of life of the settlers and provide decent housing".

He also told me that when COFOPRI started it was working independently thinking in terms of number of land titles issued. With Alan Garcia's government (2006-2011) a new word started being used: "articulation"³⁴ and this new government seems to follow the same path. He informed me that COFOPRI works with different ministries that deal with housing: development, woman, industry and economy, *"Because you cannot fight poverty just by giving titles, everything has to be articulated"*.

In Annex VIII SPSS (Data Analysis) one can see that no financing institution requested a title deed as collateral from any of the respondents. In only in two cases a different kind of collateral (guarantor) was requested thereby, confirming the information collected from my interviews and focus group.

1b) Type of work. All my interviewees from both human settlements agreed that the microfinance institutions did not ask the micro entrepreneurs for documents certifying that their businesses were registered. This was confirmed by my focus group members when one respondent said:

³⁴ coordination with other governmental sectors

“They don’t care if our small business is informal or not, because they know it is very difficult, takes time and is expensive to register it, and we don’t have money or time to do that. What they want from us is that we were able to start and run our business for some months with our own money and effort.”

In this way banks make sure that the entrepreneur is serious and committed to their business.

However when referring to personal loans, (from Aztec for example) my respondents in the focus group agreed that these were more difficult to obtain because applicants need to show payslips for the last 3 – 6 months, (depending on the bank) or use a guarantor. But even in this case it would only be for the first loan because as another respondent commented:

“If you show the bank that you are a good client they will come knocking at your door after you repaid the first loan and offer you a second and bigger loan”. This shows how eager the banks are to increase their clientele.

With regards to information that I gathered from lending institutions they all agreed that they know that micro entrepreneurs and street vendors are informal, but they see them as potential clients, which is why they had designed a system that could help them assess this kind of loan applications in a more practical way. This involves a locally based staff member monitoring their potential borrowers closely on a daily basis not only on how they manage their businesses but also how they behave as individuals in society.

Lending institutions specialized in micro credits are willing to lend to formal or informal entrepreneurs who have been in business for a period of 6 – 12 months. First time borrowers represent between 7-10% of their clients, which means that for this number at least a repayment history is not required. Banmat is the only lending institution which lends exclusively to people with a stable job and requires the last three payslips as proof. They will contact the employer to deduct the payment directly from the borrower’s wages in order to avoid defaults.

In chart 5.1 one can see the results of my surveys regarding the relation between the occupation of my respondents and their lending sources, confirming what was said in my interviews: informal employees do have access to formal sources of credit such as from Mibanco, commercial banks and cooperatives.

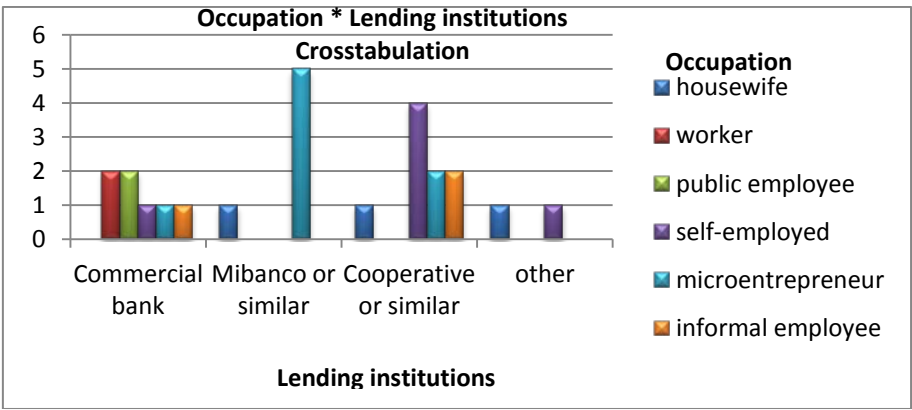


Chart 5. 1: Bank loans and informal workers

1c) Household income. From my interviews with senior officials of micro finance institutions I found that their target borrowers were the INEI’s C1, C2 and D segments because they knew they had sufficient income to be able to repay the loans.

Table 5.1 shows how many of my survey respondents would qualify as potential borrowers under these conditions.

Socio – Economic Segments								
	A2	B1	B2	C1	C2	D	E	
INEI levels in New soles	9,000	3,400	2,700	1,590	1,370	1,030	730	
INEI levels in euros	2260	854	678	399	344	258.5	183	
In Los Angeles	0%	0%	0%	12.5%	17.5%	15.0%	55.0%	
In Keiko Sofia	0%	0%	0%	6.7%	23.3%	33.3	36.7%	

Table 5. 1: Average income / socio-economic segments in both case studies

According to this table 55% and 36.7% (Los Angeles and Keiko Sofia respectively) of COFOPRI land titles beneficiaries would not be able to borrow from formal sources of credit.

When verifying if survey respondents from segment E had access or not to formal credits I found that ten (out of the twelve in segment E) did get credits: two from Mibanco, two from commercial banks and six from cooperatives; meaning that the rules from the banking institutions seem to be flexible. (See chart on Current loans by socio-economic segments on Annex VIII). I was unable to obtain comparable information from the focus group discussions because I decided it was too sensitive to discuss individual incomes within a group. However when talking to one interviewee from segment E, I was told:

“It really doesn’t matter how much you earn, what you have to do is to prove to the bank that you can repay the loan. My first loan was 300 new soles and I repaid 30 new soles every month, it was difficult to repay and I struggled but I did it. I am not planning to ask for another loan in the near future”.

1d) Quality of the plot.

In this respect I will focus on one human settlement, “Los Angeles” because its residents have problems accessing formal sources of credit due to the uneven topography of their plots. In this aspect I found a discrepancy between what was said by my interviewees and the banks.

Half of the people in the focus group mentioned the fact that it was very difficult for them to access formal credits because their plot was located on very steep hills. It seems to be that 30° is the maximum gradient accepted for a plot by Banmat and Aztec Bank. However, according to a senior official in Banmat there is no assessment of plot quality; they only take into account if the applicant has a title deed registered in the National Land Registry to collateralize it and ensure that he is able to repay the loan amongst other requirements³⁵.

With respect to this Aztec Bank accepted that:

³⁵ Banmat requests as well a picture of the plot, a technical dossier prepared either by an architect or civil engineer and a down payment of 2 estimated monthly payments that go into his own construction.

“It might have happened because it is a very personal decision taken by the local agent probably because if the client doesn’t repay the loan or is late, we have to send a debt collector and he goes by motorbike and in that area there are no roads, only stairs; so he has to leave his motorbike in the low-lying part of the settlement and climb the stairs to contact the borrower and when he comes down it is almost sure that he will not find his motorbike, and that is an inconvenience for us.”



Figure 5. 1: Steep hills in “Los Angeles”

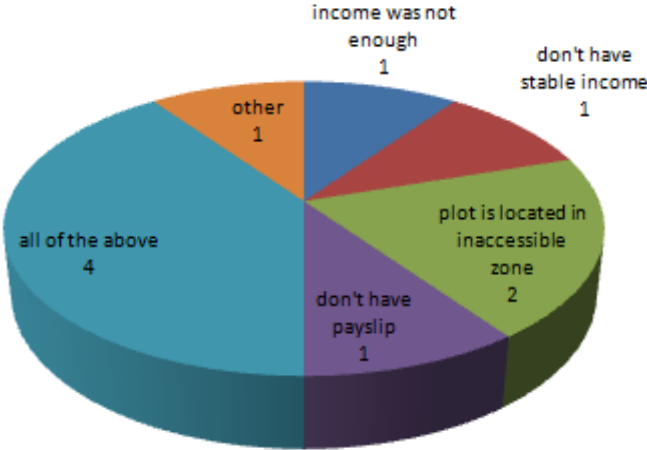


Chart 5. 2: Loan Applications rejected

What was mentioned on my focus group was confirmed by my survey respondents; ten of them had made loan requests which were rejected. In chart 5.2 one can see the reasons for the rejection and in 6 cases the reason was the quality of the plot, (in this specific case was the 30° gradient) therefore I cannot understand why this requirement (<30 gradient of the plot) is not mentioned in any of the two lending institutions WebPages. As mentioned before, this is not the case for “Keiko Sofia Fujimori” because their topography is not so steep. But we should take into consideration that this kind of topography is not uncommon in the slums in Lima which makes me think other settlements will have the same problems of access to formal credits.

1e) Annual interest rate. Regarding this section my respondents in the focus group and in-depth interviews from both settlements complained about the interest rates that some banks applied to their loans. They said that in some cases they had to repay double the amount they borrowed. However one respondent said:

“We shouldn’t complain, at least they are lending us money very quickly, with no collateral and they don’t even ask us to have a stable job. What else do we want? And to my surprise they all agreed with that comment and another respondent added: “It is true, and if you repay on time the first time, they come to your house offering you another loan”.

In chart 5.3 below one can see the annual interest rates that different financial institutions apply to their loans; banks apply higher interest rates to risky loans to cover themselves from possible non-repayment.

Although Aztec bank offers the highest interest rates some of my interviewees had borrowed from this source because they didn't know they there were cheaper options and they only took into consideration *proximity* of the bank.

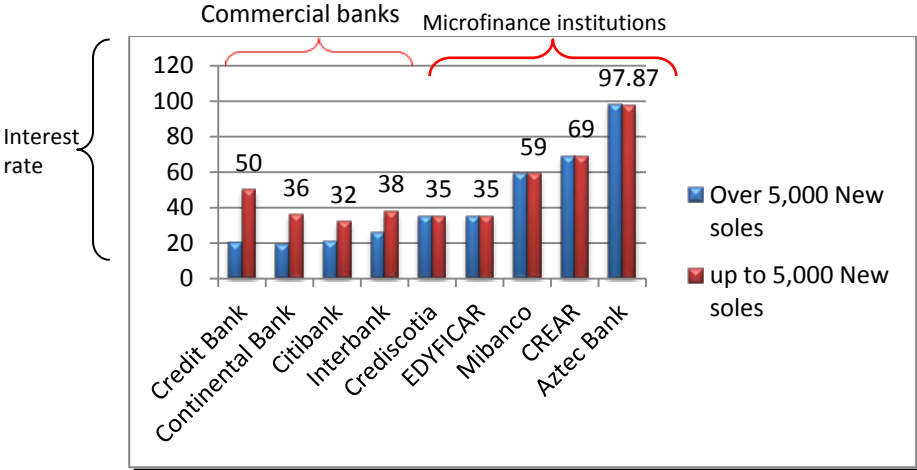


Chart 5. 3: Comparison of annual interest rates

Source: SBS (Superintendencia de Banca y Seguros)

II) VARIABLE: Loan Amounts

1f) Minimum and maximum loan amounts. These amounts vary from bank to bank and between cooperatives in the same way as interest rates do. They can range from a minimum of 1 (Banmat) to 500 new soles (Crediscotia) and the maximum ranges from whatever the bank considers the borrower can pay (Mibanco) to 100,000 new soles (Edyficar).

However there seems to be a misunderstanding about bank requirements amongst the focus group respondents. The FG members told me that the amount of the loan depends on the plot value. Values are very low in both settlements (see Annex V): 500-700 New soles (126-176 Euros) in Los Angeles and 700-900 New soles (176-227 Euros) in Keiko Sofia Fujimori. One respondent said:

“This is an aspect that limits the amount of our loans because the banks lend 2 or 3 times the value of the plot and there is very little that we can do with 1,000 or 2,000 new soles, we need more if we want to start a business”.

When I talked to officials from the lending organizations they informed me that the value of the plot is irrelevant since they do not use it as collateral. In the case of Banmat, which does collateralize the title, I was told that they have a team of valuers which values the plot and the construction on it. This figure is what Banmat uses to collateralize together with the land title and not the value which appears in the title deed.

In all cases the banks insisted that the most important requirement was the applicant's ability to repay the loan.

III) VARIABLE: Loan Request Processing

1g) Clarity of procedure and timelines of service. In this respect my interviewees and focus group and survey respondents agreed that banks specialized in micro finance provide flexible products and services to suit the income and expenditure patterns of small borrowers. Additionally all beneficiaries who had ever borrowed money from these banks told me that the procedures to open an account, which is necessary in order to obtain a loan, are quick and straight-forward; it took between 2 – 5 days to get approval and disbursement of the loan.

One woman from my group of in-depth interviews confirming what I was told by Mibanco, informed me that they also lend to illiterate borrowers, as long as they can prove that they are able to repay the loan. Banks have designed different procedures to evaluate their different target groups.

These banks offer choice of repaying loans weekly, bi-weekly or daily but to my surprise their clients preferred to repay monthly because they save in transport and they expose themselves less often to robbers. The formal source of credit is cheaper than the informal because money lenders apply interest rates of 20-25% monthly and Edyficar and Crediscotia apply 36% annually.

Survey respondents confirmed the ease of the application process; only 2% said it was difficult to request a loan and the reason given in this case was because the applicant did not have a regular job.

In order to finalize the section on lending criteria that banks apply to the poor I have prepared table 5.2 which an overview of the loan requirements of the different banks that I have looked at and added other requirements specific to some of them.

Banks	Collateral required	Processing time for a loan	Annual interest rate (%)	Age of small business (months)	Min. and max. loan (Nuevos soles)	Target clients in S-E segments
Mibanco *	NO	2-5 days	59	9	274 – no max	C1, C2 and D
Crediscotia*	NO	2-5 days	35	6	500-50,000	C1, C2 and D
Edyficar *	NO	2-5 days	34.49	6	300-100,000	C1, C2 and D
Crear *	NO	2-5 days	69	3	Ability to repay	C1, C2 and D
Aztec Bank * and**	NO	2-5 days	97.87	Lends for personal loans	20-30,000	-
BanMat***	YES	30 days	9.12	Lends for house improvement	0-30,000	C1, C2 and D

Table 5. 2: Overview table with loan requirements

Other requirements:

* ID card, RUC No. (SOFI No.), water or energy bill or land ownership document, daily ledger and pictures of the business.

** Living or working in the same place for 2 years.

*** Technical dossier prepared by an engineer or architect, picture of the plot and down-payment of two monthly payments.

Commercial banks in Peru saw that in 1998 Mibanco had opened the door to a new and profitable market amongst the informal sector and decided to participate in it. In the last five years these banks have opened new specialized branches, become more flexible and started changing their lending requirements to attract a clientele within this sector which had the means to repay their borrowing. From my findings we see now that:

- Access to credit is easier than one might expect. Micro-entrepreneurs do not require a title deed to obtain formal loans nor do applicants need to have a stable job; even informal workers have access to formal credits. Moreover, no matter what bank lending conditions are on paper, people from segment E still obtain credits as long as they can show the banks that they can repay them.
- Procedures for lending are now clearer and faster and banks assign an advisor to every client to help them through the lending process weather they are first time borrowers or not. These facilities attract borrowers to take out loans for which the interest rates are relatively unimportant as long as they can borrow.

5.1.2 Q2: What is the household need for formal credits in relation to business investment?

In this section I examine how much land title beneficiaries needed formal credit for their businesses. This will provide an insight into the importance of formal credit for beneficiaries and the likelihood that they eill make efforts to obtain it. I have used the characteristics of the informal micro entrepreneurs indicated by Erhard Berner in table 2.3 above to determine which of my respondents were growth-oriented and which ones were survivalists. These characteristics were used as indicators in my analysis and these are:

Type of Micro entrepreneur	
Growth-oriented	Survivalist
Characteristics	
Micro accumulation of capital, expansion of the business, one or more employees, has skills and specialized business, entrepreneurs by choice	No accumulation, no expansion, self-employed, no skills, street businesses, business diversification, home-based and involuntary entrepreneur, entrepreneurs by necessity.

Table 5. 3 Characteristics of micro entrepreneurs

These characteristics combined with the type of business from my respondents helped me in defining the profiles of my entrepreneurs.

From my samples I found that twenty three of my respondents were entrepreneurs working in three different types of business: production (3), services (5) and commerce (15), these are represented here as percentages in chart 5.4.

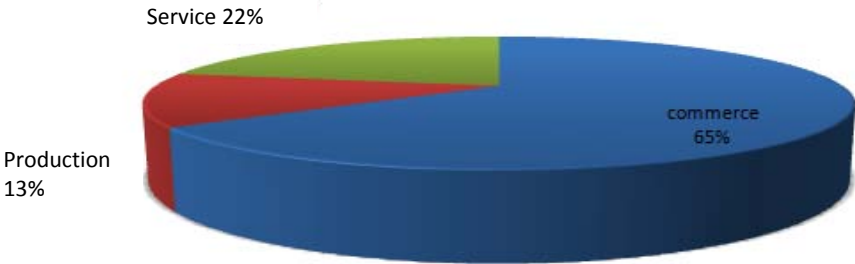


Chart 5. 4: Types of businesses

I) VARIABLE: Growth oriented business

I take **production** as an indicator of growth-orientation. Only one I respondents qualifies for this category because he started his business through choice, has been working in it for over 3 years, has a special ability, has one helper and his business is outside his house. He has two businesses which is a characteristic of survivalists. However, I think he qualifies as growth-oriented because I interviewed him and he told me:

"I am a panel beater. I decided to become a panel beater because here in Lima everybody drives like crazy and if you look at the cars they all have dents, so I thought that if I became a panel beater I will always have work to do, and so I did. Now I have my business in the main road here in the neighbourhood and my brother is helping me. I have now associated with a guy who paints the cars that I fix and another who does the upholstery of the interior of the cars in that way we all bring clients to the business. In future we are going to start a garage but we are still waiting for a place to rent near our current business. My wife started her own business selling cosmetic products sometime ago because she likes it and that is a little help".

With respect to **service**, I found in my samples only one woman who could qualify as well because, although she started her business out of necessity (a survivalist characteristic), she has been working for over 3 years, has a special ability, has two employees and her business is outside her house.

Complementing this information with the data I gathered from the interview, she told me that she started three years ago cooking for family parties at weekends. She started because she likes cooking and is good at it. Sometime later, her husband left her and she decided to cook as a business and with a loan from Crediscotia she bought pots, pans and everything that was needed to achieve her goal. Currently she is working with her sister and is catering for 70-100 people at a time going to their houses. Sometimes when she has too many requests she has to work with another employee and in future she wants to include her daughter in the business. In the near future she is planning to apply for another loan and invest in renting a stall in the local market for her sister and in three years (when her daughter finishes secondary school) she wants her to go to a cookery school and learn how to cook on a professional level and start a restaurant.

With respect to the last type of business, **commerce**, one survey respondent displayed the characteristics of a growth-oriented entrepreneur. He answered that he had started his business because he thought it was a good idea, has been working in it for over 3 years, has a special ability, has two employees and his business is outside his house. Unfortunately I did not interview this man because he was not in my list of interviewees therefore, I cannot complement the information he provided in the survey, but he has all the characteristics of a growth-oriented entrepreneur.

II) VARIABLE: Survival oriented

The majority of the samples from these two settlements were of survivalist entrepreneurs. From the group of twenty three entrepreneurs only three were growth-oriented which means that twenty were survivalists, confirming what is stated in the literature - that growth-oriented entrepreneurs are a minority. It was very difficult for me to define a profile

of these twenty because they had characteristics which fell into different categories of entrepreneurs.

From a focus group discussion that I held with a group of fifteen women who had a group loan from Mibanco to develop their micro-businesses, I realized that the majority (12) were survivalist; in this case I could clearly identify their profiles because their characteristics fitted Berner's categorization (2008): they had been forced to become entrepreneurs, were single mothers, had no skills, were street vendors, had no savings and had no plans to develop their businesses further. Some of them combined this activity with other activities in order to spread risk and reduce vulnerability. As one of them told me:

"I have to do whatever I can to survive and feed my children. In the mornings I go and sell juices and in the afternoon I wash clothes, do some ironing and clean houses, I don't make much money I know, but it is enough for us".

III) Variable: Need for capital to invest and plans for growth

Regarding this variable, in the first growth-oriented group both of my interviewees had plans to grow their businesses and depended very much on formal loans to do so. They were quite confident that they would get them because they had built up a good relationship with their banks and a good credit history.

With respect to the second group (the survivalists), fifteen out of my twenty respondents had had a loan in the past and four of them had had problems repaying them and didn't want to make another request. Complementing this data with information gathered from my interviewees one respondent stated:

"Sometimes I didn't have money to repay the bank loan but I didn't want to become a bad client because I thought that I might need the bank again in future so I had to borrow from other sources to repay my loan to the bank. It was very stressing but I did it and I learnt my lesson – never again".

The other women in the group emphasised that it was a good idea to start a group loan because in that way they were supporting each other and ensuring no-one was late with their repayments.

Another finding from my survey was that five survivalists had never asked for a bank loan because they preferred another source of credit and that they would rather invest in their houses than investing in their small businesses.

Answering the second sub-question about the household needs for credits for business investment, only three of the seventy survey respondents (4.2%) were growth-oriented, and only they will request a loan to develop their businesses. That means that when the majority who are the survivalists ask for loans it is to maintain their status quo or invest in other activity and not to develop their business.

5.1.3 Q3: How far can vulnerable households assume the risk of credit?

To answer my third sub-question I have used the livelihoods approach since it helped me identify the assets of my respondents and from there assess their level of vulnerability based

on the inverse relation between assets and vulnerability (Rakodi, 2002). In assessing vulnerability I have determined the common characteristics of extremely vulnerable, vulnerable and not vulnerable families to find out how they assume the risk of credit. This question addresses the capacity and willingness of land title beneficiaries at different levels of vulnerability to seek credit.

As mentioned in section 4.1 this study is based on information collected from surveys, focus group discussions, interviews and in this case observations that I made in the houses of my interviewees. A general description of my respondents has been made in section 4.3 and in this section I analyze these characteristics grouping my respondents in four socio-economic segments: C1, C2, D and E.

I) VARIABLE: Assets

3a) Financial capital

Financial capital refers to flows and stocks of capital. Here I use information I gathered from my surveys and in-depth interviews because it was not appropriate to talk about this sensitive issue in the focus group.

As one can see in table 5.4 I found from the households' survey that 70% of respondents are in the lowest socio-economic segments (D and E). Almost half my respondents are in extreme poverty mainly because most of them have a casual job and don't have a constant income; these households are extremely vulnerable and are forced to look for any activity that will generate income.

Segment	C1		C2		D		E	
Average income in new soles	1590		1370		1030		730	
	Freq	%	Freq	%	Freq	%	Freq	%
Data	7	10	14	20	16	22.9	33	47.1

Table 5. 4: Average monthly income per socio-economic segment

Very often two or more members of the family work as street vendors or casual workers. Even their children help by selling sweets on public transport, cleaning car windscreens when traffic lights are red or dancing in the streets. (Picture 1 in Annex IX)

3b) Human capital

We understand human capital as a function of knowledge, education, quality and quantity of available labour and livelihood relevant skills (DFID, 1999).

Age

Age is an important indicator to analyse the economic dependency of the family members.

Ages								
Income	0-6	7-12	13-18	19-29	30-49	50-65	>65	TOTAL
<800	22	18	10	15	27	2	2	96
800-1150	4	1	1	7	7	2		22
1150-1400	3	4	4	2	11	2		26
>1400	3	2	7	5	5			22
Sub-total	32	25	22	29	50	6	2	166
TOTAL	79			85			2	166

Table 5. 5: Composition of respondents' families broken down by age

When regrouping the ages by pre-school and school age children and working-age people one can see that those of school-age are almost equal in number to those of working age.

Education

Education is an important factor that improves people’s livelihoods and gives more opportunities to find better paid jobs. From my interviews I found that my respondents were aware of the powerful tool that education is for their children and therefore encourage them to finish secondary school and continue their studies at university to get a better life than their parents had.

From my surveys I found that the majority of respondents (52.9%) had secondary education and 28.6% primary education. If one compares this with socio-economic level it is possible to see that in general my respondents are quite educated with very few being illiterate or semi-literate.

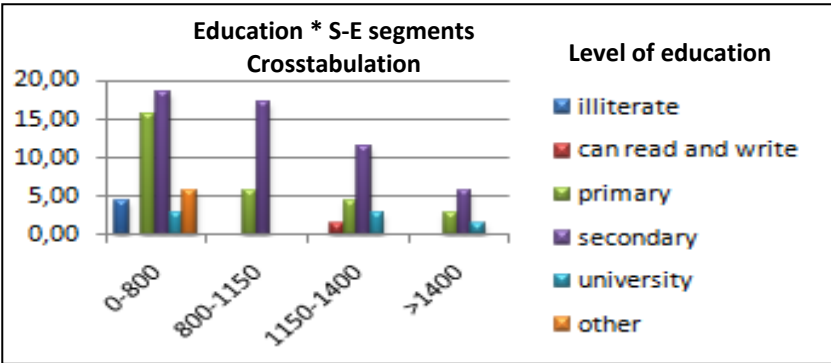


Chart 5. 5: Levels of education per socio-economic segments

Type of work

My survey data shows that the majority of respondents in segment E are casual workers and work in any job that they can find to provide an income for their families which confirms the information gathered during my interviews. This is shown in table 5.8 below.

Socio-economic segment	Average income	Public sector	Private sector	with a relative	In own small business	Street vending	Casual work
E	0-800	1	6	3	8	2	12
D	800-1150	1	6	0	4	2	3
C2	1150-1400	1	6	0	2	2	3
C1	>1400	0	3	0	2	1	1
	Total	3	21	3	16	7	19

Table 5. 6: Type of work per socio-economic segments

3c) Natural Capital

Natural capital refers to the natural resource stocks from which resource flows useful to livelihoods are derived, including land, water and other environmental resources, especially common poor resources (Rakody, 2002, p11).

This capital, except for land and security of tenure is not important or significant for the residents of both neighbourhoods. When walking through these settlements I didn't see any green area or open areas. The only ones that I saw were located in the lower parts. In "Los Angeles" there isn't even a football pitch which are very common in all slums in Lima which indicates that municipality's regulations about open areas were not taken into consideration. When talking to the community leader of one of the settlements he told me:

"We cannot have green areas because here in Lima it never rains and the municipality doesn't have money for that sort of thing; with respect to open areas we really don't need them, we prefer to accommodate some families in that area".

3d) Physical Capital

Physical capital refers to housing and infrastructure accessible to households in their location, understanding housing not just as shelter but also as a source of income when renting rooms or running domestic businesses (Rakodi and Lloyd-Jones, 2002).

One hundred percent of the residents in both settlements have domestic water, sewerage and electricity connections. Educational establishments are within walking distance

One can see the difference between residents in terms of physical assets in the form of the different building materials they use. In table 5.7 one can see that the biggest percentage of the houses in all four segments are made of wood, with a corrugated roof and cement floor. However, in some cases one can still find houses where reed matting is used for the walls and roofs in the same way as twelve years ago when the land titles were issued. These materials are not good for the residents' health during the winter season in Lima, because the weather is very humid and cold and the most vulnerable (young children and old people) are at risk of respiratory infections.

Materials income	Walls		Roof		Floor	
	Wood	Brick	Corrugated	Reed matting	Cement	Earth
	Number of houses in which walls, roofs and floors primarily use this material					
<800	28	5	22	9	24	9
800-1150	15	1	15	1	13	3
1150-1400	13	1	13	1	11	3
>1400	5	2	5		7	
total	61	9	55	11	55	15
%	87	13	79	16	79	21

Table 5. 7: Quality of the house by socio-economic segment

With respect to roads Keiko Sofia Fujimori is in better position than Los Angeles; it has wide roads that reach to the top of the hill where there is a public bus terminal. In Los Angeles, as we have seen, the steepness of the terrain does not allow the construction of roads.

3e) Social Capital

Social capital refers to formal and informal networks, groups and institutions that people engage with in periods of shock or crisis (DFID, 1999, sheet 2.3.2).

In answer to the question: are you involved in social organizations? 89 per cent answered positively which shows a high level of participation in various social groups. It also shows their high level of dependency because some of these families depend on these organizations to ensure they have three meals a day, shelter and even protection against abuse from their family members. From the group of respondents involved in social organizations 80% belong to the lowest income levels.

From my focus groups members and interviewees I found that their primary source of assistance is the government. In those neighbourhoods there are public institutions like “glass of milk programme”, “communal kitchens” and “INABIF”³⁶.

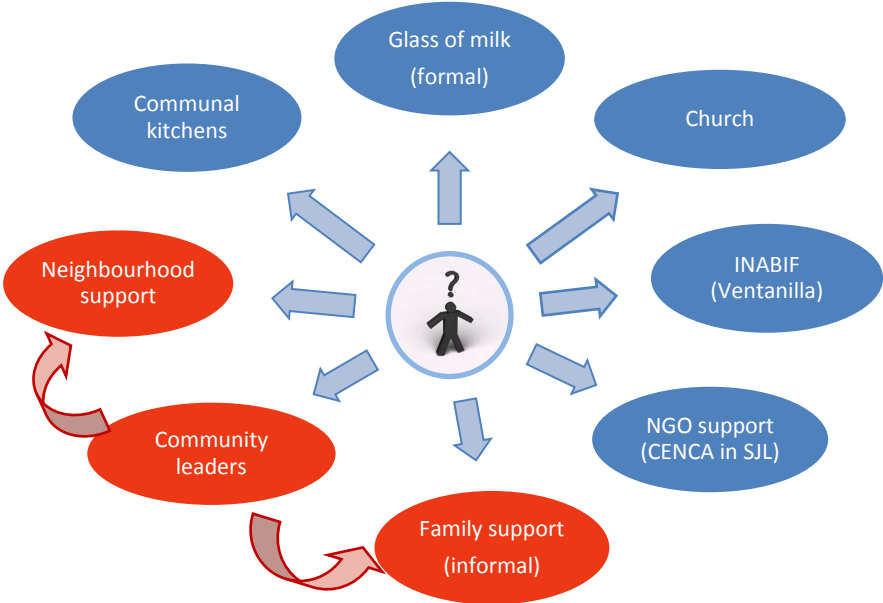


Figure 5. 2: Institutional mapping

My observations during my field research helped me realize that community leaders are very important and are well respected. They do not only take decisions regarding the development of the settlement but also about private and personal matters and they will be the first point of contact in case of family crisis and emergencies. In cases of extremely poor families they are the ones who organize “polladas” (barbecues) to raise funds for needy families; most of the time this is the only income that these families have.

³⁶ Glass of Milk programme run by government; is one of the networks of groups that now feed, clothe, house and give work to millions of Peruvians. This programme provides each school-aged child with a glass of milk a day.

Communal kitchens are run by women on voluntary basis and are supported by the government. They offer two meals per day (some of them offer breakfast too) at highly subsidized prices being their main goal to reduce the household expenses for food.

INABIF (*National Family Welfare Institution*) is the main public institution in charge of abandoned children, teenage mothers, women and elderly who are in a vulnerable situation. It offers them temporary shelter, food and protection.

I have prepared a table with a summary of my survey respondents’ assets divided by socio-economic segment (Annex VIII – research question 3). One can see that the differences between segments D and E are not large, and as mentioned under limitations in section 4.2 these two segments are permeable. If people from segment D get ill or one of the family members dies they will easily fall into segment E, or if unemployed people from segment E get a job they will move up to segment D. The main difference between these segments is related to income. With respect to human capital there are people with primary and secondary education in both groups with a small number of illiterates in segment E. With respect to financial capital both segments have similar occupations but in segment E there are some unemployed. When looking at social capital in these two segments one can see that they score high because they need the help of others to survive.

With respect to human capital in segments C1 and C2 both have people with a university education, but these can also be found in segment E. One can find more differences related to physical capital because segment C1 is the only one where some dwellings are built with permanent building materials and in financial capital only C1 has savings.

As one can see it is very difficult to define a profile because some characteristics are shared by more than two segments.

3f) Livelihoods assets and vulnerability

The above analysis covers livelihoods and vulnerability across all respondents and gives an idea of the characteristics of residents in the two settlements as a whole. Now we should consider the specific characteristics of the extremely vulnerable and how these compare with those of the vulnerable and those not vulnerable at all. I have prepared table 5.8 with the characteristics of each degree of vulnerability (in this case three) linked to assets from the table with a summary of my survey respondents’ assets.

Assets	Degree of Vulnerability		
	Extremely Vulnerable	Vulnerable	Not Vulnerable
Financial	No income, or very low income. Dependent on risky and unstable sources of income. No savings, or savings in RoSCA’s.	Low income dependent on risky and unstable resources. No savings or savings in RoSCA’s	Good, stable income, with savings
Human	Low levels of education. Illiterate or primary education Poor health, no health insurance, older family members (>65), older heads. Large family size (>5)	Primary education, no health insurance, older family members (>65), older heads. Large family size (3-5)	Secondary or university education, health insurance. Family members in working ages. Heads (less than 50 years). Small family size (3-4)
Natural	Land title		
Physical	Precarious/temporary building materials. No possession of assets that can be liquidated in case of emergency. More than 3 people sleeping in one bedroom	Precarious/temporary building materials. In possession of some assets. Three people sleeping in one bedroom	Permanent building materials. In possession of assets that can be shifted if necessary (electrical appliances or others)
Social	Always/frequently dependent on social organizations and charity	Sometimes need help from social organizations	Never or rarely need for help from social organizations

Table 5. 8: Asset Profile of Residents at Different Levels of Vulnerability.

I have assessed the answers of all my respondents with respect to their assets and compared against table 5.8 I only found one survey respondent (representing 2% of the total) who could qualify as non-vulnerable as shown on chart 5.6. As expected, the majority of them qualify as vulnerable, who in the event of crisis could become extremely vulnerable.

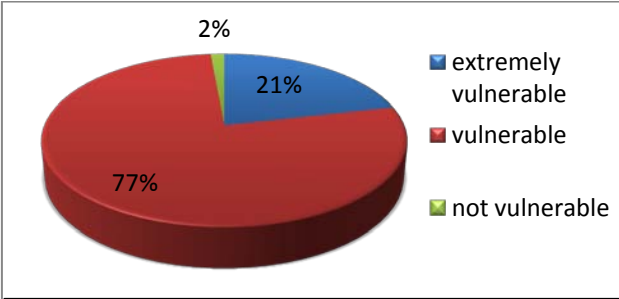


Chart 5. 6 Percentage of respondents by degree of vulnerability

In the most severe cases of extreme vulnerability; people with no jobs, no income, poor health and with poor or no education are not eligible for a loan and they wouldn't ask for one, as one of my interviewees said:

“How am I going to ask for a loan if I cannot repay it? I don't work because I have to take care of my little daughter and of my mother who has a terminal illness. My brother is a drug addict and the money he gets is to buy drugs. We don't even have money to buy painkillers for my mother, we entirely depend on charity. Our neighbours give us food every day and every month the whole settlement does some activities to get some money for us. If it wasn't for their help we would die of hunger”.

This case of extreme poverty unfortunately is not the only one in my case studies. I found among my interviewees another case and I was informed of another similar case by the community leader of “Los Angeles”. People with high degrees of vulnerability will be afraid to assume the risk of credit, this is examined in detail in the following section “Variable: Risk Taking”.

II) VARIABLE: Risk taking

The variable of risk-taking allows me to determine why people with different levels of vulnerability take or do not take the risk of obtaining a formal loan. For that purpose I work with indicators such as fear of losing assets, fear of becoming poorer or not knowing how to request a loan.

In chart 5.7 I analyse the answers from my survey respondents who are currently repaying a loan. They are 24 of them and one can see that people from all the three levels of vulnerability took the risk, but most of them have concerns and are worried about the possibility of not being able to repay their loan.

As already mentioned in section 5.5.1 (collateral requirements) these borrowers did not collateralize the loan. However, they are still afraid of losing assets. From this chart one can see that only 4 respondents out of 24 don't think about this problem.

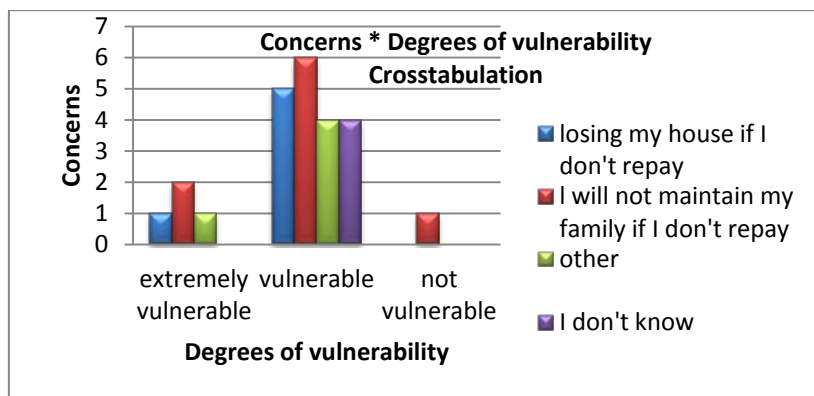


Chart 5. 7: Concerns of survey respondents about not being able to repay their loans

Survey respondents were asked, if they did ask for a loan, what was the reason. Chart 5.8 presents their answers. One can understand why 36 respondents did not want to apply for a formal credit. The majority of them (21) either don't want to request a loan because they had a bad experience (or they heard about it), or they are afraid of losing assets or becoming poorer.

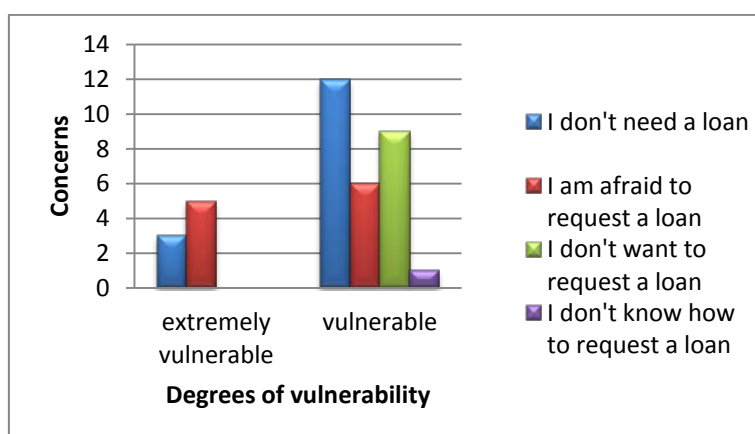


Chart 5. 8: Survey respondents' reasons for not requesting a loan

In chart 5.7 one see the answers from people from the three groups of vulnerability who took the risk and are repaying a formal loan but feel worried about it, and in chart 5.8 one see the reaction of two groups of people; one group who took the risk in the past and don't want to do so again (like the woman in section 5.1.2 variable III) and the other group who don't want to take the risk because of fear. A woman from the second group told me:

"I see many people selling in the local market, I have asked them how they were able to rent the stall and they told me through a bank loan. I would like to have a bakery and sell bread in the market because my uncle told me that we could become partners. He knows how to bake and he could teach me, but I am afraid to take a loan because if the bakery doesn't work I will have to repay the loan anyway and I don't know where to get the money from. That is why I carry on selling sandwiches on the street, at least in that way I know that I will get some money and don't have to worry about getting more money to repay a loan".

In conclusion and answering this sub-question about how far can vulnerable households assume the risk of formal credit one can see that very few families who are extremely vulnerable will take this risk. Some had obtained loans before even thought they know that it would be difficult for them to repay them. The question in this case is would they take the risk again? Most certainly not. But the families in a less vulnerable position will be more open to take this risk as shown in chart 5.7

5.1.4 Q4: What have been the sources of finance used by the beneficiaries of this programme so far?

De Soto assumes that poor people don't have access to formal sources of credit. In this section I show this not to be the case and analysed the different sources the beneficiaries of this programme have used. The information collected in the focus group and in-depth interviews show why respondents selected the sources they did as I will now explain.

I) VARIABLES: Sources of loans and use of credits

The indicators used to analyse these variables are the number of loans from formal and informal sources and the type of investment the beneficiaries made with the loan.

Programme beneficiaries have used formal and informal loans and, as mentioned in section 5.1.1 and no title deed was used as collateral (for investing in small businesses).

Figure 5.3 shows that the two most common sources of credit in the two settlements are: credit from shops and RoSCAs. The former mainly comprises two kinds of shops: Grocer's and electrical appliances shops.

Grocer's shops are very important because they ensure families can continue to eat even when they have no cash and shops for electrical appliances are very popular because clients can buy on credit appliances that can be later used as collateral if needed. During my in-depth interviews I saw all sorts of electrical appliances in the houses of my interviewees such as refrigerator, iron, sound equipment, television, liquidiser, toaster and a few even had a microwave.

RoSCAs are quite common among female respondents, who often belong to a number of them at the same time in order to satisfy range of needs such as school uniforms, books and Christmas and birthday presents. One of my respondents told me:

"I prefer to save in this way because if I keep money in my house my husband will spend it all on beer".

With respect to formal loans from financial institutions, the most popular is Mibanco, followed by Edyficar and Crear. These have been working with micro entrepreneurs, street vendors and casual workers for over 10 years and are well-known among poor segments of the population. They offer loans and advice to their clients on how to expand their businesses and the best way to invest.

As mentioned on section 5.3, money lenders are their last resort because they charge too much interest rate and demand as collateral physical items that are worth more than three times the value of the loan. But as one respondent said:

“It is always good to know who they are and where to find them because you never know when you will need them”.

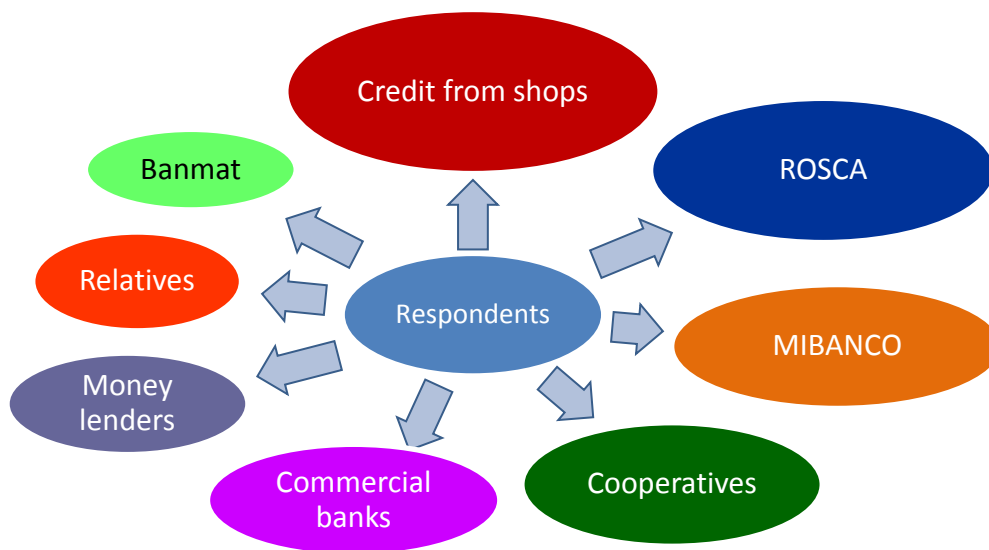


Figure 5. 3: Formal and informal sources of credit

This information has been confirmed by my survey respondents in which Mibanco and other similar are the lending institutions most used by the respondents mainly because they offer the lowest interest rates among micro finance institutions. Chart 5.8 shows the relation between lending institutions and the use of credit.

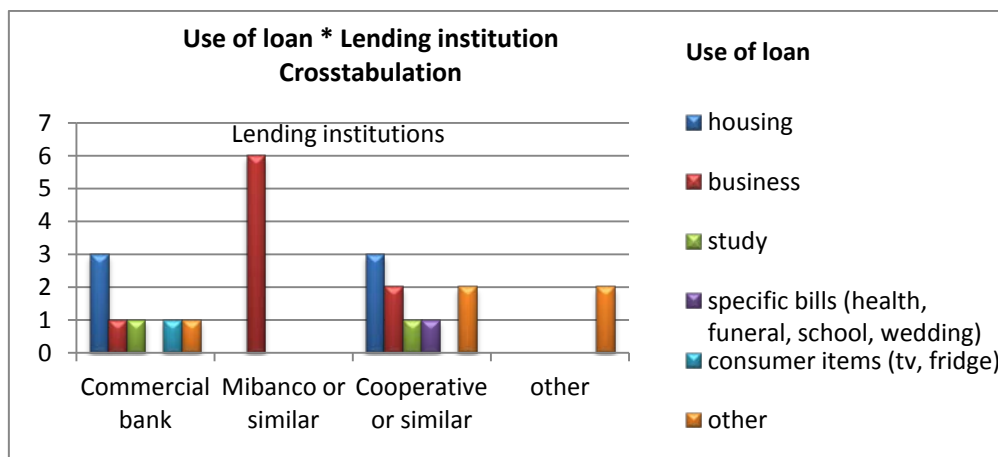


Chart 5. 9: Relation between lending institutions and use of loan

As one can see, twenty four (34%) of the seventy survey respondents are currently repaying a loan; only nine (12.8%) of them are using the loan in their businesses and the next investment category is in their dwellings (6). The reason why 66% of my respondents currently don't have a loan was explained in detail on sub-question 3 (**variable: risk taking**); it is because the beneficiaries think that there are too many risks involved when taking a formal loan which they are afraid of taking or don't want to take it again.

We may thus conclude that programme beneficiaries use informal sources of credit when small amounts of money are needed and the RoSCAs are used as a savings alternative rather than saving in banks; formal loan sources have been and are still used mainly for business and house improvements.

5.1.5 Q5: What have been the other benefits of having a land title?

We have considered the benefits of land titles in facilitating access to formal credit for programme beneficiaries and have found that there is not a clear relationship. However, this is not to say that there are few benefits in holding a title. Research carried out on the Land Titling Programme between 2000 and 2009 is summarized in table 2.1 above and shows that feelings of security and increased housing investment are amongst the benefits.

In addition in my focus group discussions the majority told me that their titles helped in the consolidation of their settlement by facilitating the construction of infrastructure for water supply, sewers, electrical grids and even telephones. All these facilities enabled them to improve their living conditions and their quality of life. They agreed that another benefit was that with the copy of the title they can go now to shops and buy electrical appliances on credit.

This information is confirmed in the survey when I asked what was the main benefit which titles brought? 75% of my respondents answered that the title helped them obtain infrastructure followed by 22% who said that the benefit was security of tenure because they will not be evicted as shown on chart 5.9

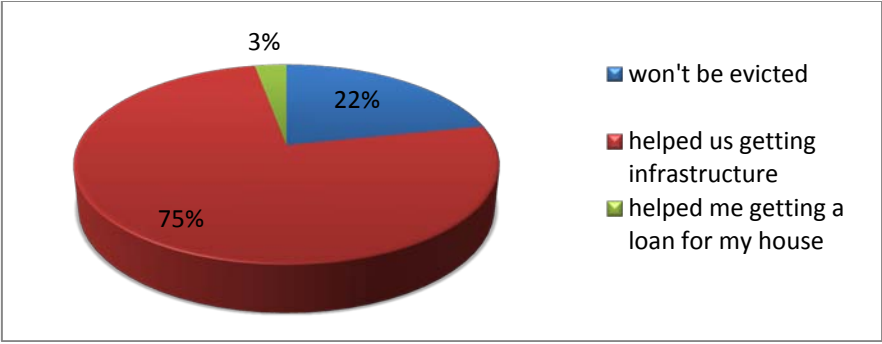


Chart 5. 10: Benefit of a land title

During my interviews one man explained:

“IT FEELS GOOD to have a land title. Now I know that I and my children won’t be evicted and if they ever get married we can all live on the same plot, they will not have to invade like we did. This plot is big enough for me and my children. In future they can build their houses on top of mine. We were lucky, most people wait 10, 15 even 25 years to get what we got in five years; land title, domestic water, sewerage and electricity connections”.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

This thesis examines the effects of land titles on access to formal credit as a means to invest in small businesses thereby developing the local economy. The thesis examines a land titling programme carried out by COFOPRI partially funded by the World Bank which was intended to produce these results. The study researches how this programme was implemented in two settlements in Lima, Peru.

This programme is based on De Soto's theory which argues that a title deed that can be collateralized is needed to transform *dead capital* into *live capital* to access to formal loans. In answering my first sub-question, it becomes clear that no title deed is required to obtain access to formal credits. Commercial banks and micro finance lending institutions base their assessment on the ability to repay from the borrower and not in possessing a land title that can be collateralized for loans below 12,755 Euros.

Commercial banks in Peru realized that in 1998 Mibanco had opened the door to a new and profitable market amongst the informal sector and decided to participate in it. In the last five years these banks have opened new branches specializing in micro-finance, become more flexible and started changing their lending requirements to attract clientele within this sector which had the means to repay their loans. The characteristics of these micro-finance organizations that belong to the commercial banks are very close to the ones of the informal providers (table 2.6) related to: proximity (they are local, within the neighbourhood), they have simple loan procedures, loans are small, lending is made both to individuals and groups, they do not request land title as collateral, there is no literacy requirement and loan disbursement is quick. These characteristics suggest that the line separating formal and informal sources of loans is thin.

As one can see, access to credit in Peru is easier than one might expect. Micro-entrepreneurs do not require a title deed to obtain formal loans nor do applicants need to have a stable job; even informal workers can access formal credits. Moreover, no matter what bank lending conditions are on paper, people from the lowest socio-economic segment still obtain credits as long as they can show the banks that they can repay them. Procedures for lending are now clearer and faster and banks assign an advisor to every client to help them through the lending process whether they are first time borrowers or not. These facilities attract borrowers to take out loans for which the interest rates are relatively unimportant as long as they can borrow.

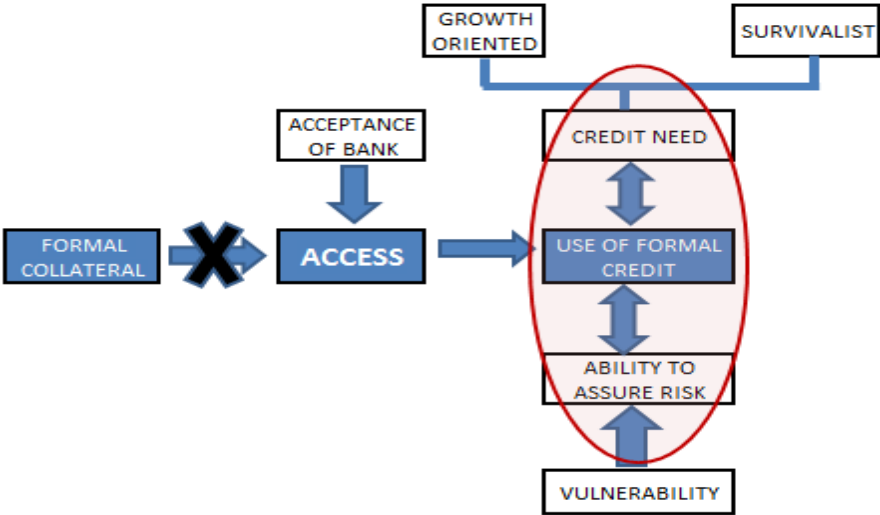
It seems to be that the whole micro financial service for the poor has taken *another path* towards informality. Collateral is not needed therefore land title is not collateral. In that sense more credit is available than is needed or sought, as we have seen in section 5.1.1 because micro-finance institutions come knocking at borrowers' doors to offer loans.

Would I say that De Soto was wrong when arguing about the link between title deed and access to formal credit? Probably not, because he published his theory in 2000, and he could not have foreseen eleven years ago that formal sources of loans would today be so easily accessible to the settlers of informal settlements.

But where one can be more critical of De Soto is in his assumption that all residents in informal settlements are efficient entrepreneurs. *“They are in possession of dead capital that cannot be used as collateral to access to formal sources of loan, therefore cannot develop themselves as entrepreneurs and achieve business growth”*; but when answering my second sub-question I found that from seventy survey respondents only three were micro entrepreneurs (4%); meaning that not everybody is entrepreneur but only a very small percentage. The majority who are not entrepreneurs will not request a loan to develop or start a small business. But as we have seen in this study 34% (24) are currently repaying a loan. Only 12.8% (9) of the survey respondents are using the loan in their businesses and the rest requested a formal loan to invest on another need or to maintain their status quo; these investments will hardly lead to business development. The remaining 66%, who didn’t request a loan said their reluctance to do so was because they either didn’t have a business, were afraid they couldn’t afford the repayments and/or were afraid of the consequences of non repayment. Affordability and vulnerability are two concepts that De Soto did not take into consideration. When a person is poor and has no savings they cannot afford to take the risk of a credit loan. And this will be the explanation to my main research question: Why is the increase in use of formal credit less than foreseen by the Land Titling Program? Because not all informal settlers are entrepreneurs.

In this research we have considered the benefits of land titles in facilitating access to formal credit for programme beneficiaries and have found that there is no clear relationship. However, this does not mean that there are few benefits in holding a title; inhabitants themselves indicate that it has a great use but in a different way than the theory assumes. It has helped in the fast consolidation of their neighbourhood and therefore in improving their quality of life.

Returning to my conceptual framework and summing up my answers I can say that there is no relation between land titles and access to formal credit. The relations with access that are important are the need for credit and the ability to assume risk, as shown on the below figure. We have seen in this study that there is a group of people with no businesses who, of course, do not need a credit to develop their businesses and there is another group with a need for credit but who cannot afford it or who are unable to take the risks associated with having a credit because they are very poor.



RECOMMENDATIONS

COFOPRI has recognized that they have been working individually and that their coordination with other public sector organizations has been poor. They explain that they are currently *articulating* or coordinating efforts with sectors related to housing, woman and development to give beneficiaries of this programme the possibility to improve their livelihoods. This coordination will enhance the success of this programme and not limit its goals to issuing title deeds, because they know that access to credit alone will not reduce poverty as De Soto argued.

Credicrece's role should be given greater importance and their budget should be increased to allow them to cover all the programme beneficiaries, because some of them are lacking credit information and don't know how to obtain it. Some think that although they didn't mortgage their houses is possible that they will lose their plot if they don't repay it. A training course is needed on the implications of getting a credit and what is the collateral used when getting a loan.

Credicrece should include in their campaigns information about the cheapest credit options such as those offered by Crediscotia and Edyficar and possibility to join forces with any of these big micro finance organizations because they have run successful credit campaigns.

Although land titling has not produced the results expected of it in promoting the development of microenterprises it provides other benefits. If these are exploited, such as in the ways I have recommended it will no doubt be even more important in improving the lives of the poor who are its target group.

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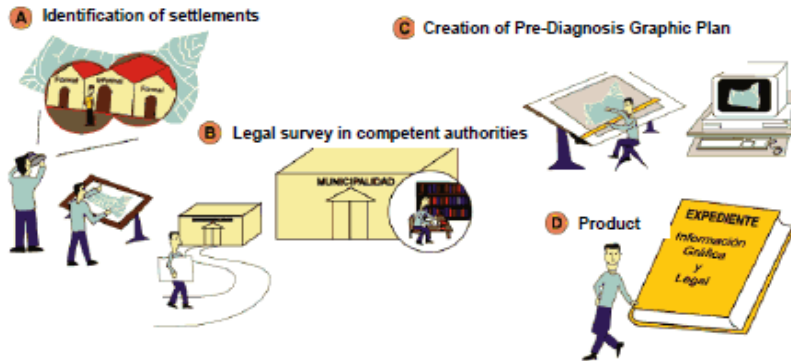
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ANNEXES

Annex I: COFOPRI Processes

FORMALIZATION PROCESSES - 0

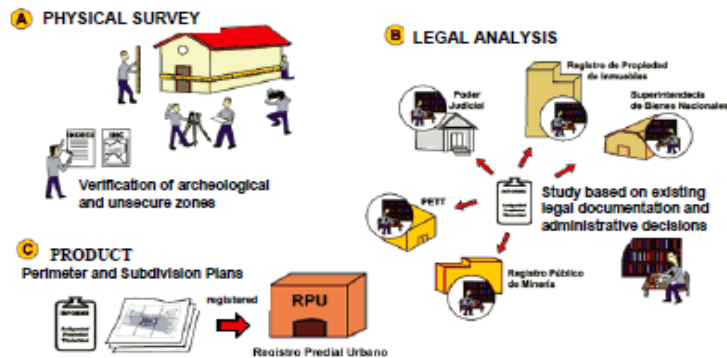
PROCESS 0: STRATEGIC PLANNING



Source www.cofopri.gob.pe

FORMALIZATION PROCESSES - 1

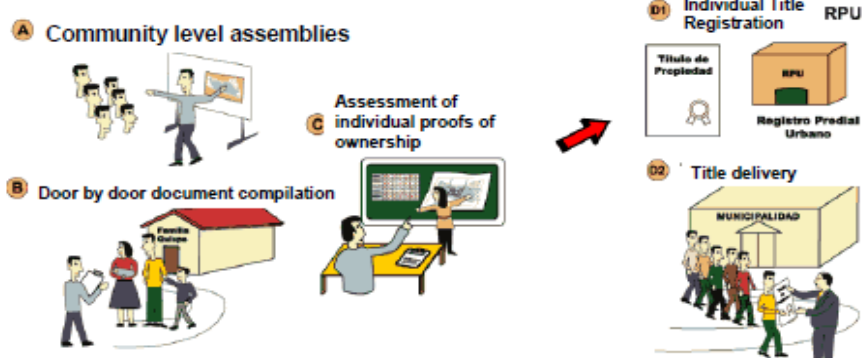
PROCESS 1: SETTLEMENT FORMALIZATION



Source www.cofopri.gob.pe

FORMALIZATION PROCESSES - 2

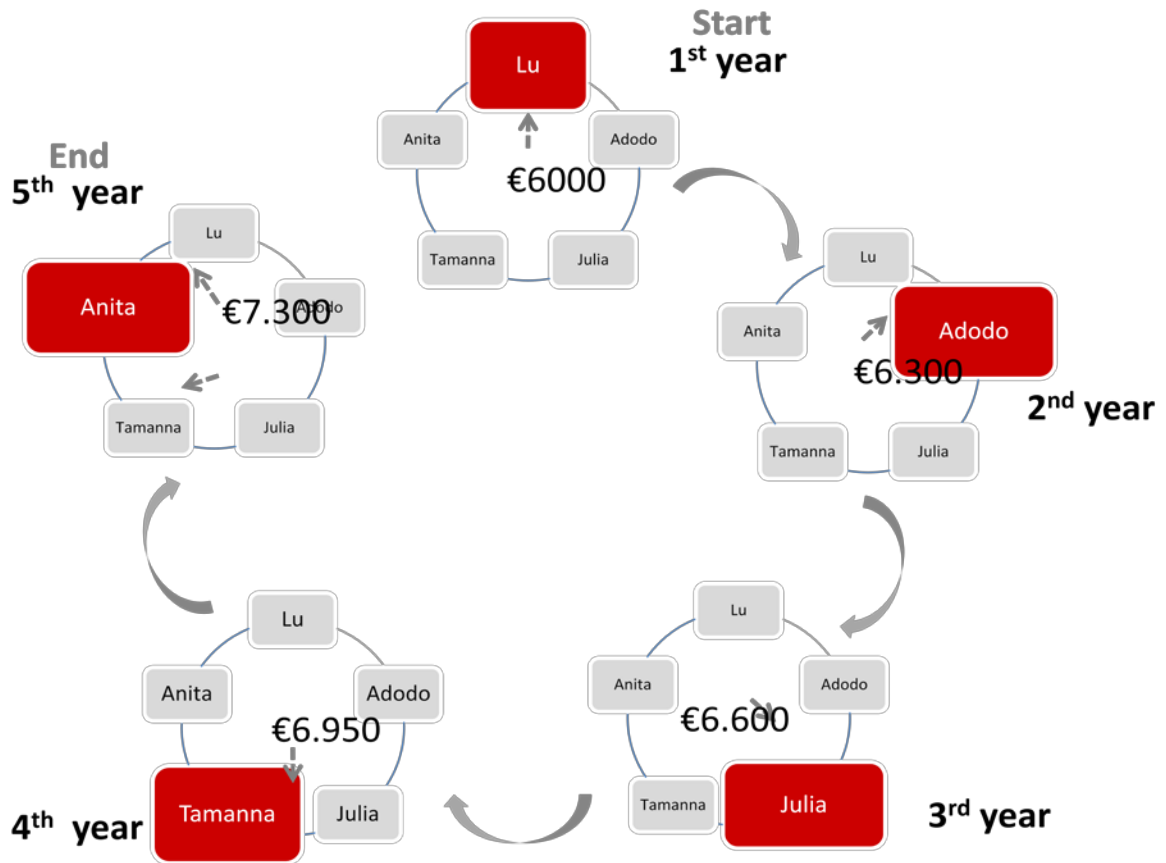
PROCESS 2: INDIVIDUAL FORMALIZATION



Source www.cofopri.gob.pe

Annex II: Example of a five year RoSCA

Source: Group assignment UMD7 – Housing specialization



Annex III: Operationalization: Variables and Indicators

SPECIFIC RESEARCH QUESTIONS	CONCEPTS	VARIABLES	INDICATORS	DATA SOURCES	RESEARCH METHODS	DATA COLLECTION METHODS	DATA TYPE	QUESTIONS
What are the lending criteria the banks apply to the poor?	Bank conditions	Collateral requirements	Repayment history, Savings, type of work, duration of employment Household's income Title deed	Beneficiaries Private banks Public banks	Qualitative Quantitative	In-depth interviews Questionnaires Focus group	Primary Secondary	Have you ever applied for a loan? YES/NO How many times? What were the conditions? (each time)
		Loan amounts	Minimum and maximum loan amount					Is a LT accepted collateral? What do you require in terms of quality of the land (location, hazards, gr./cc/m2)? What are the lending conditions that you apply to an individual? Is it the same for the poor? YES/NO (explain)
		Loan request processing	Clarity of procedure Timeliness of service Juridical and bureaucratic requirements (forms, procedures to inscribe collateral, etc.)					What are the minimum and maximum loans for commercial credit? Explain how is the process to request loans and to approve them (time bound, bureaucratic requirements, complexity)
What is the household need for credits in relation to business investment?	Type of enterprise/ type of business	Growth oriented business Survival oriented	Micro-accumulation, # employees (1 min.), skills, expansion, job history (own choice?), production No accumulation, self-employed, home-based, no skills, no expansion, petty trade, business diversification	Beneficiaries	Qualitative Quantitative	Semi-structured interviews	Primary	Do you run a business? YES/NO if yes, since when? What source of enterprise start-up did you use (personal savings, loan/gift from a friend or relative, loan from an organization or someone else)? What kind of business is it? What did you do before? Why did you decide to start a business? (out of necessity, not able to do anything else, expected to earn more, had a good business idea, cannot work outside the house because I need to take care of the children) How many people work with you? Where is your business located?
	Need for capital	For long term investment Short term inv. Working capital	Plans for growth Identified shortage of capital (physical, financial) Cash flow					How do you see the future of your business in the next 5 years? Do you have problems running your business at the moment?
How far can vulnerable households assume the risk of credit?	Vulnerability	Risk taking	Fear to lose assets (house, land, productive assets, and friends)? Fear of impoverishment Fear of ineptness	Beneficiaries	Qualitative Quantitative	Questionnaire Observations	Primary	Is it difficult to get a loan? (too many requirements, banks ask for collateral, it is too far away, afraid of not being able to repay, afraid of losing the collateral, I don't have a stable job/regular income Are you able to repay a loan? YES/NO What do you do if you can't?
		Social capital	Extended families, networks, formal and informal institutions					What is your role in the community? What is the level of community participation in your settlement? Are you a member of a social organization? How many associations do you know? Do you have relatives/friends living in this settlement?
		Financial capital	Remittances, credit, savings/ use of savings in kind and cash, sources of income					Do you have relatives living abroad? Do they send you money? Do you have savings? What are the sources of your income (wages/salary, business/trading/ production, remittances, others), how often do you get it?
		Human capital	Family composition, level of education, skills, health, # people working, type of work					How many members are in your family? How many people are working? What do they do for a living? What is the last year studied as school?
		Physical capital	Housing, basic services (water, sanitation, electricity, health, medical infrastructure					What is the size of your plot? Housing quality: Permanent _ Semi-permanent _ Temporary How many families live here? # people living in the house? How many rooms? How many floors? Separated room from cooking, bathroom inside/outside the house
		Natural capital	Land title					Do you have a title deed granted by COFOPRI? When was it granted?
What have been the sources of finance used by the beneficiaries of this programme so far?	Access to capital	Sources of loans	Number of loans from: Private and Public banks Informal institutions / lenders	Beneficiaries RPU Private and Public banks Informal lenders	Quantitative	In-depth interviews Questionnaires Records Focus group	Primary Secondary	Are you in possession of any form or credit/loan? Where did you get the loan from?
		Use of credit	Type and level of investment: house, business, household sustainability (consumption)					Have you ever invested money improving your house? Where did you get the money from? Have you borrowed money for any other reason and where did you get it from?

Annex IV: Data Analysis Matrix

1) SPECIFIC QUESTION: LENDING CRITERIA										
VARIABLE: COLLATERAL REQUIREMENTS										
Indicator	AA.HH's						Financial Entities			
	FOCUS GROUP	SJL IN-DEPTH INTERVIEWS	SURVEY	FOCUS GROUP	Ventanilla IN-DEPTH INTERVIEWS	SURVEY	MIBANCO (SB and personal loans)	CREDISCOTIA (Small businesses)	OTHERS	BANMAT (Housing)
Title as collateral	Copy used as reference for loan	Copy used as reference for loan. Copy used to get electrical appliances in credit	Currently 11 repay a loan and 1 mortgaged, 29 did in the past. No title used as collateral	Copy used as reference for loan	Copy used as reference for loan	Copy used as reference. No collateral req. From Mibanco and cooperatives	No collateral is required. Copy of LT is required as reference.	No collateral is required. Copy of LT is required as reference.	No collateral is required	Original of Title deed used as collateral
Type of work	Informal for ME Formal for personal loan (payslip)	Informal for ME Formal for personal loan (payslip)	Banks accepted formal and informal sources of income (50%)	Formal or informal	Formal or informal	Formal or informal get access to formal credit	Informal for SB Formal for personal loan (payslip)	Informal for SB Formal for personal loan (payslip)		Stable, requires last 3 payslips
Operation of SB	One year Six months	One year Six months		One year Six months	One year Six months		Nine months	Six months	6-12 months	Three months
HH's income	They could pay 80-100 for a loan	Ability to pay	55% is in segment E	They could pay up to 100 for a loan	Ability to pay	Majority of respondents are D and E	Socio-Economic segments C1, C2 and D	S-E segments C1, C2 and D	S-E segments C1, C2 and D	S-E segments C1, C2 and D
Quality of plot	-Plot in flat area -Plot's altitude <30"	-Plot in flat area -Plot's altitude <30"	Two people couldn't get a loan because of the quality of the plot			In Los Angeles 6 out of 10 rejections because of steep hills	No requirement	No requirement	Aztec Bank only lends to plots in flat areas	No assessment over quality or altitude of the plot
Repayment history	If previous loan good repayment history	If previous loan good repayment history		If previous loan good repayment history	If previous loan good repayment history		They lend to first time borrowers	They lend to first time borrowers		They lend to first time borrowers
Annual Interest Rate	Aztec Bank is very expensive you pay more than double. Edyficar is more affordable	45% in Coop. But you have to have savings there.					59% (for SB loans)	35%	Edyficar 34.49% Craar 69% Coop. San Hilarión 42.09% Azteca Bank 97.87%	9.12%
Variable: Loan amounts										
Min. and max. loan amount	The amount of loan depends on the value of the plot.	It depends on how much you can pay. I wanted 10,000 new soles and they told me I could only borrow 1,500 and that was not enough for me		The first time they always give you 500 New soles	Started with 500 new soles and had good repayment record. Now I have another loan for 1500, Depends on affordability		274 New soles to first time borrowers up to their ability to pay	500 New soles to first time borrowers up to 50,000 in national currency	Edyficar 300 – 100,000 Aztec Bank 20 – 30,000 Coop. San Hilarión 300 – 3,000	No min. Only max. 30,000 New soles
Variable: Loan request processing										
Clarity of procedure	It is very easy	Very easy, even if you are illiterate	Only 1 person answered that it was difficult because of too many requirements	Very easy if you have all the papers	So easy, when you finish repaying they come to your door to offer you another loan	9 out of 10 respondents said it was very easy				
Timeliness of service	It is very quick. You get the money in 2 days	Less than a week	100% said it took less than a week from the moment they applied until disbursement	Less than a week		Majority said it takes less than 1 week	2 days after presenting all documents	2 days after presenting all documents	2 -6 days after presenting all documents	Technical file takes time. After all requirements were completed 30 days
Requirements to register collateral	They do everything for you	No one had their title as collateral		No title used as collateral			No need of collateral	No need of collateral	No need of collateral	Bank does everything.

Annex V: Copy of the COFOPRI land title.

TITULO DE PROPIEDAD REGISTRADO

Que otorga la COMISION DE FORMALIZACION DE LA PROPIEDAD INFORMAL, a la que se denominará COFOPRI debidamente representada por su Presidente, el Ministro de Justicia, Dr. José Alberto Bustamante Salas, identificado con DNI Nro. 07032772 en favor de:

FLORES HUAMAN IRMA FLOR
LE 40333364 Soltero(a)
TITO CHUMBES ALEJANDRO CESAR
LM 2248053755 Soltero(a)

a quien(es) en adelante se le(s) denominará "EL(LOS) TITULAR(ES)"; en los términos y condiciones siguientes:

PRIMERO

COFOPRI, en representación del Estado de acuerdo a lo dispuesto en el Artículo 13° del Decreto Legislativo Nro. 803 - Ley de Promoción al Acceso de la Propiedad Formal - es propietaria del terreno matriz sobre el cual se ha desarrollado el

ASENTAMIENTO HUMANO: PROYECTO INTEGRAL: LOS ANGELES

ubicado en el Distrito de SAN JUAN DE LURIGANCHO Provincia de LIMA Departamento de LIMA. El dominio de COFOPRI sobre dicho predio matriz corre inscrito en el Registro Predial Urbano.

SEGUNDO

En el citado Asentamiento Humano se ubica el


LOTE : 10 MZNA : F
SECTOR: CERRITO LIBERTAD

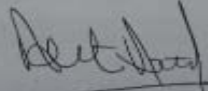
encerrado dentro de los linderos y medidas perimétricas siguientes:

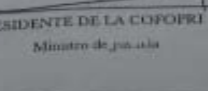
Frente : 5.50 ml. con PASAJE 5
Derecha : 15.00 ml. con LOTE 11
Izquierda: 15.50 ml. con LOTE 9
Fondo : 6.50 ml. con LOTE 8
Area : 90.05m²

Septiembre 14 de 2,000

**INSCRITO BAJO EL CODIGO DEL PREDIO N° P82199759
DEL REGISTRO PREDIAL URBANO - LIMA**


 TITULAR


 TITULAR


 PRESIDENTE DE LA COFOPRI
 Ministro de Justicia

TERCERO
Mediante el presente Título de Propiedad, COFOPRI adjudica el derecho de propiedad sobre el lote de terreno descrito en la cláusula anterior, en favor de EL(LOS) TITULAR(ES), quienes acreditan reunir los requisitos legales para adquirir el terreno en un Asentamiento Humano.

CUARTO
Para efectos de la presente adjudicación, el lote de terreno en referencia se valoriza en la suma de **S/ 720.00**.

(Valor Arancelario establecido por el Consejo Nacional de Tasaciones).

QUINTO
La presente transferencia es ad-corpore, por lo que comprende todo lo que de hecho o derecho corresponde al lote de terreno materia de adjudicación e incluye los alres, usos, costumbres, entradas y salidas que le corresponden a este último, sin reserva ni limitación alguna.

SEXTO
El presente Título de Propiedad constituye mérito suficiente para su inscripción en el Registro Predial Urbano, sin cuya inscripción carece de validez alguna.

Value of the plot
720 new soles

Annex VI: Survey used in both human settlements

Survey : PROYECTO INTEGRAL LOS ANGELES - SJL

Part 1: Personal Data

Name of the sector _____

Name and last name _____

Age _____

Gender

M	F
---	---

Marital status:

Single	Married/ living with spouse/partner	Divorced	Widow
--------	-------------------------------------	----------	-------

Level of education

Illiterate	Read & write	Primary school uncompleted	Primary completed	Secondary uncompleted	Secondary complete	University	Other
------------	--------------	----------------------------	-------------------	-----------------------	--------------------	------------	-------

Employment status

Housewife	Worker	Public official	self-employed	Micro-entrepreneur	Unemployed	Informal employee	Other
-----------	--------	-----------------	---------------	--------------------	------------	-------------------	-------

Are you the main source of income in your household?

Yes	No
-----	----

Job status of the plot owner

Stable	Eventual
--------	----------

Time living in the plot

10 to 12 years	13 to 15 years	More than 16 years
----------------	----------------	--------------------

Part 2: Data on land, house and land title

1. Do you have a title deed granted by COFOPRI?

YES	NO
-----	----

2. When was it granted? _____

3. What is the size of your plot?

100 m2	120 m2	Other
--------	--------	-------

4. Housing quality

Permanent	Temporal
-----------	----------

5. Main wall material

Brick	Wood	Reed matting	Other
-------	------	--------------	-------

6. Main roof material

Corrugated	Wood	Reed matting	Other
------------	------	--------------	-------

7. Main floor material

Cement	Earth floor	Wood	Other
--------	-------------	------	-------

8. Number of people living in the dwelling

One person	Two	Between 3 and 5	More than 5
------------	-----	-----------------	-------------

9. Edades y numero de las personas que viven en la vivienda

Age	0 – 6 Years	7 – 12	13 – 18	19 – 29	30 – 50	50 – 65	More than 65
No. members							

10. Number of rooms in the dwelling (not counting kitchen and toilette)

Just one room	Two	More than 2
---------------	-----	-------------

11. Number of rooms used to sleep

Just one room	Two	More than 2
---------------	-----	-------------

12. Number of people sleeping in one room

One person	Two	Between 3 and 5	More than 5
------------	-----	-----------------	-------------

Part 3: Data on income generating strategies and business

13. Do you run a business?

YES	NO
-----	----

14. If **NO** what is your source of income?

- a. I have a regular job
- b. I have a temporary job
- c. I don't have a job just casual labour
- d. Oher

15. For how long have you had that job? _____

If **YES**

16. Since when?

months	years
--------	-------

17. What kind of business is it?

trading	production
---------	------------

18. How many businesses do you run? _____

19. Do you do it on your own

YES	NO
-----	----

20. do you have someone to help you

YES	NO
-----	----

21. How many people work for you? _____

22. Do you need special skills or training to do it?

YES	NO
-----	----

23. What source of enterprise start-up did you use

- a. Personal savings
- b. loan/gift from a friend or relative
- c. loan from an organization
- d. from someone else

24. Why did you decide to start a business?

- a. Out of necessity
- b. not able to do anything else
- c. expected to earn more

- d. had a good business idea
- e. cannot work outside the house because I need to take care of the children

25. What did you do before?
- a. I was unemployed
 - b. I had an official salaried job
 - c. I worked, informally, for another business
 - d. I had another business
 - e. Other
 - f. I don't know

26. Where is your business located?

In my house	elsewhere
-------------	-----------

27. Are you a member of a social organization?

YES	NO
-----	----

28. How many associations do you know? _____

YES	NO
-----	----

29. Do you have relatives living abroad?

YES	NO
-----	----

30. Do they send you money?

YES	NO
-----	----

31. Do you send them money?

YES	NO
-----	----

32. Do you have savings?

YES	NO
-----	----

33. What are the sources of your income
- a. wages/salary
 - b. business/trading/ production
 - c. remittances
 - d. other.

34. How often do you get it?

monthly	weekly	Biweekly	Daily	Other	Don't know
---------	--------	----------	-------	-------	------------

35. How many members are in your family? _____

36. How many people are working? _____

37. What is the family income? _____

38. What do they do for a living?
- a. Work in public sector
 - b. work in private sector
 - c. work with a relative
 - d. work with me
 - e. nothing

Part 4: Data on loans and loan history

39. Have you ever applied for a loan?

YES	NO
-----	----

40. If YES, What was the loan for:
- a. Housing
 - b. Business
 - c. Study
 - d. Specific expenses like doctors bill, funeral, school fees, wedding, etc.
 - e. To buy consumer items like refrigerator, television

- f. To buy food
- g. Other
- h. I don't know

41. Where did you ask for the loan?

- a. Commercial bank
- b. MiBanco (or other microfinance bank)
- c. Banco de Materiales
- d. Cooperative
- e. RoSCA
- f. Moneylender
- g. relatives
- h. other
- i. I don't know

42. What did you use as collateral for this loan:

- a. Land title
- b. House
- c. Other physical assets
- d. Guarantor (neighbours, friends or relatives)
- e. No collateral
- f. Other
- g. I don't know

43. Do you have a loan **now**?

YES	NO
-----	----

If yes:

44. Where did you ask for the loan?

- a. Commercial bank
- b. MiBanco (or other microfinance bank)
- c. Banco de Materiales
- d. Cooperative
- e. RoSCA
- f. Moneylender
- g. relatives
- h. other
- i. I don't know

45. What is the loan for?

- a. Housing
- b. Business
- c. Study
- d. Specific expenses like doctors bill, funeral, school fees, wedding, etc.
- e. To buy consumer item like refrigerator, television
- f. To buy food
- g. Other
- h. I don't know

46. What did you use as collateral?

- a. Land title
- b. House
- c. Other physical assets
- d. Guarantor (neighbours, friends or relatives)
- e. No collateral
- f. Other
- g. I don't know

47. Was it difficult to apply for this loan?

YES	NO
-----	----

48. If YES, what was the main difficulty?
- a. Too many requirements
 - b. Banks ask for collateral
 - c. It is too far away
 - d. I don't have a stable job/regular income
 - e. Other

49. How long did the process take for approval?

weeks	months
-------	--------

50. How long did the process take for disbursement?

weeks	months
-------	--------

51. How often do you repay?

daily	weekly	monthly
-------	--------	---------

52. What is your main worry regarding this loan
- a. That I will lose my house if I do not repay
 - b. That I will lose my land if I do not repay
 - c. That I will be poor if I do not repay
 - d. That I will not be able to sustain my family if I do not repay
 - e. Etc.

53. Do you have a loan now? **If NO:**

54. Why don't you have a loan?
- a. My loan request was not approved
 - b. I did not ask for a loan

55. If a, Why was your loan request not approved?
- a. lack of collateral
 - b. insufficient income
 - c. temporary job
 - d. collateral located in hazard area
 - e. other

56. Why did you not ask for a loan?
- a. I do not need a loan
 - b. I am afraid to request a loan
 - c. I don't want to ask for a loan

57. If a, Why don't you need a loan?
- a. I don't have a business
 - b. I don't want to improve my house now
 - c. I don't plan to expand my business
 - d. I prefer a different source of investment for my business
 - e. Other

58. If b, Why are you afraid to request a loan?
- a. That I will lose my house if I do not repay
 - b. That I will lose my land if I do not repay
 - c. That I will not be able to sustain my family if I do not repay
 - d. other
 - e. I don't know

59. If c, why don't you want to ask for a loan?
- a. I don't get enough money to do what I need to do because I earn too little
 - b. I don't get enough money because my plot is valued too low
 - c. I am not eligible for a loan
 - d. I don't know
 - e. other

60. What was the benefit of having a land title?
- a. I will not be evicted
 - b. It helped us getting water, sewage and electricity
 - c. It helped me getting a loan for my house
 - d. It helped me getting a loan for my small business
 - e. It helped me buying electric appliances for my home

61. Would you like to add a final comment?

Annex VII: Operationalization: Standard checklist for in-depth interviews

BENEFICIARIES (SEMI-STRUCTURED)

1. Have you ever applied for a loan? if YES, how many times? If NO, Why?
2. What were the conditions? (each time)
3. Was it clear to you what you had to do to apply for a loan?
4. What was the amount of the loan?
5. How long did the process take? For approval and for disbursement?
6. Have you been rejected? Why
7. Do you run a business? YES since when? NO what is your source of income?
If NO
8. How long have you been working there? Temporary/permanent
If YES
9. What kind of business is it? Trading or production
10. How many businesses do you run?
11. Do you do it on your own or do you have someone to help you?
12. How many people work with you?
13. What kind of business is/are it/they? Trading or production
14. Do you need special skills or training to do it?
15. What source of enterprise start-up did you use (personal savings, loan/gift from a friend or relative, loan from an organization or someone else)?
16. Why did you decide to start a business? (out of necessity, not able to do anything else, expected to earn more, had a good business idea, cannot work outside the house because I need to take care of the children)
17. What did you do before?
18. Where is your business located?
19. How do you see the future of your business in the next 5 years?
20. Do you have problems running your business at the moment?
21. Are you in possession of any form of credit/loan? Where did you get the loan from? Was it easy and straightforward?
22. Have you used your title deed as collateral
23. How did you invest the loan?
24. Have you borrowed money for any other reason and where did you get it from?

EXPERTS

1. What do they think about the land titling programme? Pro's and con's
2. Why do they think it didn't succeed the way the programme expected with respect to access to credit?
3. Have they seen any changes in the programme in the last 5 years?
4. What about the future of the programme?
5. Can it be improved to achieve goals? How?
6. Do you think the new government will continue with the programme?
7. Are you optimistic of the implementation of this programme in other countries?
8. Which approach would you use instead of the land titling programme in order to give the poor access to credit? Examples
9. Why do you think the World Bank carried on supporting this programme despite all the criticisms made?

LENDING INSTITUTIONS

- 1 Has the bank given credit to COFOPRI beneficiaries? What is their opinion?
- 2 Has the bank had experience in lending in Ventanilla and San Juan de Lurigancho? (Compared to other human settlements)
- 3 What are the lending conditions that you apply to an individual? Is it the same for the poor? YES/NO (explain) (ask for documentation)
 - Repayment history
 - Savings
 - Type of work
 - Duration of employment
 - HHs income
- 4 Is a land title accepted as collateral? (if yes) what do you require in terms of quality of the land (location, hazards, price/m2)
- 5 Does your bank have minimum and maximum loan amounts for commercial credit? (If yes) what are these amounts?
- 6 Explain how is the process to request loans and to approve them (time bound, bureaucratic requirements, complexity)
- 7 What credit possibilities exist for the low-income sector?

Annex VIII SPSS Data Analysis

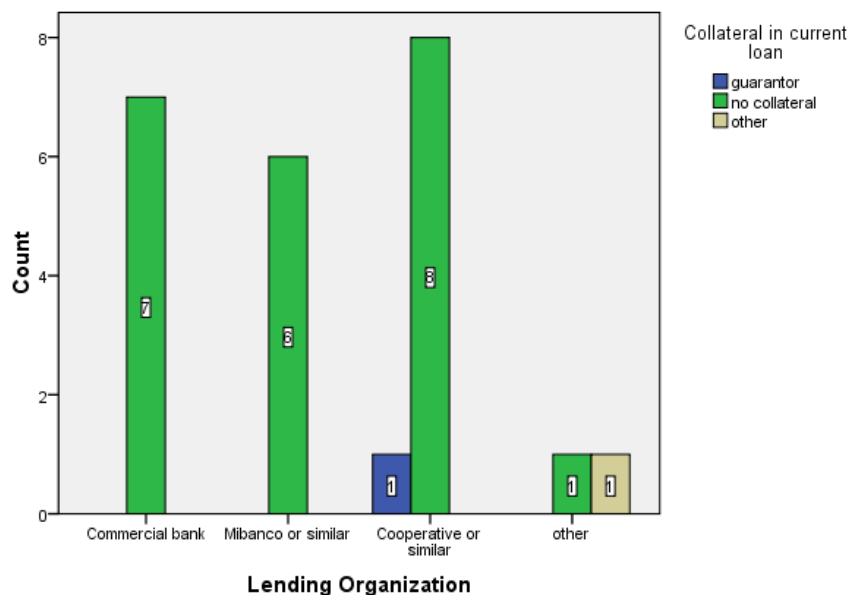
❖ Research question 1. Use of collateral

Lending Organization * Collateral in current loan Crosstabulation

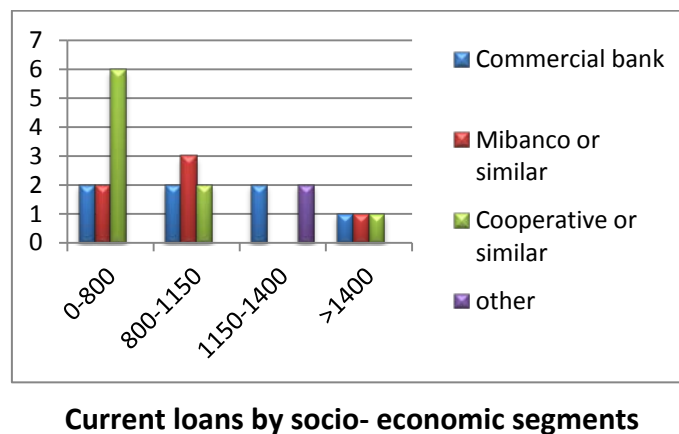
Count		Collateral in current loan			
		guarantor	no collateral	other	Total
Lending Organization	Commercial bank	0	7	0	7
	Mibanco or similar	0	6	0	6
	Cooperative or similar	1	8	0	9
	other	0	1	1	2
	Total	1	22	1	24

Type of collateral requested by Lending organization

Bar Chart



1c) Household income



❖ Research question 3: Vulnerability of households

	Assets	Characteristics
Segment C1	Financial	Income >1400, work in the private sector, micro-entrepreneur, street vendor No remittances, majority had savings
	Human	Primary, secondary, university, family members 3 >5, ages 0-49
	Physical	Quality of the house permanent, precarious
	Social	Only 1 involved in a social organization
Segment C2	Financial	Income 1150-1400, work in public, private sector, micro-entrepreneur, street vendor One received remittance, majority had no savings, some saving in RoSCA's
	Human	Can read and write, primary, secondary, university, family members 2 >5, ages 0-65
	Physical	Quality of the house precarious
	Social	Half of them involved in social organizations
Segment D	Financial	Income 800-1150, work in the public, private sector, micro-entrepreneur, street vendor No remittances, majority had no savings, majority saving in RoSCA's
	Human	Primary and secondary, family members 2 >5, ages 0-65
	Physical	Quality of the house precarious
	Social	The majority involved in several social organizations
Segment E	Financial	Income 0-800, work in the public sector, private sector, micro-entrepreneur, street vendor, works with a relative, unemployed No remittances, majority saving in RoSCA's
	Human	Illiterate, primary, secondary, university, technical, family members 2 >5, ages 0>65
	Physical	Quality of the house precarious
	Social	The majority involved in several social organizations, some depend on these for survival.

Summary of my survey respondents' assets

Annex IX Pictures



Picture 1: Informal street dancer



Picture 2: Dwelling of a extremely poor beneficiary