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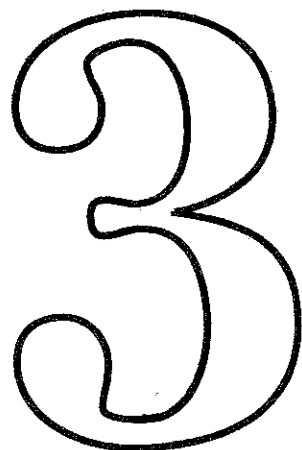
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Neighbourhood Consolidation and Economic Development of Informal Settlements

Robert-Jan Baken, Peter Nientied,
Monique Peltenburg and Mirjam
Zaaier

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by Robert-Jan Baken, Peter Nientied, Monique Peltenburg,
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AND ECONOMIC DEVELOPMENT OF
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Robert-Jan Baken
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1991

Preface

The present IHS Working Paper, 'Neighbourhood Consolidation and Economic Development of Informal Settlements', is the first outcome of an in-house study of Institute for Housing and Urban Development Studies of local economic development in relation to urban change and urban management in general, and processes on the neighbourhood level in particular.

The present paper makes a theoretical investigation into relationships between the process of neighbourhood consolidation, in its physical, legal, and social senses, and neighbourhood based economic development. It proposes a theoretical framework through which empirical cases, typically at a neighbourhood level, can be studied. On the basis of this model, the paper concludes with some first suggestions on critical policy interventions. In the near future empirical research will be carried out to investigate this conclusion.

A related professional theme which is being taken up, is on the urban level. Eventually, city management has to coordinate positive measures in and for neighbourhoods, and therefore policy intervention at a neighbourhood level calls for coordinated effort at the urban level. To that end, a conception of urban economic development at a city level is necessary. With Mulkh Raj, Director Finance of HUDCO (Housing and Urban Development Co-operation), India, with whom earlier joint work in the field of 'housing and income' was carried out (Mulkh Raj and Nientied, 1990), preparations are being made to elaborate the notion of the CPP (city productivity plan), which could function as a strategic plan to direct economic strategies, including those for popular neighbourhoods. In the Indian context the notion will be worked out into practice.

IHS welcomes comments on this paper, and on its plans to develop the theme in the future.

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1

Introduction

Although urban growth rates are declining in many developing countries, most Third World cities still face a dramatic growth of their populations. United Nations studies show that the total urban population in developing countries increased from 675 million in 1970, to 1.158 million in 1985, and will approach 2000 million by the year 2000 (UNDP, 1989).

Since the early 1970s perceptions of urban growth have changed considerably. Urban growth is no longer regarded as a negative phenomenon, draining resources needed for national development. There is an emerging recognition that as far as economic development is concerned, urbanization as such does not create problems. The fact that on average about three fifths of the gross national product of developing countries is produced in urban areas, underlines the proposition that cities are major centres of production, employment and innovation (ibid). The main problem, however, is that city management is not equipped to handle the rapid growth in an organized manner, that is within to the urban regulatory frameworks. Less so, because urban growth goes hand in hand with an increasing absolute incidence of urban poverty.

Essentially, the notion of urban poverty refers to low and unstable incomes, and deprivation of shelter, infrastructure and basic social services. The figures about the extent and growth of urban poverty are alarming. In 1988 some 330 million urban residents - about a quarter of the total urban population - lived in poverty (World Bank, 1991). So far, urban poverty alleviation programmes have been pursued by the government broadly along a two-pronged line: through improving shelter and basic services delivered to the poor and through enhancing their employment opportunities. In the 1950s and 1960s employment policies aimed at 'creating jobs' for the growing urban labour force through large-scale industrialization. In the 1970s that approach was gradually replaced by job creation through small-scale industrial development. However, partly because of the substantial external inputs needed to create employment, the latter approach reached only limited numbers of the urban poor, leaving without support the vast majority who already work for long hours at little pay (Kahnert, 1986). Understanding of that fact, together with the growing recognition that informal enterprise as an employer of a substantial part of the urban poor - in many cases more than half of the urban population - is not a temporary phenomenon, resulted in a changing approach. During the 1980s the urban employment problem was redefined as being not a matter of employment per se, but as a matter of

productivity of employment. Since the scope for enhancing employment and incomes in the informal economic sector appears to be constrained by several factors, to create a favourable economic environment by removing such obstacles to the productivity of informal enterprise has become an area of concern (*ibid.*).

To tackle urban poverty through employment and income generation, and habitat related policies, requires a thorough understanding of the mechanisms and constraints that lie at the root of urban poverty. Hence an important task is to gain more insight into the functioning and impact of these constraints, an insight which will ultimately facilitate the development of policies which can effectively alleviate urban poverty. Although quite some research has been done by now on the origins and manifestations of urban poverty¹, remarkably little attention has been paid to the interaction between the development of the legal, physical and social environment on the one hand, and the economic processes of low-income informal settlements on the other.

This study focuses on the relation between employment (income-generating activities) and habitat development on a neighbourhood level. It departs from the proposition that the majority of the urban low income households live in informal neighbourhoods and that most of these neighbourhoods go through some kind of incremental development process (neighbourhood consolidation). Often, only the legal and physical dimensions of this consolidation process are considered. Obviously, however, the development of informal neighbourhoods also encompasses economic and social processes. The main aim of this study is to discuss the relationships between physical, legal and social consolidation of informal neighbourhoods on the one side, and development of neighbourhood based economic activities (NBEAs) on the other.

The study identifies two connected main aspects influencing the development of neighbourhoods. Firstly, it acknowledges that many of the opportunities and constraints for the consolidation and economic development of low-income neighbourhoods can be found in their broader urban environment. They relate to urban macro-economic development and to the policy and the, for informal settlements generally rather hostile, regulatory frameworks. Secondly, at the direct neighbourhood level there are many, if rather diverse, options for the improvement of the living environment and the proliferation of economic activities. In practice the nature and strength of the physical, legal, social and economic development processes of a neighbourhood (and their mutual influence) seem to be strongly related to its origins and 'nature' and its location in the city.

¹ For instance Altamir, 1981; Rodgers, 1990; Yue-Man-Yung, 1988; Sharma, 1990.

The organization of the present paper is as follows: Chapter II addresses the dimensions, nature and growth potential of urban informal economic activities in general, and those based in informal neighbourhoods in particular. Chapter III deals with informal neighbourhood consolidation, and with the conditions under which neighbourhood consolidation is likely to lead to the replacement of the original low income population with middle and high income households. Chapter IV pursues the arguments, by combining the notions from the earlier chapters in a model which focuses on the interaction between the legal, physical and social consolidation of low income neighbourhoods and their economic development. Besides, the constraints and opportunities derived from the (national and urban) economic and political context in which neighbourhood development takes place, will be discussed. In the concluding chapter V, the main points of the study are summarized and related to current developments in policy thinking.

2

Informal Neighbourhoods and Economic Development

This chapter focuses on the informal economic activities that take place in informal neighbourhoods, assessing their dimensions, nature, and growth potential. Chapter III will go on to describe informal neighbourhood consolidation processes and some related developments.

2.1

Dimensions of Neighbourhood Based Economic Activities

Most official studies show that a sizeable proportion of the urban labour force in developing countries is active in informal economic activities. Dependent on the macro-economic context figures of 30 to 60% are mentioned. There are no figures to show what proportion of these activities is based in informal neighbourhoods. Empirical evidence does suggest that a large proportion of informal economic activities in informal settlements is home based (Mulkh Raj and Nientied, 1990). From various sources, McCallum and Benjamin (1985) compiled some pertinent empirical indications:

"In Bogota (Colombia) several surveys have shown the importance of home-based economic activities in poor and even middle-income barrios. In San Blas, about 15% of dwellings were a shop or business. In a group of poorer barrios, 20% of houses had such activities, as compared to about 5-10% for the city as a whole. In a study of five housing areas in Cameroon, Ghana, and Bangladesh the percentage of dwellings with home businesses was found to range from a low 10% up to a high of 51%, with a simple average of 24% overall. It has been suggested that 20 % of the structures in the residential area of Tondo (Manila, Philippines) were devoted to some form of productive or commercial activity.

Of all informal economic units surveyed in Jakarta (Indonesia) it was found that 64% operated out of dwellings. Figures concerning Bandung (Indonesia) suggest that six out of eleven households had economic activities in the home. For the kampungs in Surabaya it was concluded that no less than 80% of the houses had some form of non-residential activity." (McCallum and Benjamin, 1985: 283)

Of course, renting out a part of the house can also be regarded as a form of NBEA :

"In San Blas, Bogota (Colombia), 57% of the homeowners with two or more rooms rented out space. In Ciudad Kennedy, Bogota, 27% of the dwellings previously sold off by the government builder were subdivided and rented to tenants. According to a UN report over one-third of households in George Compound, Lusaka (Zambia) rented out space in the house." (McCallum and Benjamin, 1985: 283)

Various other publications describe the multiplicity of NBEAs based in informal low-income neighbourhoods, although most of them focus mainly on the home-based NBEAs (Eckstein, 1975; McGee, 1979; Strassman, 1987; Gilbert, 1988).

Very little empirical data are available about the relative importance, size and nature of small and intermediate enterprises in informal neighbourhoods which are not home-based. Many scholars and practitioners do have impressions of the enormous variety of workshops, eateries, coffee and tea houses, manufacturing plants, etc.², but what they mean to the owners, workers, the informal settlements in which they are located, and to the city economy at large, has not been analysed systematically.

2.2 Nature of Neighbourhood Based Economic Activities

Generally only a small portion of the business units within informal settlements can be classified as 'formal' economic sector. Most of them are found among non home-based enterprises. The large majority of the businesses located in low-income informal neighbourhoods belong to the 'informal' economic sector. This is hardly surprising as the lack of formal registration of most of these units coincides with their location in settlements that fall outside the city management's regulatory frameworks. The informal character of such neighbourhoods offers certain opportunities for cost reduction. Think of the sharing of home and working space and facilities, to lower the overhead costs of the small enterprise, relying on a network of contacts in the direct environment, the relatively low overhead costs due to moderate rents or land prices, the possibility of constructing at low costs, the availability of family labour, and the supply of cheap, unskilled labour in the informal neighbourhoods. In view of the problems of formal operation, such cost-reducing mechanisms are in many cases necessary to survival. On the other hand, their very smallness and non-registration often denies these businesses access, because they have no access to credit collateral, cannot reach certain markets, have difficulties in obtaining a steady supply of raw materials, lack legal protection, are unable to use the contract system, are

² See annex I for a rough division of such activities.

afraid of penalties, etc. This seriously affects the stability and growth perspectives of these units and thus their prospects for more incomes and jobs.

Although the character of most informal NBEAs is not substantially different from informal economic enterprise in general, the specific location of NBEAs in low-income informal neighbourhoods leads to some observations on their nature.

Firstly, mark that the role of women in NBEAs is relatively important. Their responsibility for the reproductive and domestic work and the resulting restricted physical mobility makes women very dependent on the home or the direct environment for earning an income. In addition, notice that women in general have a more vulnerable labour status and lower incomes compared with men, many of them being engaged in 'typically women-dominated sectors' (e.g. clothing, food production). The often part-time character and low labour productivity of their economic activities make the sharing of the home and working space even more essential for them than for men.

Secondly, and related to the above, apart from the permanent NBEAs that constitute a principal source of income to an individual or household, there are many of a more secondary or temporary character. That applies in the first place to the activities of women, but many men are also engaged in NBEAs in addition to other (principal) jobs.

2.2.1

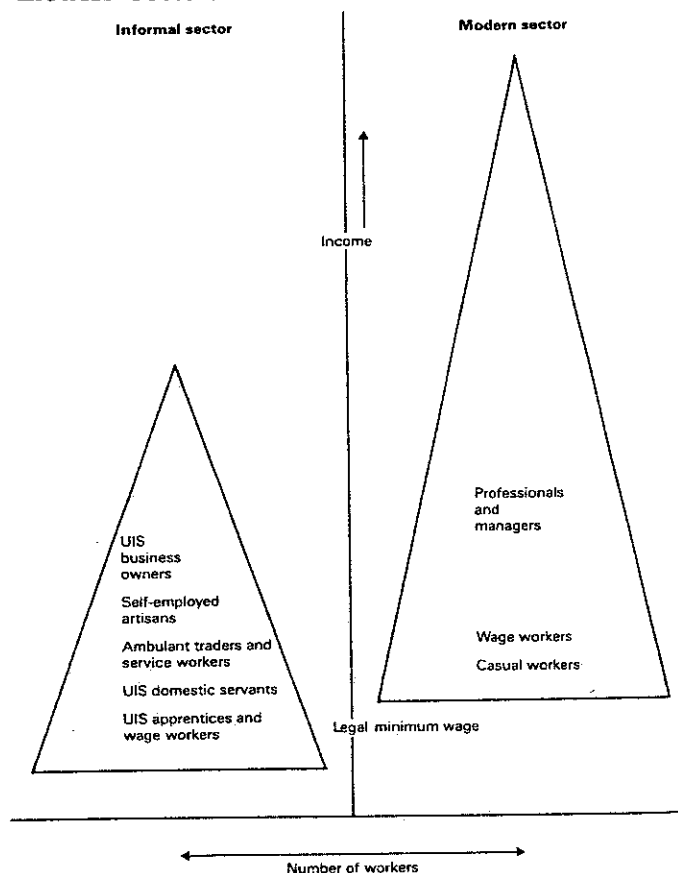
Income generating potential of NBEAs

Although it is often suggested that dependence on informal economic activities is closely related to (relative or absolute) poverty, these activities do not constitute a homogeneous entity. Undeniably many of the informal ventures are geared entirely to survival, but a considerable portion of the informal businesses are economically efficient and profit-making, though mostly small in scale and limited by simple technologies and little capital. Besides, in low-income informal neighbourhoods there are many types of activity varying from quite flourishing businesses to marginal ones. To equate 'working in the informal sector' with belonging to the urban poor is too simple.

A result of the heterogeneous character of informal activities is the incidence of huge intra-sectoral income differentials. Haan (1986) presents a picture of this situation. Figure 1 illustrates his suggestion that the incomes generated by informal NBEAs constitute a kind of pyramid, the top of which reaches higher than the bottom level of a similar pyramid displaying 'formal incomes'. The bottom of the informal NBEA income pyramid however, is situated significantly lower than that of the formal income pyramid, implying that the incomes of a substantial part

income pyramid, implying that the incomes of a substantial part of NBEA workers are often barely above the subsistence minimum.

Figure 1 Example of income levels and distribution in informal and modern sectors



source: Haan (1989)
UIS = Urban Informal Sector

Income is only one of the variables which differ from activity to activity. In fact, income is strongly related to other variables such as the type and size of the enterprise, and the nature, strength and range of its linkages (see annex 1). Besides, within NBEAs a range of labour statuses can be identified. This in turn explains much of the difference in stability and level of the incomes earned by people who find employment in NBEAs.

Finally, the fact should be acknowledged that often the informal economic sector functions as a 'safety valve', as an employer of the last resort 'providing' marginal incomes to those who have no (longer) access to formal jobs (especially in times of economic recession) (Jatoba, 1990; Pollack, 1990). The phenomenon is even more powerful among NBEAs, because of their flexibility and fungibility. The fact that most NBEAs are home or household based allows for an easy shift of labour, funds, equipment,

materials, and space from one use to another, even from market production to raising children and housing repair or expansion. Search and transaction costs are low (Strassman, 1987).

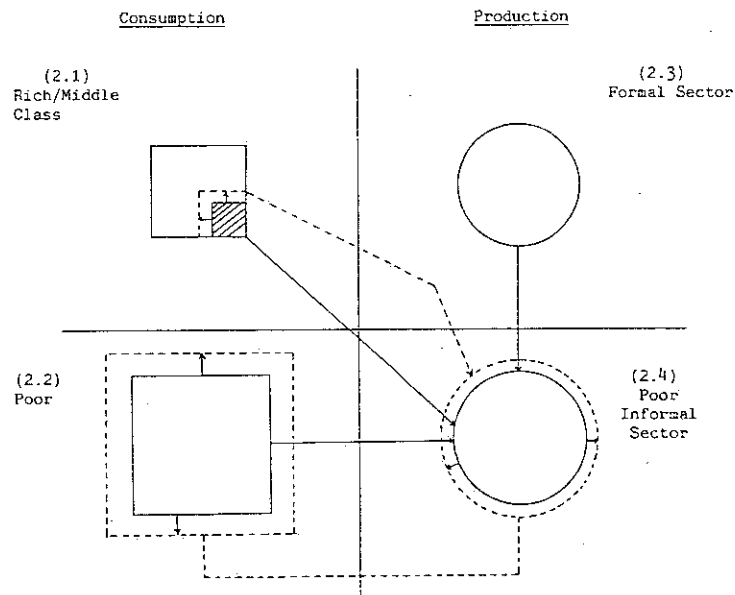
2.3 Growth potential of NBEAs

Informal economic activities form the main income source of a considerable portion of the urban population in developing countries, and will also have to absorb the majority of the newcomers in the labour market in the coming years. This section takes a closer look at the growth potential of NBEAs in order to assess what can be their role in providing jobs and income.

2.3.1 Demand restrictions

The growth potential of economic activities in terms of income and employment generation depends strongly on the demand for their products and services. To assess this demand the concepts 'production and consumption linkages' can be used. To some extent the growth of certain informal economic activities is indeed dependent on linkages with the formal sector. This is for instance true of subcontracting relations between large construction companies and small-scale contractors, or the many forms of home-work that low-income women and men perform for the formal sector. However, the growth of a great variety of informal economic activities is made possible or restricted not only by their production linkages to the formal sector, but also by the elasticity of non-formal sector demand (consumption linkages) for their products and services. The informal sector plays an important role in the provision of cheap goods and services to the lower-income groups. Especially the demand for the basic products and services, supplied by businesses active on the bottom level of the pyramid (figure 1), is rather inelastic and thus restricted. The consumption of these products and services does not increase proportionally with income. At the same time, the number of suppliers (competition) is enormous, leaving not much scope for extra income and employment growth. In that respect, one can think of all kinds of basic product and service: hawkers selling food and related basics, (cycle) rickshaw-pullers and several kinds of service. That overprovision combined with a restricted demand may lead to 'involution' and self-exploitation.

Figure 2 **Consumption and Production Linkages with the Poor Informal Sector**



Note: Area of expansion is shown by broken line (---).

source: Hongladarom and Isarankura (1988)

Figure 2 illustrates the growth potentials of informal enterprise considering both production and consumption linkages. It gives rise to an interesting question. If one looks only at the section of the poor (2.2 and 2.4), it becomes clear that at an equal demand there would be no growth potential of the informal sector at all. As a consequence, the consumption and production linkages with the wider urban economy seem to be of great importance. A comparable figure for NBEAs can be drawn to demonstrate that at a fixed intra-neighbourhood demand, the demand for new activities or the growth of existing activities is zero. New activities could only survive at the cost of other neighbourhood activities. In such a situation the growth of NBEAs (expansion of demand) depends on:

- a) the development process of a neighbourhood, in which gradual consolidation and densification will enhance opportunities for growth and diversification of NBEAs. This process, implying an improvement of the economic climate in a neighbourhood, will be elaborated in more detail in chapter IV,
- b) economic opportunities through consumption and production linkages with the wider urban economy. To derive substantial economic benefits from inter-neighbourhood consumption

linkages with middle- or higher-class consumers or production linkages with the formal production sector (through delivery or subcontracting), the locational (dis)advantages of a neighbourhood are important.

Obviously, these two factors influencing demand are mutually reinforcing, which is illustrated by the following case. By means of a longitudinal research into the development of three low-income neighbourhoods in Delhi, Benjamin (1990a) clearly points to the importance of urban, inter-neighbourhood linkages. He found that because of their strategic locations, these neighbourhoods were capable of benefiting greatly from their production and consumption linkages with the rich and middle income-sections of the urban economy (see figure 2, above the horizontal line). As a result the inhabitants of these areas were able to expand their informal economic activities, thus raising their incomes. In its turn the increase in incomes resulted in a rise and differentiation of the demand for informal sector products in the neighbourhoods themselves, leading to new income generating activities and employment. All this clearly had its effect on the habitat environment. In short, an outside stimulus triggered a significant economic and physical improvement of the neighbourhoods (two of Benjamin's cases are described in more detail in Annex 2).

2.3.2

Restrictions on the supply side

Apart from demand restrictions, we can identify many obstacles on the supply side which prevent businesses and individuals from realizing their full productive potential. They can be categorized under the following headings: a) lack of access to credit; b) lack of facilities in the fields of education, training and health; c) a repressive regulatory framework; and d) lack of land and adequate public services such as transportation, water and electricity and communication systems.

Recently, considerable attention has been paid to research into the workings and impact of these constraints on informal economic activities. Well known is by now the work of De Soto (1986), who illustrated how the initiatives of informal entrepreneurs in Peru are stifled by the repressive legal and regulatory system. The ILO (1990) is currently making a study on the consequences on governmental policies on the informal economic sector in a large number of African countries. Recently, the World Bank has done valuable research into the impact of infrastructure deficiencies on enterprise in Nigeria (Lee Kyu Sik and Anas, 1989). Noteworthy is also the work of UNCHS, for example its proposal for a strategy to incorporate activities for the generation of income and employment within human settlement programmes (1990). All these contributions emphasize the importance of a favourable economic environment as a

necessary condition for the increase of jobs and incomes. However, though governments are increasingly becoming aware of the problem, only a few are actually committed to elaborate the various policy implications into a coherent policy or action program.

In addition, a large variety of interventions are made at the micro-level, aimed at directly lifting constraints on the income-generating capacity of informal economic activities.

Numerous programmes of so-called 'small business development' (SED) have been initiated, providing businesses with credit, skill and management training, organization, marketing assistance, etc. Although successful in stimulating small and medium-scale private enterprise, most of these programmes only reach a small segment of the businesses at substantial cost, and few of them reach the poorest segments of the population. A rather successful exception is the PISCES programme (financed by USAID), which directly supports the small-scale economic activities of the urban poor (Ashe, 1985). It distinguishes three categories of business, and tailors the assistance to their specific needs. While people who understand business practices are assisted mainly by the provision of loans (individually or in groups), people who engage in the most marginal subsistence activities are assisted by community-based development programmes, concerned as much with access to basic services as with enterprise development. The PISCES programme and other experiences (see for instance Hurley, 1990; Poona Wignaraja, 1990) show that support strategies to the informal economic sector tend to be effective when they are community or neighbourhood based and when an NGO is involved.

2.4 Conclusion

Informal low-income neighbourhoods constitute the environment of a large variety of economic activities. These NBEAs can be categorized into informal and formal activities on the one hand, and home-based and non home-based activities on the other. In this chapter the focus has been mainly on the informal NBEAs, because they make up the larger part. After a review of the dimensions and nature of these activities, the argumentation was that their growth potential is limited by a range of obstacles. However, from research and concrete interventions the tentative conclusion can be that there is scope for stimulating economic development in informal neighbourhoods. In that respect, measures to increase opportunities for economic activity in low-income neighbourhoods should be complemented by programmes which directly improve the income-earning capacities of the NBEAs.

Although the type of intervention required depends on the specific activity and its neighbourhood environment, clearly the removal of the various constraints calls for intervention at many different levels. Both the public and the private sector, in close collaboration with low-income communities, could be actors in such an effort to increase jobs and incomes. What is necessary first of all is an analysis of the development processes in neighbourhoods and the factors hindering those processes.

3

Informal Neighbourhoods and Consolidation

3.1 Introduction

The vast majority of the urban low-income groups in developing countries live in neighbourhoods of an informal nature. These neighbourhoods can be classified under the following headings: (a) invasion settlements, which come about through the (un)organized invasion and subsequent development of land; (b) illegal subdivisions, planned by landbrokers who ignore planning and zoning regulations; and (c) urbanized villages, more or less 'traditional' settlements encapsulated by the expanding city (Baross and Nientied, 1987; Van der Linden, 1983). The general commercialization of urban land markets has resulted in an emerging prominence of illegal subdivision and a decline of the relative importance of land invasions throughout the Third World (Baross, 1983; UNCHS, 1984; Baross and Van der Linden, 1990).

The proliferation of low-income informal settlements within most Third World cities has been the object of many studies. In these studies several often composite reasons for the existence of that phenomenon have been given. They can broadly be summarized by the following statement: by adhering to planning standards and regulations that are too high for the financial capacities of the rapidly growing low-income urban population, governments more or less force these groups to seek housing solutions outside the legal and planning framework (e.g. Gilbert, 1990). Even the 'sites and services' projects which, by lowering planning standards, aimed at incorporating low-income housing in the urban planning framework, have by and large failed to reach their target group. Moreover, compared with the actual need for 'serviced sites', the supply of these projects has not been more than a drop in the ocean (Van der Linden, 1986; UNCHS, 1984; World Bank, 1991).

One reason why low-income groups gravitate towards informal neighbourhoods is the mere fact that they offer cheaper options than formal housing. The low costs of these options are due in part to the low supply-related overhead costs and the low locational and physical qualities of the land involved. Another important point in that respect is that this type of housing develops incrementally.

Throughout South-Asia for example, the observed trend is that at an early stage of development of informal settlements only very basic services are provided (either by the government or by private entrepreneurs: e.g. water supply by trucks). The sites on which informal residential developments develop are mostly located in peripheral areas. If not, they are of a low physical quality (for instance sloped or swamp land). All this makes for low entry costs. In fact, the first settlers can be regarded as the ones who urbanize a tract of barren land (see, among others, Baken, 1990; Mitra and Nientied, 1989).

3.2

Neighbourhood Consolidation

Not all informal neighbourhoods survive. However, of the ones that do, the largest part goes through the incremental development process touched upon above. This process involves: (a) a rise of the de-facto tenure security attached to residing in these neighbourhoods; (b) an increasing level of services and infrastructure and improvement of the physical quality of the housing stock (Van der Linden, 1983); and (c) the formation and subsequent refinement of social networks (Chandra, 1977; Schenk, 1982) and of organizations which function as sources of security and credit, and social frameworks for skill formation and reception of new migrants. In general this process coincides with densification in terms of built structures and residents, and a growing locational advantage caused by the gradual encapsulation of informal neighbourhoods by the expanding city (Baken, 1990).

These physical, social and legal developments are strongly interrelated: the provision of a water tap by the government, or payment of tax, may reduce the fear for the demolition squad among inhabitants (a rise in the de facto security of tenure), and, in its turn, higher tenure security may lead to more investment in housing and to residential and physical densification.

During the 1970s and 1980s the incremental development process of informal neighbourhoods was gradually recognized as a positive force. The World Bank (1980) stresses that many Third World governments recognized that the clearance of informal neighbourhoods and the subsequent resettlement of inhabitants, does not constitute a very feasible solution to the housing problem of the urban poor. Instead, governments more and more relied on an approach of regularization and neighbourhood upgrading, thus making use of the informal housing potential which low-income groups have created themselves. As a consequence, during the past 15 years or so, many Third World governments have undertaken recurring regularization programmes which, each time, covered a significant number of informal neighbourhoods.

Hence, the consolidation of informal neighbourhoods may eventually be recognized by the government. However, the total process of neighbourhood consolidation strongly depends on an ongoing informal public recognition and support, as the case of invasion settlements in Karachi shows:

"They come about without much organization. Often, their inception is marked only by a smaller cluster of families just settling on a vacant piece of land, without payment and without much planning. Plots may be of unequal sizes and streets sometimes twisting and narrow. However, very soon, the dwellers will organize themselves strongly in order to resist government's attempts to evict them, to improve their settlement and to request certain facilities from the government.

Normally, the residents are more than willing to pay for such facilities, as these - besides serving their intended function - also enhance the security level of the *basti*³. An interesting case in this connection concerns a group of squatters who managed to illegally force their tax-payments on the government, the receipts of which were supposed to provide a legal pretence to their claims to the land.

More often than not, improvements in *bastis* in terms of facilities and security of tenure are obtained without there being even a semblance of a policy for the particular settlement on the government's side. In the absence of such a policy, improvements achieved are based on favors granted rather than on recognition of rights. In line with this, the improvements come about through the actions of individuals rather than institutions." (Van der Linden, 1983: 47-48)

The concept of consolidation used here encompasses the physical, legal and social aspects of the incremental development process referred to above. This process, which is largely outside the realm of direct formal government intervention, still offers the best opportunity for low-income groups to get access to a more or less acceptable living and working environment (Baross, 1990). The costs of entering an informal neighbourhood depend on its level of consolidation. Invading the land can be the first step in the incremental development process. There may be some kickbacks involved, but in general it will cost close to nothing. The same can be said of the costs involved in entering a newly developed informally planned subdivision. The land brokers involved - who mostly offer relatively unattractive, unserviced (or only rudimentarily serviced) plots - need settlers in order to make their subdivisions inhabitable. As a consequence, the first inhabitants only have to pay nominal charges for their plots. However, as settlements develop (invasion settlements and urbanized villages as well as illegal subdivisions), land prices increase rapidly and eventually result in a financial threshold which excludes large groups of low-income households from having access to land or house ownership (Baken, 1990: 59).

3 Informal settlement

Hence, those taking up comparatively cheap informal housing options should reckon with a lengthy process (of 10 to 20 years) before they reach reasonable living conditions. In other words: the poor save money by going without basic residential comfort for a considerable period of time.

Because of the continuing proliferation of informal neighbourhoods on the one hand, and the incremental development (consolidation) process which most of them go through on the other, the total low-income informal residential area of a city can be regarded as a composition of neighbourhoods which differ according to age and level of consolidation.

3.3 Related Developments

In the above section, the term neighbourhood consolidation has mostly a positive connotation, encompassing processes which lead to substantial improvement of the living conditions of the urban poor. However, some drawbacks have also been touched upon. Firstly, it has been acknowledged that neighbourhood consolidation is often a lengthy process, and that the quality of housing and services is poor. Meanwhile - because of their informal nature housing situation - dwellers are subject to exploitation by politicians, bureaucrats, the police etc In sum, although informal processes may ultimately result in acceptable living conditions, informality clearly has its cost (Mitra and Nientied, 1989; Baross and Van der Linden, 1990).

Secondly, neighbourhood consolidation invariably raises real-estate prices, because of improvements in the housing and services, and because the location of a particular settlement improves with the continuing growth of the city. In their turn, the higher prices reduce a neighbourhood's accessibility to relatively poor households. While comparatively consolidated areas imply higher access costs, to enter poorly serviced peripheral areas remains cheap. Moreover, various authors in Baross and Van der Linden (1990) have pointed out the commercialization of land supply, and the speculative investment in real estate in the informal housing sectors.

Thirdly, there is reason to fear that neighbourhood consolidation may go hand in hand with the displacement of the original (low-income) inhabitants - a gradual, involuntary replacement of these inhabitants with middle and high income groups. When that happens, the typical neighbourhood-improvement process (outlined above) would not result in a significant upgrading of the living conditions of the urban poor. They might be able to get some gain from the gradual improvement of their neighbourhoods by selling their property, but unless they spend

it on alternative housing comparable to the house they have sold, they are forced to re-enter the 'low-income housing cycle' at the bottom (that is by buying a plot in poorly serviced peripheral areas).

The matter of displacement emerged from the discussion of possible impacts of public slum legalization and improvement in the late 1970s. Annex 3 summarizes some important theoretical notions derived from this discussion and illustrates them by two case studies (Karachi, Pakistan and Sao Paulo, Brazil). The main points were the following. Empirical studies suggest that in most cases informal neighbourhood consolidation does not lead to displacement (for an overview, see Kool et al., 1989b: 196-197). This can be attributed to either the cultural and quality barriers rendering low-income neighbourhoods unattractive to middle income households, or the resistance to move among the original inhabitants (or both). If it does happen, displacement is a more or less government-supported or (deliberately) ignored process in which private real-estate interests play a dominant role. Sometimes legitimate low-income home owners may even be forcibly crowded out, without interference from the government. In all cases, the location of the low-income neighbourhood affected seems to be a decisive factor. After all, from the point of view of real-estate developers, the developmental potential of areas depends strongly on their location.

4

Neighbourhood Consolidation and Economic Development: towards a theoretical model

In this chapter, the theoretical notions from the preceding chapters will be combined. In brief, the chapter focuses on the interaction between the legal, physical and social consolidation of low income neighbourhoods on the one hand, and the growth of neighbourhood based economic activities on the other. This interaction will be displayed and explained by means of a model presented in IV.1, after which section IV.2 will deal with the constraints and opportunities derived from the national, urban economic and political contexts.

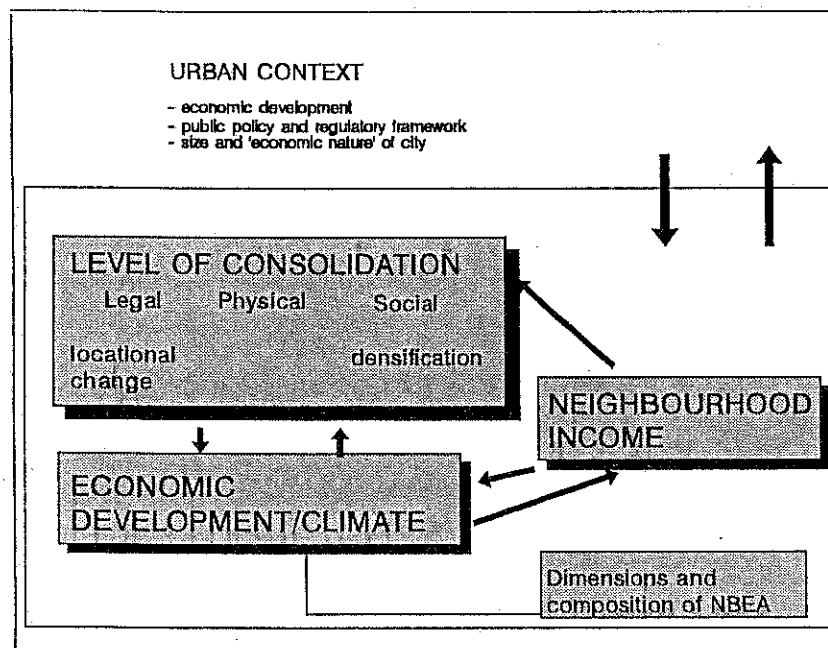
4.1

A theoretical model of informal neighbourhood development

The neighbourhood development model focuses on development processes on the neighbourhood level (see figure 4.1). The model aims to analyse the connections between variables which are related to the physical, legal, social and economic development of neighbourhoods.

Figure 3

A model of Neighbourhood Consolidation and Economic Development



The model will now be explained stepwise.

Neighbourhood Consolidation and Economic Development and Climate Figure 3 departs from an ideal consolidation process (as briefly described in III.1). It displays the impacts of its components on the economic development of the neighbourhood involved. The first assumption is that at an early stage of neighbourhood consolidation, the level and nature of intra-neighbourhood demand (related to the density level) as well as the tenure security severely restrict the possibility of starting most types of economic activity. In this phase, apart from some basic retail trade and services, economic activities will be mostly related to construction (and perhaps home-based work).

At this stage, the social organization of the neighbourhood dwellers plays an important role in the process towards legal and physical consolidation of a neighbourhood. To improve the living conditions in the neighbourhood, the inhabitants may organize themselves. In the context of the illegal subdivision of land, the landbroker involved is apt to play a major role in the organization process. Neighbourhood organizations, sometimes supported by NGOs, will try to press government officials to provide them with piped water (communal taps) and electricity. The provision of these services can be regarded not only as an improvement of the living conditions, but also as an (informal) public recognition of a neighbourhood.

Neighbourhood organizations may use different strategies. They may seek political patronage, which can trigger all kinds of more or less 'invisible transaction'. They also may initiate an outright public fight for basic rights.

When neighbourhoods have managed to survive this first critical phase and have gained some formal or informal recognition from the government, most of them will go through a process in which the legal, physical and social conditions improve substantially. Along with this process, the economic development within the neighbourhood changes dramatically:

- (1) The growing security of tenure gradually lifts a serious investment risk.
- (2) The gradual improvement of infrastructure and services allows the start of small workshops and manufacturing units whose existence strongly depends on accessibility and/or the availability of electricity and water.
- (3) The formation of (intra-neighbourhood) social networks and organizations (and their inclusion in city-wide networks and organizations) can be regarded as an informal answer to the lack of access to credit and training available in the general regulatory and macro-economic context. Apart from functioning as a source of economic and social security (especially in times of crisis) these networks and organizations form social frameworks in

which: (a) particular entrepreneurial and technical skills can be learnt; (b) new migrants are introduced to urban life in general and urban (informal) jobs in particular; and (c) people are recruited for jobs.

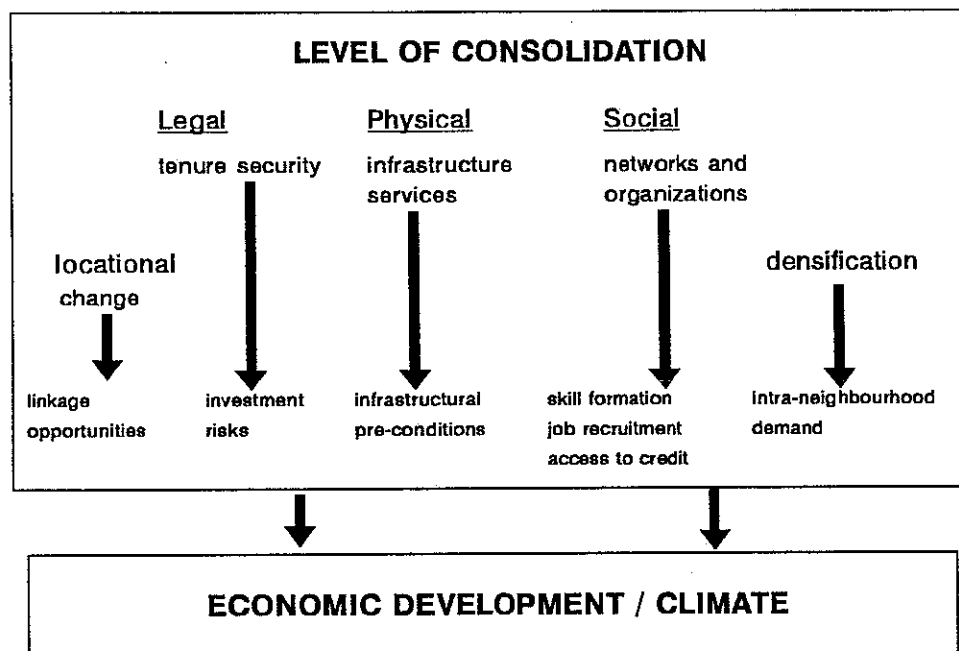
The consolidation process is mostly accompanied by two related developments:

- (4) densification (due to in-migration and natural growth) leads to a rising potential demand for goods and services within the neighbourhood;
- (5) locational change: with the spatial growth of most Third World cities, the locational configuration of low-income settlements tends to change fast. City growth can transform many of these settlements from undeveloped peripheral residential areas hardly linked to the wider urban economy, into less peripheral areas which through time generate several new (inter-neighbourhood and city wide) economic functions.

The effects of informal neighbourhood consolidation on economic development and the economic climate are clearly reflected in the rise of land prices. It is a reflection of the increased residential value, and, in the case of commercial lots, of the higher value attached to improved location, better facilities, and possibly, increased local demand potential.

The developments sketched above are summarized in the following figure 4.

Figure 4 Consolidation factors and economic development and climate



Dimensions and Composition of NBEA

Obviously, the change in the economic development and climate may result in a higher NBEA density. The higher the level of neighbourhood consolidation, the more opportunities for informal economic activities will arise, although a number of them will not survive (for example water vendors, generator operators, activities dependent on cheap land, such as agriculture).

The changing economic development and climate will also bring about a differentiation of sectors of NBEAs (manufacturing, construction and services: see Annex 1). As soon as the most serious investment risks are lifted and infrastructural pre-conditions are fulfilled, the basic environmental situation permits the enterprise that could not flourish before. Moreover, when demand rises (either through densification or through the changed spatial configuration in which the neighbourhood is embedded), new economic opportunities open up.

In that respect, it is quite interesting to note that rising locational advantages may substantially widen the market range, and consequently raise NBEA production for an inter-neighbourhood or even city-wide market. The ensuing rise in prosperity of the neighbourhood community, in its turn triggers off a higher and more differentiated intra-neighbourhood demand.

As the above already indicates, improvement of the economic development and climate could also result in intra-sector differentiation of NBEAs in range of production and consumption linkages. There may also be a change in the nature and strength of linkages. Improved economic development and climate could open up prospects of better exploitative relations with 'modern sector' firms. The growing number of economic opportunities might even lead to the discontinuation of exploitative relations and the subsequent start of more independent businesses.

Related to the before mentioned tendency is the change in attitude, that results from the physical, legal, social and economic development processes in a neighbourhood. A more defined social organization of the inhabitants and successful demands towards authorities for basic services may enhance the self-esteem of the community and make them aware of opportunities to improve their living conditions. One consequence of such a change in attitude may be the appearance of an 'entrepreneurial spirit' in the neighbourhood. The establishment and visible success of new economic activities in the neighbourhood could take away mental barriers to entrepreneurship and incite others to seize the opportunity to set up an informal business as a main or supplementary income generating undertaking.

Finally, the growth of economic activity permits skill formation and the emergence of production relations in which untrained workers can learn from more experienced entrepreneurs.

Neighbourhood Income and Investments

The growth and differentiation of NBEAs can contribute a great deal to the neighbourhood income (and vice versa). The very notion of the neighbourhood development process includes increased neighbourhood income, triggering off both investments in housing, infrastructure and economic activities, and increased spending in the neighbourhood economy.

Apart from the returns on NBEAs, a substantial part of the neighbourhood income is likely to be externally generated, that is, outside the neighbourhood. Likewise, in addition to investments in NBEAs, non-residents also invest in the neighbourhood. The latter type of investment may have a substantial impact on both the consolidation and economic development processes.

Often what is earned in NBEAs is the primary or only source of income of households. On the other hand, as intimated, the income generated in NBEAs may also be just one of the many sources of income in the total income-generating strategies of households. All household members may be engaged in one NBEA, or each of them may resort to differing solutions or strategies. They may have a wage-earning job (in the formal or informal sector), be self-employed or perform 'subsistence labour'⁴. In addition, the household may draw some income from remittances or renting out rooms.

The assumption is that a general rise of incomes induces households to invest more in housing improvement and NBEAs. Investment in enterprise may lead to income improvement; therefore, businesses form a valued investment object. The growth and differentiation of NBEAs will most probably raise the average level of NBEA related household incomes. However, the NBEA-related income of individual households highly depends on the nature, strength and range of the linkages of the NBEA concerned and the labour status of the workers involved.

4.2 Neighbourhood development and the urban and national environment

The model of neighbourhood development given in the previous section represents an ideal development process in which physical, legal and social improvement on the one side,

⁴ Subsistence labor is the unpaid work for one's own use, for instance, repair of housing, growing vegetables, mending clothes.

and economic development on the other, are mutually reinforcing factors. The development of the economic and habitat environment of a low income community cannot be regarded as a self-contained process. On the contrary, it is to a large extent dependent on outside stimuli, on the existing regulatory and policy framework and on the constraints and opportunities derived from macro-economic trends (which determine demand and prices for various types of goods and labour). Hence, a brief elaboration of the general economic and political impacts on neighbourhood development is useful.

4.2.1

Economic context

In terms of general constraints on, and possibilities of neighbourhood development, the national economic situation (economic growth, distribution of growth and inflation) is by far the most important factor. It largely determines the incomes, the investment potential and the purchase power of the mass of urban low-income groups. Generally, a relatively prosperous national economic development goes hand in hand with the formalization and modernization of production on the one side, and a sufficient income/demand basis for the absolute growth of informal production on the other.

Empirical evidence from several countries suggests that economic recession leads to a general drop in formal employment and the rapid 'informalization' of the (urban) economy (Jatoba, 1990; Pollack, 1990). This 'informalization' is attended by the marginalization of informal economic activities. After all, recession implies a general decrease of incomes leading to a drop in effective demand for several kinds of informally produced goods and services. This declining demand has to be shared by an increasing number of informal suppliers which ultimately results in the marginalization of their activities. The informalization may involve the going 'underground' of formal enterprise. In many countries throughout the world, recession is followed by a decrease in workshop and factory production and an increase in home based production in the context of a 'putting out system', permitting a significant drop in production costs. Such a system renders workers much more vulnerable (legally unprotected) and heightens the potential level of exploitation (e.g. Bhatt, 1987; Harriss, 1985; 1989; 1990).

In most cases, economic recession can be partly attributed to a failing national macro-economic policy (and, of course, partly to developments in international markets). Apart from being one of the causes of economic recession, and thus implicitly restricting neighbourhood development, arguably the macro-economic policies of developing countries (fiscal policies, trade policies, monetary policies) often create relative advantages for the

modern large scale sector, thereby weakening the competitiveness of goods produced in the informal sector.

Besides, the size and the economic 'nature' of a city determine in part the composition of the urban informal economy. In general, the size of a city correlates positively with the extent to which formal enterprise has taken over the production of goods and services from 'traditional' informal producers (Strassmann, 1987). The term 'nature of a city' refers to the fact that some cities have specialized in certain forms of economic activities (for instance major ports, government centres, industrial centres, regional market towns). This 'nature' clearly has an effect on the composition of the urban informal economy.

The possible constraints and opportunities derived from the national and urban economic environment distinctly affect the development potential of informal neighbourhoods. In fact, macro-economic trends largely set the limits to neighbourhood income, which, in its turn, can be regarded as the basis for a neighbourhood development process:

In that respect, an important limitation of the model presented in the preceding section should be pointed out: by focusing on the interrelatedness of NBEAs and the legal, physical and social neighbourhood characteristics, it does not explicitly deal with the income (growth) generated by 'outside labour'.

4.2.2

Political (policy and regulatory) context

In virtually no Third World country are government policies wholeheartedly directed at promoting low-income neighbourhood development. In the field of habitat, important policy changes took place in the 1970s and 1980s as the inadequacy of a strategy of slum clearance and resettlement was recognized and a slum upgrading approach adopted. From a neighbourhood development point of view, these changes can be regarded as an important step forward. However, so far, public efforts to incorporate new low-income incremental land developments (housing) in the legal and planning framework have been inadequate, and often unsuccessful. As a consequence, many urban poor still have to fight for even a basic level of housing security (Mehta et al., 1989; Baross, 1990).

Present building regulations in Third World cities are often European in origin. Among other things, this implies the separation of residential functions from productive functions, an idea that is clearly misplaced with respect to Third World urban low-income housing. Moreover, building regulations and codes - being based on European models - have been observed to constrain the development of low income settlements (Mehta et al., 1989: 50). Apart from the restriction of lot sizes for economic activities, two other factors hamper the economic development of

planned settlements: the limited proportion of plots for commercial use, and the regulatory framework which often prohibits mixed residential-commercial land-use.

Apart from regulations related to land-use which constrain the economic development of low-income settlements, small-scale businesses have to comply with countless other regulatory or protective laws narrowly specifying the conditions under which they are allowed to operate, and are required to obtain and pay for numerous licences. This seriously hampers their growth and forces them to operate illegally. Various studies have shown how the hostile political context negatively affects the start-up and operation of informal units by raising their costs of production, restricting mobility, decreasing revenues and discouraging investment (see for instance De Soto, 1986; Maipose, 1990).

From the above regulatory and policy frameworks constitute an important constraint to neighbourhood development processes. They form considerable obstacles to the low income households involved ('the costs of informality', see, among others, Mitra and Nientied, 1989; Baken, 1990; see also Kahnert, 1986).

5

Conclusions: The Need for Policy Directed Research

This study departed from the proposition that incremental land development processes constitute about the only viable housing solution to the urban poor in the developing world. Partly because the Third World (urban) legal and planning frameworks are such that they do not allow for a general official recognition of such processes, low income housing mostly takes illegal forms (illegal subdivisions and invasion settlements). Although the so-called costs of informality can be significant, in most cases the inhabitants of informal neighbourhoods manage to improve the legal status and physical quality of their settlements.

A decisive factor in that respect is the neighbourhood income - in fact, the housing problem of the urban poor can essentially be regarded as a poverty and income problem. Neighbourhood income is mainly derived from 'outside labour' and 'inside (neighbourhood based) production'. The latter source of income has been the main object of this study. More precisely, the study focused on the relation between neighbourhood-based production and the legal, physical and social consolidation of neighbourhoods. It acknowledged the fact that neighbourhood income, and thus neighbourhood development, is to a large extent dependent on developments outside the neighbourhoods, at urban and higher levels.

By focusing on the economic and housing opportunities created by the urban poor themselves, this study can contribute to the elaboration of emerging policy concepts of the government in its 'enabling role'. Both employment and housing policies have changed considerably in the past decades. In general, in policy thinking, and to some extent in practice, the predominant approach can be said to have moved from direct government involvement, towards so-called enabling strategies - largely based on removing restrictive regulations and constraints on access to credit, education, basic health, infrastructural facilities, etc. An enabling strategy is understood here as an approach which departs from the (mostly informal) housing and economic environment which the urban poor have created themselves, and attempts to enable the actors involved in the neighbourhood development to better themselves.

Thus, theoretically two basic strategies of policy intervention emerge from the model presented in this paper: to remove bottlenecks, and to issue stimulating measures. The former strategy attempts to release an improvement potential by taking

away those elements which hinder its development. The latter tries to encourage certain developments by giving incentives. Without further explanation, the suggestion is offered here that in general the removal of blockages is more important than stimulatory measures.

In the process of neighbourhood consolidation, several factors were identified whose absence have obstructed further consolidation: for example, legalization of land title and land-use, streamlining part of the regulatory framework, and provision of certain basic infrastructure. Therefore, to issue titles, or supply electricity or transport facilities, can signify the elimination of a bottleneck for the development of a neighbourhood. More investment in business could be the result.

Direct stimulation of the neighbourhood development process could for instance imply measures to provide business credit, offer specialized training, create a market place, organize market studies, etc. Whether the goals will be achieved is more uncertain with this strategy than with the former.

In the reality of cities in developing countries, urban management is faced with a shortage of funds. Therefore it does not seem very realistic just to propose integrated approaches, consisting of physical improvement, legalization, social organization, stimulating measures for the neighbourhood economy, etc. Such programmes are feasible only if communities can afford them, and if public investments can be recovered. If not, such projects are nearly impossible to duplicate. Huge subsidy outlays will ensue, unevenly distributed among the low-income population. To target subsidies under conditions of a tight market is extremely difficult, as research on urban projects has demonstrated (Mayo et al., 1986; Mitra and Nientied, 1989).

The best way to reach a substantial part of the low-income groups at a modest budget is to work through those factors which are at a certain point of time most crucial in the development of a neighbourhood. The factors identified as such will differ not only from country to country, but even from neighbourhood to neighbourhood. In some cases, it may be electricity, in others legal tenure, in others again transport facilities. Physical improvement of the homes could also be the crucial factor, as Mulkh Raj (1987) describes. Modest policy intervention around such (sets of) factors could act as a catalyst for the whole neighbourhood consolidation process.

To mention a few examples: for Bangkok's new peripheral locations, consolidation could hinge upon roads and water management (Dowall, 1989). In the city of El Alto, Bolivia, credit to small businesses appears to be the principal factor (PROA, 1989). In the Old City of Sana'a, Yemen, a small project of street pavement triggered off a number of positive developments. In

the well-documented case of Klong Toey, Bangkok, legal land tenure appears to have been the key issue.

Public strategic investment in informal neighbourhood development means to look for the catalyst factor or set of factors. With relatively modest funds, processes could be strengthened or set into motion. The community often knows better than the government what hampers the development of their neighbourhood. But they rarely resources (human, financial, power) to remove development blockages themselves.

An interesting concept, in that respect, is the Community Development Fund. Such a fund would provide a community with a certain amount of money, to match public investments, improve the neighbourhood or initiate or strengthen income-generative activities. The Fund's investment share, or the complete investment, would have to be recovered by the community, which would create a rotating fund. In coordination with such a mechanism, the key catalyst factors for neighbourhood improvement, in the area of economic development or that of physical consolidation, could be identified together with the community. To integrate such a strategy successfully in a broader policy of alleviating urban poverty, much more research is needed into the many-sided and interrelated development processes taking place in informal settlements, and the factors hindering those processes. Such research seems a crucial step towards identifying opportunities for improving the habitat and livelihood of the urban poor.

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ANNEX 1: A Categorization of Types of Informal Enterprises

sector	linkages	labour status
<u>manufacturing</u> food, textile & clothing, leather/wood/metal,	<u>consumption linkages</u> inter-neighbourhood/ city-wide market	capital owning self-employment independent waged work
other manufacturing		unprotected regular wage work
<u>construction</u> building materials contractors	intra-neighbourhood market	marginal self-employment
<u>services</u> retail - hawkers - grocery shops - 'modern retail' bars/ restaurants repair education health religious services rental housing miscellaneous	<u>production linkages</u> selling to business/ (sub)contractors	unprotected irregular wage work

The categorization of informal enterprise given above, gives a rough picture of the possible variation of informal enterprise according to three important variables: sector, linkages and labour status. From many studies, labour status is clearly by far the most appropriate indicator of the vulnerability and poverty of informal enterprise workers (among others Bromley and Gerry, 1979; Harriss, 1989).

The labour status part of the above chart gives an insight in the relative sensitivity of different labour statuses to vulnerability and poverty of the workers involved. In fact, it displays a continuum with a highly vulnerable labour status on the one side (unprotected irregular wage work), and a relatively secure labour status on the other (capital owning self-employment).

Unprotected irregular wage work can be primarily associated with home-based production in the context of a 'putting out'

system - in terms of linkages: 'selling to business'. In general such a business can be found in the manufacturing sector of the informal economy. Unprotected irregular wage work can also take the form of labour on a daily basis in the construction sector. In most cases, marginal self-employment is tied to marginal retail activities (hawkers, or small grocery shops catering for the intra-neighbourhood market).

ANNEX 2: Neighbourhood Consolidation and Economic Development: Cases

The following cases from New Delhi, India, illustrate the interrelated processes of neighbourhood consolidation and the development of a neighbourhood economy. They are based on a study by Benjamin (1990a). The first case concerns the gradual development of a neighbourhood which started as a public low-income housing scheme. Although the development of this neighbourhood differs from the typical informal neighbourhood consolidation process in the sense that the initial level of development (legal, physical) was relatively high, it provides a practical illustration of the linkage between habitat and economic development on the neighbourhood level.

The second case focuses on the impact of inter-neighbourhood and city-wide production linkages. It deals with the development (the differentiation and improvement) of production processes in an informal neighbourhood in the East of New Delhi. Although the cases are not comparable and do not deal with all the theoretical issues brought forward above, they certainly provide a tentative insight into the practical forms which 'neighbourhood consolidation and economic development' can take.

Bhogal

Bhogal extension was developed to cater for the housing needs of refugees from Pakistan who came to Delhi after the partition of British India. The Bhogal area originally consisted of publicly built, double storeyed housing blocks, laid out in a monotonous grid. In the early 1950s, when Bhogal was built, it was located on the periphery of the city. Today, it lies in the central part of town. The growing locational advantages have resulted in the emergence of many small businesses. Note in that respect, that the main road bordering the neighbourhood has gained an important market function through time. Moreover, in the early 1980s, an adjacent neighbourhood started to accommodate upper middle class tenants, triggering a differentiation of demand for 'Bhogal produced' goods.

The gradual development of Bhogal included the emergence of many shops, clinics, day care centres and workshops. The economic development went hand in hand with the formation of powerful resident associations and closely knit community organizations. This can partly be explained by the fact that the development largely proceeded in a sphere of illegality and, as a consequence, strongly depended on the bargaining position of the inhabitants (vis-a-vis the government).

Recently, the area has attracted investors who have started relatively specialized ventures adjoining the existing 'basic' enterprise. The diversification of economic activities has opened employment opportunities for less skilled workers, who, in turn, had their own demands (e.g. for rental accommodation and basic goods). After developing their own entrepreneurial skills in basic economic activities, original inhabitants too got involved in more specialized activities.

All this affected the physical outlook of the neighbourhood: it changed dramatically through the years. The dwelling blocks, initially placed in a unilateral grid pattern, have greatly changed to accommodate different economic activities. Rooms have been added for living, working and renting out purposes. Interesting negotiations and cooperative ventures have been undertaken, allowing the extension of dwellings on vacant (uncontrolled) land.

Viswas Nagar

Viswas Nagar came into existence as an informal residential land development scheme located near to Shadara, the major industrial area of East Delhi. In the beginning, the colony was only poorly serviced (hand pumps, dry latrines and unpaved roads). Land values were low and plots were relatively large. The low density allowed for the use of open land for cultivation. Residents mostly worked outside the colony. However, some part-time commercial stalls were present.

In the mid 1970s, the industrialization of Eastern Delhi was accelerated by the establishment of the Jhilmil Industrial Area. The location of Viswas Nagar harboured opportunities for production linkages between the nearby industrial firms and potential 'supportive' economic activities in the neighbourhood itself. Indeed, in the course of the past decade, it has become an important production area.

Initially production consisted of the refinement of a limited range of raw copper gauges (obtained from the Jhilmil Industrial Area). Gradually, as skills were developed and additional infrastructure was provided, the refinement of a greater range of gauges was undertaken. Cable and PVC related production emerged through linkages with production units in Kirti Nagar (West Delhi). The production of these basic items triggered other local economic activities, such as: the production of simple machinery, transport and the collection and recycling of plastic waste. Today, the recycling of plastic is linked to a major plastic recycling centre in North West Delhi. Another such linkage has evolved with production units in an adjacent neighbourhood. In this neighbourhood, fine copper wire from Viswas Nagar is enamelled to be used in electric goods. These various linkages form a 'city production system' of which the benefits are realized at the local level.

In Viswas Nagar, a local organization of production has gradually developed. Today, most production units are involved in only a part of a larger production process. The organization of production is reflected in the spatial set-up of the neighbourhood: the most important 'prime' production workshops can be found at attractive well-serviced locations, whereas 'supportive' production activities are located on less valuable land.

Both prime and secondary production locations have attracted new entrepreneurs and labourers who have brought in investment, skills, and political clout. The primary production, although initiated by a few exclusive entrepreneurs, have gradually incorporated middle-income entrepreneurs because of the increasing possibilities of renting workshops (buildings/plots and machinery). Initially, there were only few workshops. They were relatively large scale (located on well serviced large plots). Today, the majority of the workshops is relatively small scale. Many of them are rented to incoming entrepreneurs, the landlord using the money to construct a residential unit on the upper floor. Most of the workshops however, are operated in single rooms (home based enterprise).

"Today."Viswas Nagar looks like a typical Delhi residential area - but this impression is misleading. Inside the 'houses' are factories reminiscent of the Industrial Revolution. Machines whir in the dim and often dusty light, their operators supervised carefully by foremen. The cycle rickshaws in the street are not transporting people, but raw copper stock and semi-finished copper wire among hundreds of small factories. Less than one square mile in size, Viswas Nagar has reportedly grown to be one of the six major industrial centers in Delhi and processes as much as one-half of East Delhi's copper wire and cable, about 32,500 metric tons per year. Visitors today are surprised to learn that the colony developed through illegal settlement of farmland and that the first workshops were in residences, transformed by the owners who used portions of their homes to create production halls" (Benjamin, 1990b).

ANNEX 3: Neighbourhood Consolidation and Displacement

Factors leading to displacement

The matters of displaced low-income groups referred to in III.3 mainly emerged from a discussion concerning possible impacts of a public approach to slum legalization and improvement (in the late 1970s). Below we will summarize some important theoretical notions derived from this discussion. They will be presented in a manner which permits an assessment of the conditions under which neighbourhood consolidation is likely to lead to displacement. To that end we will focus on three important variables:

Housing-market dynamics:

It is generally acknowledged that while high-income groups have both the financial capacity and the contacts needed to ensure access to appropriate land and housing, there is in many urban centres a chronic shortage of middle-income housing. Although such shortage makes displacement more probable, it does not automatically result in an inflow of (lower) middle income groups into low-income areas.

From the viewpoint of middle income households, the consideration of such a move depends strongly on the location and the spatial, physical and legal characteristics of low-income neighbourhoods. There may also be cultural barriers to such a move (e.g. in the case of strong, strictly segregate classes, castes or ethnic groups, along income lines). Nevertheless, once a 'gentrification process' has started, the attractiveness of low-income areas as places to settle for middle income groups will sharply rise and, as a result, the process will most probably continue.

Government intervention:

If displacement does occur, it can mostly be attributed to government intervention. In that respect there come to mind public decisions leading to the location of middle- and high-income commercial centres or main roads near to low-income settlements, rendering these neighbourhoods attractive objects for real-estate investments. Equally important are public projects aimed at improving the housing conditions in the low-income informal settlements themselves. In the latter case, the standards of the legal and physical improvements in combination with the financial (cost recovery) arrangements, by and large determine whether or not improvement will result in displacement. Legalization and improvement both enhance the attractiveness of neighbourhoods to potential middle income settlers, and raise

real estate prices, rents and (possibly) recurrent housing costs for owner-occupants.

Ultimately, middle-income households may attempt to buy out the original inhabitants of legalized or improved informal settlements. Whether they succeed depends on the resistance to move or sell amongst these inhabitants.

Inhabitants' resistance to move:

The population of informal neighbourhoods does not constitute a homogeneous entity. In fact, evidence from many Third World cities shows that informal settlements are not exclusively inhabited by the poor. Moreover, there tend to be significant differences in income levels amongst 'the poor' themselves. Finally, the inhabitants can be divided into owner-occupants on the one side, and tenants on the other (Nientied et al., 1982: 21)

The 'economic resistance' to move will be relatively low among the poorest inhabitants. Poor tenants might be unable to meet the rapidly rising rents and poor home owners might find it impossible to pay the recurrent housing cost attached to public regularization and improvement projects. In that case they are more or less forced out. However, their 'social resistance' will be very high (ibid: 25).

The general hypothesis is that they have had to face rather harsh living conditions for many years before a reasonable level of housing quality was reached. During the 'consolidation years' they have built up a socio-spatial network. For these people especially, neighbors, friends, relatives and brokers form an important source of security. Underemployment, irregular work and insecure income make them dependent upon this network of contacts, as social security or as key to job opportunities. Since proximity is of great importance for the maintenance of a network, individual households tend to be immobile and will remain as much and as long as possible in their socio-spatial network (neighbourhood) (Schenk, 1982: 16-18; Chandra, 1977). The more so, as they have hardly any alternative housing options that are comparable in terms of physical, legal and social quality.

For the somewhat better-off inhabitants the opposite holds. Their economic resistance is stronger, whereas the proximity of their network may be of less importance. If they sell at all, they do so because they can either take a profit, or improve their housing situation by moving to other areas (Nientied et al., 1982: 33).

Empirical studies suggest that in most cases informal neighbourhood consolidation does not lead to displacement (For an overview, see Kool et al., 1989b: 196-197). This can be attributed to either the cultural or quality barriers rendering low-income neighbourhoods unattractive to middle income households, or the resistance to move among the original

inhabitants (or both). If it does take place it mostly goes hand in hand with 'high standard' government intervention and/or the involvement of (large) real estate developers. The following cases will illustrate the point. Moreover, they give a practical insight into the consolidation process of informal neighbourhoods.

Cases

The two cases presented below represent different forms of government intervention (regularization and improvement of a low-income informal settlement). In the case of Baldia Township, Karachi, government intervention can be characterized as the formal recognition of an already existing informal consolidation process. Compared to the existing level of de facto security of tenure and physical consolidation, the 'value added' by public intervention was only modest. It will be shown that, since its emergence, Baldia has improved tremendously, in physical and legal quality as well as economic opportunities. Government intervention only constituted a small step towards further improvement and as such has not led to any significant displacement.

The case of Vila do Encontro (Sao Paolo), shows that government intervention can transform a relatively poor settlement into a middle class area. Compared to the existing level of consolidation of the settlement, the public improvement project which was carried out there, was extremely high-grade. It triggered a rapid 'gentrification process', ultimately involving large scale real estate developers.

Baldia Township, Karachi

Baldia Township came into existence in the late 1950s. At that time the first people settled in this semi-desert area in the context of a public relocation project. Today the greater part of Baldia consists of informal subdivisions comprising about 27,500 to 30,000 plots and some 250,000 inhabitants (Kool et al., 1989a: 71-72).

In 1978, a law was enacted which stated that (under certain conditions) the existing informal settlements on government land in Karachi, would be regularized and improved. Baldia was chosen as a pilot project area. The planning started in 1977, but until 1980 nothing was put into practice. The planned improvements were only modest: the realignment and metalling of roads, the construction of a simple drainage and sewerage system and the installation of community taps. Furthermore, the inhabitants could apply for a 99-years' lease. The lease charges would consist of a charge for the land and a charge for the improvement work (ibid.: 40).

Before the project started, Baldia's level of consolidation was already relatively high. The land brokers active in Baldia Township were backed by powerful 'patrons', ensuring a

relatively high de facto security of tenure right from the start. Moreover, several facilities had been installed informally.

"Before the second half of the seventies Baldia has officially been regarded as illegal, but nevertheless some facilities have been provided from the side of the government. In the fields where responsibility of the government has not been translated into practice, private organizations operate (e.g. transport). Government bodies provide electricity, natural gas, water, some sewerage and drainage facilities and sometimes garbage collection. Educational and health facilities are available on very limited scale" (Nientied et al., 1982: 62-63).

Longitudinal research reveals that the housing conditions in Baldia improved significantly during the 1977-1987 period. It also shows that no significant displacement occurred. To begin with, the location advantage of Baldia increased tremendously. Originally it was a peripheral settlement located near a huge industrial estate. Nowadays (as a result of urban growth), it is located much more centrally. Secondly, the quality of the housing stock improved substantially. In 1977 a small majority (57 per cent) lived in temporary shelter. Ten years later (1987) the greater part of the households (68 per cent) had a permanent or semi-permanent house (Kool et al., 1989a: 98). Thirdly, most infrastructure and service improvements planned by the government had actually been brought about. In addition, electricity and gas connections became available to the population (ibid.: 149).

In terms of economic improvement and change, household incomes rose substantially between 1977 and 1987. In fact, on average, they have grown much faster than inflation. However, income inequality also grew modestly, revealing that income growth was not shared equally by all inhabitants (see Kool et al., 1989a: 125-127). A noteworthy fact is the steady increase of the percentage of sales workers and a decrease in the share of labourers, both by about one tenth in six years. This has been attributed to increased economic activity in the neighbourhood. Although the settlement can still be regarded as a predominantly working-class area, in the longer run the number of labourers are expected to be counterbalanced by the number of sales workers. In that respect, it should be noted that the growing location advantage, the increasing population and the improved infrastructure conditions of Baldia have led to the emergence and growth of economic (income earning) opportunities in Baldia itself.

Throughout the survey rounds of the research, no significant trace of displacement was found. Through the years, population turnover has been at low levels and more than half of the movements recorded took place within the settlement itself. 'Stayers' and 'newcomers' did not significantly differ regarding household incomes and housing investment. Motives for moving in or out did not point to displacement either. Besides, such

phenomena as doubling up, increasing household sizes and splitting up of plots, which can be considered outcomes of peoples' strategies against displacement, were not found on a meaningful scale (ibid.: 152).

Hence, that the housing and economic benefits attached to neighbourhood consolidation can be argued to have actually become available to the original low-income inhabitants of Baldia. This can be attributed to the following points:

- Hypothetically the resistance to move among the original inhabitants is high⁵.
- While being improved significantly, Baldia still has the image of a working-class neighbourhood, rendering it relatively unattractive to potential middle-income settlers.
- In respect to government intervention a very important factor seems to be that, in the context of the improvement project, leases were not compulsory. As a result, home owners could not have been forced out by increasing (recurrent) housing costs. In more general terms, the settlement was rather 'mature' and its inhabitants were relatively well housed even before the project started. Therefore, the project did not constitute a rapid change - a discontinuation of the gradual development process - which could have rendered housing 'over-adequate' for its residents (ibid.: 153).

Vila do Encontro, Sao Paolo

In the 1940s Sao Paolo experienced its first expansion wave. At that time, Vila do Encontro came into existence as a part of a city expansion project. The project was not targeted at low income groups. However, Vila do Encontro turned out to be largely unfit for commercial real estate development. It consisted of a slope with many outcrops and small streams, and to put it to middle-income residential use would have been a very costly exercise. The few plots that were sold at all came into the hands of low-income households. As a result, Vila do Encontro became a low-income enclave in a mostly middle- and high- income area (Bogus n.d.).

Initially, the density was very low. In the 1960s however, the nearby 'ABC region' was transformed into an industrial area, triggering a gradual population growth in Vila do Encontro. Most inhabitants had relatively low incomes. Except for a small group of squatters and tenants, they were the officially registered owners of their plots. Despite the relatively high security of tenure among the inhabitants, the housing consolidation process more or less stagnated. The provision of services and infrastructure appeared to be so costly (given the physical site

⁵ This is underlined by findings of recent research in other informal subdivisions of Karachi (Baken, 1990). During this research it was found that a low income household's choice of a plot to live on, is largely determined by the location of its socio-spatial network. Most of these households (70%) regard the costs of losing such a network as too high. In fact, their market behavior in that respect is not motivated by a purely financial cost/benefit assessment, but by more socio-cultural factors.

conditions), that the government hardly took any action on that score (ibid.).

In 1978, a slum-improvement project was launched. Before the start of the project, real-estate prices were still relatively low, reflecting the unattractiveness of the area as a place to settle. The improvements brought about by the project triggered a process which ultimately resulted in a transformation of the general outlook of the neighbourhood. Apart from the construction of an electricity network, sanitation conditions were drastically improved. Basic infrastructure was provided to accommodate the still vacant land (at the bottom of the valley) to future residential use. The streams were canalized and several public facilities provided: day nurseries, out-patient hospital units, playgrounds, a fire station, road pavement and street lighting. All this contributed to the change of the area's overall urban identity (ibid.: 7).

Instead of aiming at modest public improvements, the government had chosen to implement a very high-grade upgrading project. As a result, public intervention did not counteract the stagnation in the habitat-improvement process of Vila do Encontro. On the contrary, it effectively brought the process to a halt.

The real-estate prices increased enormously. Moreover, the inhabitants had to pay for their new services. As a result, their recurrent housing costs rose sharply. Home owners tried to hold on to their property by 'doubling up' and tenants increasingly shared their dwelling units to be able to afford the rising rents. Nonetheless, tenants were the first to be displaced. Later on, home owners followed. A self-reinforcing process of in-migration of middle-income groups had come about. The surrounding area was already predominantly middle class in character and the high-grade public improvements made Vila do Encontro very attractive to middle-income settlers who faced many difficulties in getting access to nearby middle-income residential areas.

As the 'gentrification process' continued, the pressure on relatively poor home owners increased; real estate prices reached very high levels. Tenants who had been able to stay in the area were displaced later on. By renovating their dwelling units, their relatively rich landlords tried to adjust their housing supply to the steadily growing middle-income demand for rental units. Finally, real-estate developers were attracted by the newly created developmental potential of the area. High-rise buildings emerged: middle-class apartments.

In her study of the displacement process in Vila do Encontro, Bogus points to a very important motive for government intervention:

"Vila do Encontro was chosen for the project mainly because the construction of a subway terminal on the outskirts of the

neighbourhood generated the need to increase the area's population density (many plots were still unused) to ensure a return on the capital invested in the subway construction by considerably increasing the number of potential commuters. Also, in order to improve access to the Jabaquare subway terminal, the main avenue intersecting the area would have to be enlarged. For this, some expropriation would be necessary, and the surrounding area would eventually have to be re-urbanized. These circumstances, combined with private real estate company and capitalist state interest, turned Vila do Encontro into a stage where fundamental changes directly affected the resident" (ibid.: 6).

Indeed, in most cases displacement is a more or less government supported or (deliberately) ignored process in which private real-estate interests play a dominant role. In some cases it may even take the form of a forced displacement of the legitimate low-income home owners, without interference from the government. In all these cases, the location of the low income neighbourhood affected seems to be a decisive factor. After all, from the point of view of real-estate developers, the development potential of areas is strongly dependent on their location. In that respect, Vila do Encontro, being a low-income enclave in a middle- and high-income area, was very favorably located.

The final conclusion can be, however, that in the absence of a combined public and private real estate interest in transforming a low-income residential area, displacement is not very likely (see the case of Baldia Township).

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Neighbourhood Consolidation and Economic Development of Informal Settlements

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