THE NEGATIVE EFFECTS OF HERNANDO DE SOTO’S ‘MYSTERY OF CAPITAL’

The land property conflict in La Nueva Rinconada
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EXECUTIVE SUMMARY

In 2000 the Peruvian economist Hernando de Soto wrote his world famous book “The mystery of capital. Why capitalism triumphs in the West and fails everywhere else”. A book that influenced many policymakers throughout the world. This research focusses on the consequences of de Soto based policies on a micro level, a squatter settlement in the Peruvian capital Lima, called La Nueva Rinconada.

Central question of this thesis is: What is the influence of the implementation of Hernando de Soto’s theory by the Peruvian urban politics in the nineties on the land property conflict in La Nueva Rinconada?

End eighties, begin nineties were turbulent years in Peru. Terroristic groups traumatized the Peruvian population with violent and cruel attacks. Besides, the economy was highly effected and the country faced a hyperinflation. In these circumstances, the Peruvians had to elect their new president. Surprisingly, they choose the unknown Alberto Fujimori. He ended terrorism and with an economic shock therapy he did end the hyperinflation, but at the cost of increasing inequity and even democratic values. Fujimori implemented a neo-liberal focus, which was advised by Hernando de Soto.

De Soto’s ideas and recommendations had a large impact on the urban policies during the nineties. According to him, the poor do own property and money, but their development is opposed by a lack of property titles. Without formal property, it is impossible to capitalize, to get credits and to participate in the formal economy. De Soto claims trillions of ‘hidden capital’ exist in the informal world, which only has to be formalized in order to release its potential. His solution is to hand out property titles to the urban poor, to formalize their possessions.

As an advisor of Fujimori, de Soto was highly involved in policymaking. Based on his ideas – and with the contribution of his NGO – a large formalization initiative was launched in 1996. Purpose of this program was to promote access to formal credit mechanisms by providing land titles to promote housing investment. Today, already 1,5 million families have received property titles and their land is enrolled in the public property registries.

On first sight, this seems as a positive development: who could argue against providing property rights to the poor? But soon, scholars started to criticize de Soto’s ideas. Some state that handing out land titles takes away the responsibility by governments: it is a cheap way of buying of a government’s responsibility of providing proper housing to their people. Others dispute the fact that
having a property title will make it easier to obtain formal credit and thus leave the informal economy.

This thesis shows that more negative effects of de Soto’s ideas are noticeable. The political situation, created during the Fujimori era and based on de Soto’s advice for a neo-liberal political approach, encouraged new invasions. Also La Nueva Rinconada could be seen as a product of this development. But the acceptance of the invasion of La Nueva Rinconada implies many problems and it has created a hardly unmanageable urban situation.

A first is political irresponsibility. It turned out that the invasion of La Nueva Rinconada was supported by various local politicians who preferred the support of thousands of potential voters preferred above maintaining the law and protecting the significance of private property.

Second, it stimulates speculation. In the first place from the invaders, who speculate on obtaining a living place for free with the prospect of receiving land titles. But second, land traffickers get interested in these areas as well, speculating on higher prices after formalization and trying to make profit out of it.

Third, La Nueva Rinconada is an extreme example of the results of the lack of urban planning. Because of the prospect of receiving land titles, people started to occupy the most inappropriate areas and constructed their houses. But without any form of urban planning, these areas evolved in almost unmanageable zones, lacking the most basic services.

This thesis tries to get insight in previous urban policies and their consequences in order to find out its consequences and finally to be able to develop proper urban policies for the future.
ACKNOWLEDGEMENTS

I have to thank many people for their contributions to this thesis.

Michaela Hordijk from the University of Amsterdam. Thanks for making me enthusiastic about researching in Lima. The contacts you provided were of vital importance for my time in Lima and for my thesis as a whole. I am sorry I did not continue with your research in Pampas San Juan, which was my initial idea. But because all the contacts you made for me, I was able to do this research.

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My respondents – both land owners and land invader – who shared their stories and showed me around. Their sincerity and patience towards me – as a young, foreign researcher – were incredible. The situation in La Nueva Rinconada overwhelmed me and hearing their stories the complexity of the conflict became clear.

Gustavo en Daniel for introducing me to the fascinating case of La Nueva Rinconada. The discussions we had about my findings really contributed to my perspective on the conflict.

The EFL Stichting for their financial contribution which made it possible for me to do this research. Especially in a time full of cuts on academic education, I consider it extremely important to facilitate students to do new and exciting researches. I consider these as vital experiences for a student.

Three persons I want to thank especially.

Nora Jesusi. For offering me a home in Pampas San Juan. We strolled around the dusty streets of La Nueva Rinconada together to conduct interviews. Thanks for sharing your house and stories with me. And, not to be forgotten, for preparing the most delicious Peruvian food. Also the other family members have contributed a lot in making my time in Lima an unforgettable experience.

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Introduction

In 2008, for the first time in world history, more people live in cities than in rural areas. According to Ban Ki-moon (2008), secretary-general of the United Nations, we live in “the urban century”. The pace and scale of this urbanization has in many places far exceeded (local)government capacity or willingness to provide basic services to city residents, including adequate housing, water, electricity and sanitation (Centre on Housing Rights and Evictions, 2008).

Countless articles and books have been written about this phenomena and possible strategies to deal with what seems to be one of the world’s biggest challenges of the twenty-first century. One of the most interesting recent books is Doug Saunders’ revealing Arrival Cities (2010). His view on approaching urbanization is an interesting one. He suggests that denying the urbanization flow, and the slums and shantytowns it produces, will create huge economic, political and social problems. Governments should facilitate – instead of eradicate – the new urban dwellers, who, no matter what, will come to seek their fortune in the urban area. According to him, we should pay more attention to these poor parts of the cities. Not only because they are potential areas for conflict and violence, but even more because in these regions the transformation out of poverty arises. An immigrants neighborhood, when good managed could serve as a generator for the integration of small families, emancipated women and prospective entrepreneurs. Here the new middleclass is born and dreams, movements and governments of the next generation are created.

The Peruvian economist Hernando de Soto thought he had the solution for the urbanization problem, which he wrote down in his famous book ‘The Mystery of Capital. Why Capitalism Triumphs in the West and fails everywhere else’ (2000). A very interesting question with a huge geographical aspect. It suggests differences in space, why does capitalism work at a certain place and fails in another?

According to De Soto the key in answering this question is to be found in legalization of property. He states that slum and shantytown dwellers do have a lot of property and money, but the problem is that it is not acknowledged. They do not have official paperwork to justify their house or their small (informal) business. Because of this lack of property rights, those people cannot use their property as guarantee to get a loan to invest in their house or business. As a consequence, de Soto claims,
billions of ‘hidden capital’ exist in the poor areas of the world. His solution is simple: give them titles and they will have access to credit and that will improve the functioning of the land and property markets. An interesting theory that is widely adapted by governments all over the world: formalization programs were launched to provide the poor of property titles. But, today, twelve years after the publication of de Soto’s book, the consequences of the formalization policies have become clear. His free-market approach of the housing problems did not always work out the right way. During the years, many scholars pointed out that de Soto overlooked many aspects with his land titling process. This thesis elaborates on these negative side effects of Hernando de Soto’s ideas, found in a region in de Soto’s experimental city, his own city where his ideas were put in practice: Lima. Here, I encountered an informal settlement – called La Nueva Rinconada – where many problems are caused because of politics based on de Soto’s ideas.

1.1 Relevance

A very interesting region to study urbanization and its consequences is de Soto’s own continent, Latin America. This continent is the most urbanized region in the developing world; in 2006 already 76 per cent of its population lived in cities. And Latin American cities are among the most unequal in the world, with Brazilian and Colombian cities topping the list (UN-Habitat, 2008). In all Latin American countries you will find poor urban areas. Every country has its own name to describe them: “Chileans speak of the callampa, Peruvians of the barriada, Argentineans of the villa miseria, and Brazilians of the favela” (Portes, 1971). As UN-Habitat describes, urban inequalities in this highly unequal region are not only increasing, but are becoming more entrenched, which suggests that failures in wealth distribution are structural issues. A large part of Latin America’s population lives illegally because they cannot afford or gain legal access to land near employment centers (Fernandes, 2002). As a result, illegal tenure has become the main form of urban land development. In the seventies, governments often responded with violent evictions and forced removals of these occupied areas. Later, this was replaced by a more tolerant attitude towards illegal occupation. Responding to growing social mobilization, policy makers in various countries have struggled to formulate regularization programs aimed at both upgrading informal areas and recognizing the land and housing rights of the dwellers, thus legalizing their status (Fernandes, 2002). The nineties in Latin America were characterized by neo-liberal governance and large privatizations processes. De Soto’s ideas accorded perfectly with these dominant neoliberal, anti-state ideologies (Davis, 2006).

According to Calderón (2001, pp. 1-2), “in political terms, the legalization of land tenancy is the effect of a breakdown between the formal supply of land and the income of those demanding it as well as the fact that poor people tend to find alternatives in the informal market which, in turn, give rise to
irregular situations.” Calderón states that unlike industrialized countries, the urban land markets of Latin America – and Peru is no exception – struggle with a large gap between the income and payment capacity of the majority of the population (the demand side) and the prices established by formal real estate agents (the supply side). Consequently, large parts of the urban population have no access to land or housing. Therefore, they search for other alternatives, for example invasions or low priced terrains offered at the informal market. Urban planning costs are not considered in these transactions, and they are not tolerated by the official laws. Tenure security is a serious problem for many of the world’s residents; the U.N. Habitat Program considers it one of the most critical problems in the world today (Marcuse, 2004).

Peru is an interesting case about the topic of land property titling. As described by Ramírez Corzo and Riofío (2005), Peru has a long history of land invasions. And in the nineties, the country carried out one of the most complete processes of formalization of the informal property of the land. Handing out land titles to land occupiers was the chosen way of dealing with the urban housing problems. This market-based strategy was a direct result of Hernando de Soto’s ideas. As being advisor of president Alberto Fujimori in the nineties, he was directly involved in the neo-liberal course of the country. Today, around 1,5 million plots of land in the Peruvian informal settlements have titles and are registered in the national property registries.

Nowadays, twelve years after Fujimori’s resigning, the results of his urban policies are still noticeable. Critical reviews are written about de Soto’s theory by many scholars and it is highly questioned if the application of his theory in Lima has positively affected the urban situation in the city. Although Peru had one of the world’s fastest-growing economies in 2011 (BBC, 2011), inequality is still huge. Shantytowns are located next to rich gated communities, for example in the research area La Nueva Rinconada (see figure 1, next page).
Invasions still occur, as recently (July 2012) happened in the Lima district of Ventanilla (see Appendix A), where 2,500 people occupied a terrain before being evicted by the police, resulting in violent riots. The poor invaders of Ventanilla stated they only wanted “un lugar en dónde vivir”: a place to live (El Comercio, 2012). This was also the argument provided by many of the invaders of La Nueva Rinconada. But in contrast to the recent invasion in Ventanilla, the La Nueva Rinconada occupiers where not evicted. Today, twelve years after the invasion of La Nueva Rinconada, the consequences of the permission to invade are still visible. The land property conflict has caused an impasse between the invaders and the landowners. This research will demonstrate the influence of de Soto based policies on this impasse.

In a world that is urbanizing at a very high speed, it is of vital importance to understand these urban developments and failures of past decisions, to be able to develop methods to fight the increasing urban problems caused by cities that keep growing. Although de Soto’s ideas may look convincing when reading his book for the first time, analyzing the urban policies in Peru, insights will be provided in the negative consequences of his applied theory.

1.2 The research area: La Nueva Rinconada

This research focuses on the neighborhood of Pamplona Alta, to be more specific a part of it called La Nueva Rinconada. The area is located in the district of San Juan de Miraflores in the Cono Sur of Lima (see figure 2 and 3, next page).
Initially, in the 1960s, La Nueva Rinconada was purposed by the government for agricultural use. Located far away from urban areas at that time, it looked as a good place to accommodate pig farmers. Besides that, the area seemed too remote and inhospitable for city dwellers to be interested in living there. So the pig farms settled and breed pigs, united in an association called Asociación Agropecuaria La Rinconada Ciudad de Dios (PEBAL, 2009), who became the owner of major part of the terrain. But as the years went by, Lima grew and grew and grew. And slowly the Nueva Rinconada area came into sight of the city’s frontier, at that time formed by the area of Pamplona Alta.

In the year 2000 a massive invasion took place; thousands of people occupied the terrains in La Nueva Rinconada and constructed their precarious shelters. Some owners managed to protect their pig farm and remained living in the area; others saw their stables being destroyed and their land being occupied. The invaders knew their invasion of private terrain implicated some risk. A conflictive and often violent time started: owners tried to remove the invaders of their land, while the invaders tried to stay at their recently obtained terrain.

Figure 2. San Juan de Miraflores located in Lima (source: Google Maps, 2012)
Nowadays, twelve years have gone by but no progress is noticeable. La Nueva Rinconada is facing an enormous amount of problems. Around 30,000 people inhabit the area, which is lacking official electricity, water supply, sewerage system and paved roads. Litter is picked-up very irregularly and many public areas are just used as garbage-dump, with huge health consequences. Moreover, thousands of people live in close proximity of the remaining pigs, causing diseases and vermin. In general one could state that the zone is just unsuitable for people to live.

Besides these physical problems, the structural problem in the area is the property conflict. For twelve years, the invaders live at land not belonging to them. Consequently, the landowners are unable to undertake any activities on their terrain, although they are still the legal owners. The conflictive situation between the two groups still remains.

The year of the invasion, 2000, coincided with the last year of president Alberto Fujimori. In November that year, a corruption scandal ended his ten years of power. With Fujimori’s escape to Japan, ten years dominated by opportunistic neo-liberal politics, declining democratic values and increasing inequity ended. Ten years that highly influenced the urban panorama of Lima, not at least because of the implementation of Hernando de Soto’s ideas. At the end of these ten years, the invasion of La Nueva Rinconada took place.
This research focusses on the underlying political processes before the invasion. In what kind of political climate the invasion took place? Is the invasion of La Nueva Rinconada a consequence of these politics? And what are the influences of de Soto’s ideas on the current situation?

1.3 Aims and questions

Consequently, the central question of this research is:

What is the influence of the implementation of Hernando de Soto’s theory by the Peruvian urban politics in the nineties on the land property conflict in La Nueva Rinconada?

This question is based on the following the conceptual model:
The Peruvian urban policies in the nineties, as said inspired by Hernando de Soto’s ideas, have influenced the two main groups in La Nueva Rinconada. First, the land owners who saw their land being occupied. Second, the land invaders who looked for a place to live and diced to occupy the area of La Nueva Rinconada. This research will elucidate the influence of de Soto based policies on the local scale: what are the consequences for the landowners and what are the consequences for the land invaders. Also the relationship between these two actors is highly influenced by these policies.

To start with, chapter two is about the urban context of Lima. The city will be positioned and its characteristics as primate city will be explained. Later, the shantytowns of Peru – previously called ‘barriadas’, today known as ‘asentamientos humanos’ – will be described. These barriadas are extensively researched, already in the sixties anthropologist John Turner wrote about them. It is crucial to understand the development of Lima and the barriadas the decades before La Nueva Rinconada arose. The invasion of La Nueva Rinconada did not appear out of nothing, Lima has a long history of squatter settlements and invasions.

After the urban context of Lima, the theory of Hernando de Soto will be explained. Main source will be his book ‘The mystery of capital. Why capitalism triumphs in the West and fails everywhere else’. The following questions will form the base of this third chapter:

- What are the basic assumptions of Hernando de Soto’s theory?
- What are the academic responses to his theory?

To be able to answer the research question, a transition from the theoretical level to the micro level has to be made. To do so, another step is constructed to make this transition: the political interpretation of the theory. This because the way a theory is written down, does not necessarily mean it is interpreted and implemented that way. It is of vital importance to understand de Soto’s theory correctly, but even as important to clarify how his ideas have been implemented. De Soto was involved in implementing his own theory during the Fujimori administration in the nineties, which were very turbulent years in Peru. Central questions in chapter four are:

- What was the political climate in Peru in the nineties?
- What urban policies were implemented in this period?

After creating this framework, chapter five will describe the followed methodology during the empirical research. The gained contacts will be described and the research design explained.
The situation on a micro level will be described in chapter six. What have been the consequences of the urban development of Lima on a local scale? Therefore, La Nueva Rinconada is used as a case study. The empirical research conducted will serve as the foundation of this chapter. The first questions that will be treated focus on the actual situation in La Nueva Rinconada:

- What is the conflict in La Nueva Rinconada?
- Who are the land owners and why did they buy a plot in La Nueva Rinconada?
- Who are the land invaders and what expectations did they have of their invasion?
- What are the complicating factors that prevent the conflict to be solved?

After having cleared these aspects of the area, the connection with Hernando de Soto’s theory will be made:

- What aspects of the problems in La Nueva Rinconada can be seen as consequences of de Soto’s ideas?

This way the influence of the Peruvian urban politics in the nineties on a small local scale – La Nueva Rinconada – will be described.
chapter two

URBAN CONTEXT: MEGA CITY LIMA

In this chapter the historical development of Lima will be elucidated. According to Ramírez Corzo and Riofrío (2006) it is impossible to understand the current asentamientos humanos without referring to the development of the last decades. The new urban poor areas have repeated some of the basic developments of the previous ones, but the terrains and urban and social contexts are different. They point out that politicians and authorities do not include these differences in their actual politics and also professionals and sometimes even the families living in these poor areas do not realize the differences.

To understand the existence, development and the current situation of La Nueva Rinconada, it is important to know these differences. As Doug Saunders (2010) suggests, urban poor areas too often are seen and described as immutable and the dynamic character is too often ignored.

2.1 Positioning Lima

According to Riofrío (1996) the urban problems of Lima started already with the choice for its location, back in 1535. Its spot at the Pacific coast was not a good place for Peru’s new capital. The Spanish wanted a maritime capital to connect South America with Europe and not a highland capital like Quito in Ecuador or Bogotá in Colombia. But Lima’s founders were misled by the weather when they founded the city. January is one of the few months of the year when the city is not covered in mist. From February until October, there is neither wind nor sun, the weather is not hot nor cold, simply dull and humid (Riofrío, 1996). Below this blanket of mist, smoke and dust gather with atmospheric pollution as result. Peru can be divided in three zones: the almost 2000 kilometers long desert coastline at the Pacific Ocean at the west, the Andes Cordillera in the middle and the Amazon Jungle in the east. Peru’s rain comes from the Atlantic Ocean (the east), but is not able to cross the Andes Mountains. Because of the Humboldt Current, rain cloud formation is prevented and that is why Lima has a temperate marine climate throughout the year. Temperatures fluctuate between 14 and 20 degrees Celsius in the winter and between 18 and 30 degrees Celsius in the summer. Furthermore, there is a very high relative humidity and there is hardly any rain. Lima’s infrastructure and housing are not designed for the rains which every few years are caused by the El Niño Current (Riofrío, 2003).
Lima is located at the mouth of the Rimac valley but the river’s behavior is very seasonal. During the winter there is not enough water and in the summer there is a permanent danger of floods, made worse by the narrowness of the valley. Besides that, the city is also built on an area of tectonic activity, implying a danger of collapsing of the precarious houses. The original city is built on mainly flat land, but because of city growth, also the slopes of the Andes Cordillera are occupied. Here the shantytowns started and they are now increasing towards the higher parts of the hills, where the slopes are steeper and living circumstance worse.

2.2 Primate city Lima

According to the Instituto Nacional de Estadística e Informática (La Republica, 2012) Lima currently has 8.4 million inhabitants. That makes the Peruvian capital after Mexico City, São Paulo, Buenos Aires and Rio de Janeiro the fifth city of Latin America. As Riofrío (1996) points out, after the Second World War, Lima extended its dominancy it already had in Peru, “finally managing to destroy its rivals by establishing a virtual monopoly over the newly emerging industries and commercial services”. Being more than ten times bigger than the Peru’s second city (which is Arequipa), Lima can be typified as a primate city. “A primate city is a city which accommodates a disproportionately large number of a country’s population” (Pacione, 2005). It is the leading city in the country or region, disproportionately larger than any others in the urban hierarchy. The rest of the country depends on it for cultural, economic, political, and major transportation needs. Centralized development is most evident in countries where a world city or primary urban center overwhelmingly dominates the state. This is show by the fact that 30% of Peru’s population lives in Lima and around half of all economic activity in Peru takes place in Lima (Fernández-Maldonado, 2006).

<table>
<thead>
<tr>
<th>Business class</th>
<th>Peru</th>
<th>Lima</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Agriculture</td>
<td>11,551</td>
<td>1,135</td>
<td>9,8</td>
</tr>
<tr>
<td>GDP Fishing</td>
<td>758</td>
<td>138</td>
<td>18,2</td>
</tr>
<tr>
<td>GDP Mining</td>
<td>9,199</td>
<td>713</td>
<td>7,8</td>
</tr>
<tr>
<td>GDP Manufacturing</td>
<td>20,605</td>
<td>12,562</td>
<td>61,0</td>
</tr>
<tr>
<td>GDP Construction</td>
<td>6,710</td>
<td>3,801</td>
<td>56,6</td>
</tr>
<tr>
<td>GDP Services</td>
<td>89,652</td>
<td>47,451</td>
<td>52,9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>138,475</strong></td>
<td><strong>65,800</strong></td>
<td><strong>47,5</strong></td>
</tr>
</tbody>
</table>

Table 1. Participation of Lima in the GDP of Peru in millions Nuevos Soles (Source: Mi Vivienda, 2006)
2.3 Demographical development

In 1940, the population of Lima started to grow because of migration flows from the poor rural areas in the Andes Mountains. Those migrants were looking for a better life and tried their luck in the city. This caused a period of demographic transition in Lima, also because of declining mortality numbers and better health- and food situations.

In sixty years Lima’s population grew from around 600,000 inhabitants in 1941 to 8 million inhabitants in 2005 (see figure 6).

![Figure 6. Demographic development of Lima (source: Chambers, 2005)](image)

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1941</td>
<td>598,000</td>
</tr>
<tr>
<td>1945</td>
<td>645,000</td>
</tr>
<tr>
<td>1961</td>
<td>1,850,000</td>
</tr>
<tr>
<td>1972</td>
<td>3,330,000</td>
</tr>
<tr>
<td>1981</td>
<td>4,600,000</td>
</tr>
<tr>
<td>1990</td>
<td>7,000,000</td>
</tr>
<tr>
<td>2005</td>
<td>8,187,000</td>
</tr>
</tbody>
</table>

During the decades of urban growth, it appeared to be difficult for these new urban citizens to find a place to live. Often, informal housing was the only possibility. Especially on the hills around the center of Lima or dangerous places next to rivers people started to build their shacks. This disturbed the traditional urban planning; empty areas were filled with informal houses. This created two types of Lima (Fernández-Maldonado, 2006):

1. A central and formal Lima led by the real estate market. A regulated and supposedly formal process.

Especially in the ‘50, this informal housing grew enormously. They called these new urban areas *barriadas*. According to Fernández-Maldonado (2007) *barriadas* constitute an informal way of urban development, in which the population settles in the land before it has been developed. The city's population growth since the 1960s has been concentrated in this type of settlement. The *barriadas* housed ten per cent of the population of Lima in 1955, twenty-five per cent in 1970, and probably house thirty-five per cent of the population today (Riofrío, 2003).
At the moment, Lima’s demographic explosion has ended. The growth rate is mainly produced by natural population growth and immigration has reduced. The city is no longer growing in the explosive way that characterized it in the 50s and 60s. It is generally held that the city’s growth rate today is below 2 per cent per year, a big difference from the high growth of the 50’s and 60’s (Riofrío, 2003). But poor urban areas still exist, housing low-income families born in the same settlements or in other parts of the city.

2.4 Defining the *barriadas* of Lima

Riofrío (2003) makes a clear difference between slums and shantytowns. Slum areas (called *áreas tugurizadas* or *solares* – tenements – by the inhabitants themselves) are deteriorated parts of the city. Riofrío distinguishes different types: tenements in the historical areas of the city, tenements in areas not considered historical or monumental and modern buildings with severe overcrowding.

The shantytowns, *barriadas* – as said – can be seen as the product of the urbanization process, where households settle before the land is developed (Fernández-Maldonado, 2007). Or, as Riofrío (2003) puts it: barriadas are “new low-income settlements, in which people first live, then construct, then install services”. Initially the barriadas inhabited by inland migrants searching for a new life in Lima. During the years, the names of these urban areas have changed. In the 1950s they were known as barriadas (settlements or shantytowns), *pueblos jóvenes* (young towns) from the 1970s on, and have been referred to as *asentamientos humanos* (human settlements) since the 1990s (Riofrío, 2003). Today the inhabitants mainly are low-income families born in the same settlements or other parts of the city.

Although the physical qualities of the *barriadas* are substandard, anthropologist John Turner suggested already in 1967, the cultural interpretations of the process are very positive and served as an international example. He describes the *barriadas* as an “expression of own effort and optimism in the future” (Turner, 1967). The culture is a combination of the current urban lifestyle with traditions brought from the Andes. The dwellers in Lima keep their relations with their inland region, bringing indigenous products to the city.

The new migrants construct their houses with the available materials. Firstly, these houses provide shelter and are temporary until the area is legalized and/or enough money is available to build a house out of bricks. The basic services are established by the dwellers themselves. The development of the *barrio* becomes a collective task and the dwellers cooperate to deal with local problems. Committees arise to obtain landownership, electricity and water. According to Anderson (2007) they “undertake a mixture of self-help construction, appealing to *padrinos* (godparents or sponsors),
which may include, in recent years, agencies of international cooperation and nongovernmental organizations, and marches and demonstrations outside strategic government offices.” Obtaining a school and a health post, installing a potable water and sewer system, getting electricity, and eventually paving streets and sidewalks occupies a cycle of fifteen to twenty years (Anderson, 2007). Usually, if the particular goal is accomplished, the committees end (Fernández-Maldonado, 2006). Also more permanent organization structures appear. Different neighborhoods with their own representative create an own democratic structure. It provides the opportunity for the dwellers to negotiate with the city government. According to Fernández-Maldonado (2006), this collective informal urbanization process in the *barriadas* of Lima is ‘more organized’ compared to other informal areas in Latin America.

In the ’80, Peru suffered a deep economic crisis. The *barriadas* showed their ingenuity, informal economic activity provided some income. But also political unrest and terrorism caused disorder. Violence of the Maoist terrorist organization *Sendero Luminoso* (Shining Path) forced massive numbers of Andean Peruvians to leave their rural towns. A big part came to Lima in search for a safe place. In the ’90, the globalization of the economy affected the informal sector. Because of the free market, competition for local products increased and resulted in the disappearance of complete sectors. For the poor it became harder to get a stable job. Inequality raised; the rich could afford private services (private schools or hospitals), while the poor were only able to use public services (of lower quality). In chapter four this era will be explained more detailed.

### 2.5 Assisted shantytowns

According to Fernández-Maldonado (2005) the poor have been systematically denied access to affordable land and housing. The Peruvian state and/or local governments have permitted and sometimes organized the development of informal neighborhoods in barren land at the periphery of the cities. The state has used the vast amount of cheap desert land, as a sort of land bank (Riofrío, 2003) for housing the poor families of Lima since the 1960s. Government ‘assisted’ with offering peripheral state-owned ground for the people who could build their own houses on it: the *barriadas asistidas* (assisted shanty towns). The process of urban development is based on an initial distribution of the population. Originally this occurred on lands far away from the central city, but land with proper environmental and soil conditions. The authorities (and sometimes even the population) drew an urban structure taking into account the national urban planning regulations. This mainly occurred in the so-called ‘cones’ (see figure 7, next page). Today, more than 60 per cent of Lima’s population lives in these Cones (Fernández-Maldonado, 2005).
From the '60 till the '80, after the precarious occupation of the land, activities between population and authorities created some common characteristics (Ramírez Corzo & Riofrío, 2005):

- Families begun their urban life in precarious houses, in urbanizations lacking facilities and basic equipment.
- Families started the process in a kind of land relatively easy to urbanize.
- The new areas were prepared according to a layout plan that basically accomplishes the requirement of a conventional type of urbanization. Streets with regular dimensions, plots with regular shapes and of the same size, land reserves for services and urban equipment.

In Lima, the upgrading of the squatter settlements started at moments near the beginning of the occupation of the site. This urban upgrading process has been massive. The people had access to large amounts of land, which is why the city today has such a large extension. People started the upgrading of their part of the city with pretty much security in the land tenure, because each family was located within a plot that was part of a lay out plan made by the authorities. Therefore, the risk of eviction was small. Often as a result of the people’s own initiative, massive water, sewage and electricity projects and construction of schools took place. The empowerment of the families and a clear and secure path for the upgrading of the neighborhood has provided a partial citizenship to a vast sector of urban poor (Ramírez Corzo & Riofrío, 2005).
This way, big parts of Lima had to deal with massive processes of land occupation for further urban upgrading. Even when the planning of these settlements was not part of a consistent plan of the city expansion, there has been a clear political answer to the process of land occupation. This provided key elements for the physical improvements of the settlements and enough security in the land tenure so that the families could invest in the improvement of the site and in their houses. Peruvian legislation implemented these facts in a pioneering way in the year 1961, when it established clear procedures called the process of "physical and legal sanitation". Results of these activities have been the formation of real cities where the poor have been able to develop their activities, although their house has been built without quality control (Ramírez Corzo & Riofrío, 2005).

Today, the urban consolidation of these urbanizations demands another type of improvement, in which a key issue is avoiding that the houses transform into overcrowded and unsafe slums by the poor quality of their structures and the fact that these houses now lodge more than one family. Many times, single-family houses become small buildings to lodge the new generations, demands to formalize these new houses. Upgrading processes must take care of the house and not only the land. Another problem today is that the new land occupations no longer come together with the process of planning of the urban lay out and pay little attention to urban upgrading.

Hence, also *barriadas convencionales* (conventional shantytowns) occurred. These are spontaneous settlements without any urban design. Mainly they occupied marginal land that is not appropriate for constructing houses. According to Riofrío (2003), around 20% of the barriadas-population live in this type of settlement and the amount of inhabitants is growing because hardly no available land for the official settlements exist anymore.

As stated by Riofrío (2003), the lack of planning coordination amongst the authorities of Lima creates one of its biggest problems. The municipalities only thought about the need for urban land, but did not provide services and equipment, such as housing production. Hence, today’s Lima has two principal problems (Ramírez Corzo & Riofrío, 2006). First, the houses in the oldest barriadas become department buildings in order to house different generations, which demands improvements not only focused on the soil but also on these houses. Second, the new invasions of terrain are not supported by the process of public urban planning and lack assistance to improve the area. As a consequence, for these areas it is much more difficult to realize a similar development as the old barriadas have gone through or to receive land titles. This theme will be discussed more detailed in chapter 5 about the urban policies of the Fujimori administration.
THEORETICAL FRAMEWORK:
HERNANDO DE SOTO ON PROPERTY RIGHTS

Mayor influence on the theories about land property comes from the Peruvian economist Hernando de Soto. In this chapter I will introduce and explain de Soto’s ideas. But, although the first four pages of his book are full of compliments of important journalists and politicians, his theory has received a lot of criticism as well. Not at least in de Soto’s hometown, the city where his ideas were firstly practiced: Lima. Hence, this chapter will not only describe but also evaluate de Soto’s ideas. In chapter five the Peruvian political implementation of de Soto’s ideas will be elucidated.

3.1 Hernando de Soto and the mystery of capital

As being critical to Hernando de Soto’s ideas, it is important to give a short summary of his view. But it is necessary to be precise and complete in doing so. As stated by Van der Molen (2012), too often de Soto’s ideas are summarized as “give the poor a property title, and then they will have credit and escape from poverty”. This way stated is very simplistic. Unless other stated, source for this chapter is de Soto’s book The Mystery of Capital (2000).

His first ideas are written down in his 1989 book ‘El Otro Sendero’ (The Other Path), a reference to ‘Sendero Luminoso’ (Shining Path). This extremist Marxist and Maoistic guerilla organization launched an internal conflict that would terrorize Peru from 1980 till 1992. According to de Soto “the downtrodden slum dwellers of Lima were victims of the state” (Gilbert, 2002). He proposed that giving land titles to illegal rural migrants in the peripheries of the city, and making it easier to launch an own company, would be the best method to end poverty and start a middleclass. He suggested it would work better than the radical collectivization proposed by Shining Path or the bureaucratic solutions suggested by populist governments. De Soto started an offensive to give millions of illegal rural newcomers land titles over their land and by that, transform them in landowners (Saunders D., 2010). A vision the Republican US government of that time gladly embraced. Not only the United States supported de Soto’s ideas, also Alberto Fujimori, the Peruvian conservative president, agreed with it. ‘Formalizing’ became a key word for organizations like the World bank and IMF in the nineties. De Soto had suggested them the solution to end poverty: giving land titles to the poor.
‘The Mystery of Capital. Why Capitalism Triumphs in the West and fails everywhere else’, de Soto’s second book, was even a bigger success. It has been translated in nineteen languages, including Arabic, Chinese and Russian (Granér, 2007).

3.2.1 The theory of Hernando de Soto

De Soto’s basic assumption is that capitalism – after the fall of the Berlin Wall – is the only realistic way to rationally organize a modern economy. After this turning-point in modern history, Third World and former communist countries have tried to adapt more market based policies, but often with very disappointing results. While – for a long time – capitalism triumphed in the West, other parts of the world were not able to take their portion of this prosperity. According to de Soto, Westerners too often blame the people from the Third World for their lack of entrepreneurial spirit or market orientation as the cause of the failure of the capitalistic remedies. But it has nothing to do with cultural differences. De Soto believes that the main cause is their inability to produce capital. He sees capital as “the force that raises the productivity of labor and creates the wealth of nations. It is the lifeblood of the capitalist system, the foundation of progress and the one thing that the poor countries of the world cannot seem to produce for themselves, no matter how eagerly their people engage in all the other activities that characterize a capitalist economy” (p. 5).

As stated by de Soto, most of the poor already do have possession. What is opposing them to make success of capitalism is the fact that they hold these resources in defective forms: houses built on land without documented ownership rights, informal businesses, industries located where financiers and investors cannot adequately see them. Because the rights to these possessions are not sufficiently documented, they cannot be turned into capital. They cannot be traded outside of the small local community where people know and trust each other. Hence, their possessions cannot be used as guarantee for a loan, and cannot be used as a share against an investment.

De Soto notes a big contrast with the West, where “every parcel of land, every building, every piece of equipment, or store of inventories is represented in a property document that is the visible sign of a vast hidden process that connects all these assets to the rest of the economy” (p. 6). This way, the possessions can lead an invisible, parallel life alongside their material existence; they can be used as guarantee for credit. This is the system the West uses to make assets generate capital. But in developing and transitioning countries this paper world is missing, making them ‘undercapitalized’. Without representations, their assets are ‘dead capital’. Key factor for progress in developing countries is to converse this invisible capital into visible capital. Lack of legal infrastructure is the main reason why this appears to be so difficult.
One of the factors why earlier attempts to introduce capitalism in developing countries failed is because of missing information. De Soto suggests that in the developing world, hardly anyone has properly documented their capacity for accumulating assets. The effort the poor have to do to acquire formal property or to start a formal business, is so tremendous, that their only option is to live in informality. De Soto comes with a number: 80 percent of the population in developing countries lives in this informal world. To get in the ‘formal’ world is a road covered with obstacles. De Soto and his team tried to start a “perfectly legal business” in Lima to see how difficult this is. According to him, it took 289 days, spending six hours a day to get all the certification required. Costs of the whole process were 1.231 dollar and it took 728 administrative steps. It shows how difficult it is to start a legal business and also staying legal for small poor entrepreneurs is difficult. Consequently, the alternative is living in informality.

But living in informality does not mean living without possessions. The poor do have possessions, but it is not represented in such a way to produce additional value. This prevents them to use their savings, investments in housing and business to generate capital. Their possessions remain ‘death capital’.

Assistants of de Soto conducted research in four countries – Philippines, Peru, Haiti and Egypt – and they discovered huge amounts of this dead capital. In the Philippines: US$ 132,9 billion. Peru: US$ 74,2 billion. Haiti: US$ 5,2 billion. Egypt: US$ 241,2 billion. They generalize the data of these four countries and “projects it over the Third World and former communist countries as a whole”. According to their investigations, about 85 percent of urban parcels in these nations and between 40 percent and 53 percent of rural parcels, are held in such a way that they cannot be used to create capital. Subsequently, de Soto comes up with a number that made his theory well-known. He suggests: “by our calculations, the total value of the real estate held but not legally owned by the poor of the Third World and former communist nations is at least US$ 9.3 trillion” (p. 35) (see Appendix B for de Soto’s table about the death capital). To illustrate how much this is, de Soto gives some comparable examples: “it is more than twenty times the total direct foreign investment into all Third World and former communist countries in the ten years after 1989 or ninety-three times as much as all development assistances from all advanced countries to the Third World in the same period”.

An important question raised is: what exactly is capital? Referring to classical economists such as Karl Marx and Adam Smith, capital can be understood as the part of a country’s possession that can generate extra production capacity and productivity. Capital is not the same as money. Money itself does not generate added value, it only expresses value, and it is a way in which it travels. Money
provides a standard index to measure the value of things, so we are able to exchange them. But money is unable to convert the abstract potential of a particular asset into capital.

As de Soto argues, the West is able to make this conversion. The process of converting assets into capital starts by describing and organizing the most economically and socially useful aspects about the possessions, preserving this information in a recording system and then representing them in a title. Detailed and precise legal rules govern this process, so formal property records and titles represent our shared concept of what is economically meaningful about any asset.

The poor lack this conversion system. Any property whose economic and social aspects are not fixed in a formal property system is extremely hard to move in the market, suggests de Soto. When people in the informal sector need capital, for example for housing or business, their only source is their social network and these interactions are based on human trust. Without property titles, they miss the instruments to generate added value out of their physical possessions.

According to de Soto (p. 52), the reason why capitalism triumphed in the West and sputtered in the rest of the world is because most of the assets in the Western world have been integrated into one formal representation system. This provided the opportunity for people to generate capital in a much wider circle than only their relatives. The legitimacy of their legal rights became visible in the society at large and consequently their liability as well. And without liability, no formal contracts, credits, utilities and insurances endure. Problem in developing countries is that they do not have just one legal system, but often dozens or even hundreds. What people can do with their property is limited to the imagination of the owners and their contacts. Consequently, their liability is not visible and this excludes them of the formal institutions.

An important aspect of the Western formal property system is that all the property records are continually tracked and protected even when they change of time and space. Security of ownership is principally focused on producing trust in transactions, so that people can more easily use their property for a parallel life as capital. As de Soto says, because of this ‘parallel life’ property, for example a house, represent capital. A big part of the marginalization of the poor is caused by their inability to benefit from this mechanism, because they live outside the formal economy.

Also the lack of political awareness obstructs a successful implementation of capitalism in the developing world. Why are governments not aware of this mechanism? According to de Soto (p. 70) a worldwide industrial revolution is happening, a gigantic movement away from life organized on a small scale to life organized on a large scale. People outside the Western world leave their small scaled society and enter the global markets. But the pace and share of this industrial revolution in
the developing countries is happening much faster and transforming the lives of many more people than the industrial revolution that arrived in the West more than two centuries ago. As example Great Britain is used, that had a population of 8 million when it began its 250-year progression “from farm to the laptop computer”. While Indonesia is making the same journey in only four decades and with a population of more than 200 million. So, it is not a big surprise, their institutions need time to adapt. The transformation of many cities in the developing world to megacities overwhelmed their political and legal institutions. This has forced the new migrants to invent extralegal alternatives for the established law. Poorer countries lack the institutions to integrate the migrants into the formal sector.

Hence, states de Soto, governments are not aware that the growth of the extralegal sector and the breakdown of the existing legal order are caused by a massive movement away from life organized on a small scale toward one organized in a larger context (p. 73). People are spontaneously organizing themselves into separate, extralegal groups until government can provide them with one legal property system.

Two blind spots can be elucidated:

1. Most do not see that the last forty years a new class of entrepreneurs with their own legal arrangements is created. A class that demands an appropriate system of legal property.
2. Few recognize that the faced problems are not new. De Soto suggests that during their industrial revolution the West struggled with the same problems. The living standers only rose when governments reformed the law and the property system to facilitate the division of labor.

Many governments in developing countries have tried to improve the accessibility to formal property, but failed because of misunderstandings. For example because of the delusion that the poor prefer to be informal, to avoid paying taxes. According to de Soto, the poor are forced because the existing laws do not match their necessities. Besides, being extralegal is not cheap at all. Extralegal businesses are taxed by the lack of good property law and continually having to hide their operations form the authorities. Informal entrepreneurs’ only insurance is that provided by their neighbors or maybe even protection mafias want to sell them. They cannot advertise freely and are unable to obtain low-interests formal credit.

Another misconception is that real estate asserts can only be registered by being mapped, surveyed and recorded with modern technology. Instead, the complicating factor for people in developing countries to use modern formal property to create capital is a bad legal and administrative system.
According to de Soto, a crucial point is that property is not a physical thing that can be photographed or mapped. He suggests that property is not a primary quality of assets, but the legal expression of an economically meaningful consensus about assets. And law is the instrument that fixes and realizes capital. Property is not the assets themselves, but a consensus between people as to how those assets should be held, used and exchanged.

The real task in developing countries is not so much to perfect existing rights as to give everyone a right to property rights. This ‘emancipating people from bad law’ is a political job. Besides, it is important to prevent this emancipation being obstructed by small but powerful vested interests. An integrated system, based on people’s beliefs and not only looking good on paper. Governments have to convince the poor citizens to enter the formal market. Furthermore, de Soto argues that governments must also convince influential leftists, who in many countries are close to the grass roots, that enabling their electorates to produce capital is the best way to help them. He points out that succeeding these legal and political aspects are vital in order to overcome the legal apartheid between those who can create capital and those who cannot.

De Soto has created a formula, which he calls the ‘capitalization process’ (p. 159) to assist governments throughout the world. Aim of this strategy is to create a situation of integration of formal and informal procedures. It contains four elements. First, a ‘discovery’ strategy is needed to study the relationships between the formal and informal sector plus to identify the informal norms that regulate possession and property in informal communities. Second, a political and legal strategy. The objective is to create political support at the highest level and to achieve consensus between the formal and informal sector about legalization of informal possessions without compromising formal property rights. Third, an operational strategy to make the transition possible and fourth a commercial strategy to create opportunities to turn people’s possessions into capital.

Creating a property system that is accessible to everyone is primarily a political task, because it has to be kept on track by people who understand that the final goal of a property system is to put capital in the hands of the whole nation.

To summarize, de Soto provides a list with recommendations to governments (p. 227):

- The situation and potential of the poor need to be better documented.
- All people are capable of saving.
- What the poor are missing are the legally integrated property systems that can convert their work and savings into capital.
Civil disobedience and the mafias of today are not marginal phenomena but the result of people marching by the billions from life organized on a small scale to life on a big scale.

In the context, the poor are not the problem, but the solution.

Implementing a property system that creates capital is a political challenge because it involves getting in touch with people, grasping the social contract and renovating the legal system.

De Soto argues for the creation of a property system that gives judgment to how in the informal sector people deal with possessions, their attitudes and informal arrangements. The new laws have to be conforming to the informal arrangements to get the poor willing to participate. If the poor have the possibilities to be part of the formal economy and become able to capitalize their possessions they can escape poverty. When countries are not able to integrate informality into the formal economy, they will not make any progress.

3.2 Evaluating the theory of Hernando de Soto

It seems that de Soto has written a controversial book, considering the wave of responses of scholars (coming from various disciplines) it has caused. Many scholars argue that de Soto’s idea is too simplistic. According to many, de Soto’s arguments why land titles are the solution to end poverty are missing a lot of important aspects. Also the evidence he provides does not convince a lot of academics.

One of his main criticizers is Alan Gilbert, urban Latin American specialist of the UCL. In his articles ‘On the mystery of capital and the myths of Hernando de Soto: what difference does legal title make?’ (2002) and De Soto’s The Mystery of Capital: reflections on the book’s public impact (2012), Gilbert does not want to deny the advantages that the poor can develop from homeownership in a self-help neighborhood, but according to him de Soto’s argument is dangerously weak and he is simply pushing a populist myth. Gilbert admits that the lack of a legal title can inconvenience the poor. They could feel insecure and even in older neighborhoods, particular families may feel at risk without a formal title, for example female-headed households, immigrant communities, minority groups (Gilbert, 2002). Lacking a legal land title could complicate the process of buying and selling property or gaining credit. According to Gilbert, this is why so many Latin American governments have started massive land titling programs.

But he’s suggests that “instead of offering an answer to the mystery of capital, he is generating a myth about capitalism based on a populist dream”. The risk of a ‘big name’ like de Soto making these
arguments is that his message will be taken up by some people with power. In this chapter some of the critiques on ‘The mystery of capital’ will be discussed, focusing on three main points:

1. The absence of the government caused by the free-market approach
2. The question if a title is needed to get access to credit
3. The lack of evidence provided by de Soto in his book

3.2.1 Title policies and an absent government
An often heard argument against de Soto’s ideas is that it discourages governments to participate and intervene in the poor (urban) areas. As Davis (2006) suggests, “get the state (and formal-sector and labor unions) out of the way, add micro-credit for micro-entrepreneurs and land title for squatters, then let markets take their course to produce the transubstantiation of poverty into capital”. Gilbert (2002) calls this “right wing romanticism”. De Soto is creating a myth about popular capitalism, saying that everyone everywhere has the opportunity to become a “fully-fledged capitalist” (Gilbert, 2012). But the danger is that it will encourage policy makers to do no more than offer title deeds and leave anything else to the market. It could be seen as a cheap way of buying off the government’s responsibility of providing an equal housing situation and equal society in general: just leave it to the market and it will be arranged. It is assumed that the market will provide services and infrastructure, offer formal credit and manage the growing property market. “The poor households get the prospects of getting their own house and even making money from it”, but this is no more than a form of utopia according to Gilbert. Titling programs are popular because it is much less expensive to hand out property titles than to provide settlements with services. Davis (2006) states it is attractive to governments because it promises them something – stability, votes, and taxes – for virtually nothing. Besides, Salman and Smets (2008) suggest that the introduction of legal titles is very likely to encourage corrupt practices within the government. Something that happened in Peru, as suggested by Miranda (2002), where the formalization of property has been used, on a large scale, for political purposes. She uses the phrase “one title, one vote”, suggesting that governments hand out titles to receive votes of the poor.

De Soto’s ideas were enthusiastically embraced by neo-liberal institutions. Because it is a combination of the ideals of market forces, sensible borrowing and individual initiative and ownership in a form that promises to bring economic growth for all (Gilbert, 2012).

De Soto argues that poor nations can prosper if they replicate the supposed historical experience of the US in land settlement and the legalization of real property. This idea clearly appeals to the US interests and to the elites of poor countries. But according to Gilbert, it is particularly popular with those who will benefit most from the operation of market forces: bankers, property developers and
real-estate agents in emerging markets and transition economies. It also satisfies politicians who are beginning to despair of the ineffectiveness of overseas aid. Nor are the poor likely to oppose the offer of legal titles, providing that they come at an ‘affordable’ price.

But as stated by Saunders (2010), land titles only contribute when combined with big government paid public services and social security. Social mobility is possible only with active political participation and governmental investments’, just giving land titles is not sufficient.

3.2.2 Title needed for housing improvement?

Scholars question de Soto’s statement that a property title will lead to improved housing situations. According to Gilbert, many households feel secure about their property, even when they lack a legal title. In many countries, self-help housing is not under threat from governments, and, as long as they have some savings, people generally invests to improve their dwellings without a title deed, he states. Normally, removing only occurs because of authoritarian governments and special events, and many examples exist of evictions even with titles. Most self-help settlements across the world survive without a legal title. Gilbert states that “titles are useless, unless an accessible, affordable and fair judicial system is available”. The problem is not the presence or absence of title deeds, but that many authoritarian governments neglect the law or people’s human rights. The vulnerability of informal settlements varies considerably and depends on a combination of various factors. For example the identity of the original owner, the location of the land, the alternative uses of the land, the nature of the government and whether or not an election is coming. As stated by Gilbert, there is plenty of evidence that settlers improve their homes also without having a land title. A feeling of security depends more on occupants’ perceptions of the risk of eviction and demolition; as well as the availability of services and passage of time. In another article, Gilbert (2012) suggests that a legal title is not a requirement for settlements to obtain services. More typically, informal settlements lack services because governments lack the capacity to supply them.

According to Durand-Lasserve (2006), there is no evidence that tenure formalization through land titling has increased significantly access to mortgage credit for low-income households. Also Gilbert found in his empirical research (conducted in Bogotá, Colombia) that owning a legal title makes little or no difference in getting formal credit. It turns out to be very difficult to reach the poor because of a variety of reasons. For example, lenders lack confidence in poor people paying their loans and because of the low profitability of lending to the poor. In chapter five we will see that also in Lima receivers of a land title did not necessarily gained access to formal credit.

Another complicating factor for the formal lenders to lend money to the poor is the property on which the poor want to borrow the money. To illustrate this argument, Gilbert states that in
Colombia the saving and loan corporations have strict rules about the kind of buildings and area on which they will provide loans. For example those who live in what are considered to be risk zones will not get loans. Property titles seem to have little effect in convincing private banks to lend to the poor. Private banks are reluctant to lend to the poor, whether they have a title or not. Even for micro-credit institutions it is difficult to attribute to finance housing: housing requires much larger sums of money. Besides, Granér (2007) argues we cannot take for granted the fact that people who get access to more credit use it only for long-term income-producing investments. That is not the case in wealthy Western countries and surely even less the case in poor slums whose inhabitants usually live on minimal economic margins he says.

Ramirez Corzo and Riofrío (2005) also show it is far from guaranteed that having a land title will lead to getting a loan. According to their research, in 2003 only 3,93% of 1.332.481 correctly registered plots in Lima have received a loan. And these are very small credits with high interest rates, by an average amount of US$ 5.596 per loan. These relative small loans are guaranteed with the whole house.

This implies another problem: if the credit suppliers decide to lend money, it is still unsure if the poor want to borrow. As Gilbert suggests, many poor fear of what might happen if they cannot pay back the loan. For many very poor families, repaying a loan is a burden that may endanger the household’s whole financial situation. Financial relationships, especially debt relationships, are one way in which the powerlessness of groups of poor is entrenched. Marcuse (2004) states that he (when he was working as a lawyer) advised his clients not to put their house at risk – by using it as security – in any business venture. “Protecting their home and that of their family was more important than whatever increase in the expectation of profit putting it at risk might bring”.

Instead, most poor people build and improve their houses with personal savings or informal loans, for example remittances from abroad living family or small loans from neighborhood money lenders. Problem is that these sources of income are very irregular and slowly because only small amounts of money are involved because they stay disconnected from formal institutions and markets.

Also Doug Saunders (2010) suggests that land titles not always provide access to credit, investments or security. “Sometimes it just works better for the poor to have an illegal status within an informal economy, without paying taxes”. Similarly, Granér (2007) does not agree with de Soto’s distinction between the formal and informal economy. In many cases he sees the informal economy as a complement to the formal sector. Saunders also suggests that a land title may be helpful for a big part of the poor, but for the very poorest it even has negative effects, because they do not have the funds to participate and will end up in homeless or rural poverty. Powerful property interests may
remove poor from central city locations before titles were distributed. The poorest among the urban poor are unable to meet the cost increased by any improvement of their living environment.

3.2.3 Lack of evidence
Van der Molen (2012) argues that de Soto is a good marketing man; he knows how to sell his ideas and politicians listen to him. But he is accused by academics of delivering insufficient evidence why his theory works in real life. Granér (2007) suggests that how the researchers in the field acted in order to find out what market value real estate without formal titles might have is not clear. This is problematic he says, because the main reason that de Soto’s book has attracted so much attention is the fact that he had the dare to put a value on the dead capital in the informal economy: 9,3 trillion dollars. According to Granér their method is unconventional but sufficiently heroic and laborious to impress some econometricians who have themselves been restricted to the limitations of statistical indicators. But de Soto and his assistants only estimated the buildings themselves, not the value of industrial and commercial activities. The large majority were dwellings. The explanation is practical: “the production of the informal sector takes place in the shadows, but the buildings stand where they are”. Also Gilbert (2002) raises the question how to estimate the value for property in the absence of a real market for that property. The value is calculated on replacement costs, but what is the market value? Gilbert states that low-income housing does not attract a good price and people cannot move, because they cannot afford to buy a better house.

Besides, is it possible to make global assumptions after doing research in only four large cities in relatively small countries? The 9,3 trillion dollars of worldwide dead capital is calculated after investigating in the Philippines, Peru, Egypt and Haiti. But it is questionable if these countries are representable for countries like China and India with their huge populations. According to Granér, the results of these four countries are hardly appropriate points of departure for general conclusions about its global scope.

3.2.4 Recommendations according to the criticizers
Land ownership is clearly not the only solution to end poverty, other factors are necessary. To achieve social mobility and to give the poor the opportunity to develop into middleclass, both a free market and property as a strong, conscious government willing to invest in such a transition are necessary (Saunders, 2010).

What is really needed according to Gilbert (2012) is some mechanism to make land available to more affordable prices. In many cities, even the expansion of self-help housing has reached its limit, because they are running out of land – at least in places that are livable and within a reasonable (traveling) distance to needed services. With little land available, prices will increase. Sometimes
because of inappropriate government regulations land price rises, but surely it is market forces and consequently land speculation that is the main cause. Building companies often buy up large parcels of peripheral land and make their profit through the land conversion process. A good state action is needed, to prevent such speculation or to prevent private developers making huge profits.

This research in La Nueva Rinconada provided me data and insights to add another critique to Hernando de Soto’s ideas, namely: land speculation. But to fully understand speculation as a consequence of de Soto’s ideas, it is first important to elucidate the interpretation and implementations of his ideas by the Peruvian government the years before the invasion in La Nueva Rinconada started. This is of key importance to understand why the invaders decided to invade the area.
chapter four

URBAN POLICIES IN PERU IN THE NINETIES

The importance of Hernando de Soto’s ideas is confirmed by its influence on politics. His ideas are widely accepted by multilateral and government organizations that intend to replicate it in various parts of the world (Calderón, 2004). During the nineties, de Soto was one of Peruvian president Alberto Fujimori’s advisers on economic issues. As such, he had a huge influence on the new neo-liberal political direction of Peru.

After reading de Soto’s theory and explaining aspects like ‘what is capital?’ one may ask: where is geography in this story? As suggested before, a big spatial aspect is involved in his question about the failure of capitalism in the developing world. The implementation of these ideas did not miss its influence on politics and especially on urban planning it had a huge impact. This chapter will focus on the Peruvian urban politics in the nineties, the years before the invasion of La Nueva Rinconada took place. What was the political situation around that time and what political focus being practiced? And what was the influence of Hernando de Soto on these urban policies? Analyzing this situation is vital in understanding de influence of the theory (of de Soto), on urban politics being practiced and later on the actual situation on the ground; the invasion of La Nueva Rinconada.

4.1 Neo-liberal politics

In the 1980’s, Peru lived in an almost permanent crisis. The Maoist rebel group Shining Path had a huge and negative effect on the situation in the country. As suggested by Fernández-Maldonado (2006), while the public finances collapsed, the government was increasingly unable to guarantee public order and security. Shining Path took control of larger areas of the country, causing huge damages against infrastructure, property and human lives. Around the end of the eighties, almost 60% of the total territory of Peru was under control of terroristic organizations. End eighties, begin nineties, capital city Lima was the center of political struggle.

Rebellious groups were significant present in popular sectors, especially within youth groups. At the same time, a huge increase of terrorist acts, some of them very violent and cruel, traumatized the Peruvian population. Bombings, political assassinations and electricity black outs became part of everyday life. The conflict eventually caused almost 70.000 deaths. Besides that, it resulted in a giant weakening of Peru’s productive capacity and economy, accompanied by hyperinflation (Fernández-
Maldonado, 2006). As suggested before, many Peruvians migrated to capital city Lima, but at the same time unemployment rates raised enormously.

While struggling with this complicated situation, Peruvians had to vote for a new president in 1990. According to Gonzales de Olarte (1993), the crisis in political representation that Peru faced, was vital in the outcome of the elections. Political parties seemed to be incapable of representing the majority of the population. Peru’s electorate had lost confidence in the political parties who were in power in the ten years before the elections. And also the leftwing parties, not in the government, were unable to unite and propose a good alternative. As a result, an increasing tendency was noticeable to elect candidates who were independent of, rather than affiliated with, a political party (Gonzales de Olarte, 1993).

Two candidates emerged to become the successor of Alan García – the president who was seen responsible for the disastrous situation of Peru at that moment. The first candidate was the world famous writer (and later recipient of the 2010 Nobel Prize in Literature) Mario Vargas Llosa. He was the big favorite and it was widely expected that he would win the elections. The other candidate was the little known leader of the new political party ‘Cambio 90’, Alberto Fujimori; an agricultural engineer born of Japanese parents. Although little known, with his knowledge of agriculture and his own experience of poverty in his childhood, Fujimori understood the problems of the campesinos, the poor inland descendants of the original pre-Spanish inhabitants of the land. Where Fujimori was considered as the candidate of the poor, the Indians, the mestizos (people of mixed Indian and white ancestry), the blacks and people of Asian origin, Vargas Llosa was seen as the representative of a wealthy, elite, mainly white, minority. Besides that, Vargas Llosa proposed drastic neoliberal economic reforms in order to bring down the inflation (which reached 3000% during the Alan Garcia administration). Frightened by Vargas Llosa’s extreme proposals, the poor supported Fujimori. He instead, promised to institute a moderate program of gradual economic stabilization, including the privatization of certain state-owned enterprises.

Fujimori won the elections and became Peru’s new president. But soon it turned out that the ‘candidate Fujimori’ had totally different plans than the ‘president Fujimori’. After the campaign many Peruvian ‘experts’ proposed a move to neo-liberalism, which was presented as the solution and only option to end the problems in the country. One of these experts was Hernando de Soto (Stokes, 1997), who was approached by Fujimori in April 1990, directly after the elections. De Soto advised Fujimori to travel immediately to the United States to meet the representatives of the main International Financial Institutions, like the International Monetary Fund (IMF) and the Worldbank. Fujimori followed de Soto’s advice and authorized him to organize the meetings (Hesselroth, 2006).
Seven months after being elected, Fujimori took over power, and adopted the neo-liberal recommendation offered by the IMF and the World Bank, an extreme variant of the structural reform that is advocated by the so-called “Washington consensus”. He instituted an economic program that was even more radical than the one proposed by Vargas Llosa during the campaign. The program of institutional reform had two principle goals. First, to complement the short-term economic program. Second, to reform Peru’s socio-economic structure.

To show their confidence in Fujimori, the congress had given him extraordinary governmental powers which enabled him to launch the reforms in August 1990, just a few weeks after taking office. These reforms, commonly known as ‘Fujishock’, had a lot in common with those in the rest of Latin America around that time. Important measures were reduction of the public sector, liberalization of the market, stimulation of free trade, privatization of public assets and enterprises, as well as various measures to keep wage costs down. This policy was applied with unusual brutality in that country (Granér, 2007).

In the New York Times of the 12th of August, 1990 an article was written about the initial consequences caused by ‘Fujishock’ (for the complete article, see Appendix C). It suggests that the overnight price jump of the ‘Inti’ (the Peruvian currency at that time) was from 13 cents to 4 dollars. A gallon of gasoline jumped from 41.800 intis to 1.200.000. Overnight, prices of bread and milk tripled. The cost of noodles and newspapers quadrupled. And the price of cooking gas increased 25-fold. “All over Peru, people are reeling from an economic shock program decreed Wednesday night by the new Government of President Alberto Fujimori” (Brooke, 1990).

The aim of the inflation was to stabilize after the initial shock. And indeed, Fujimori succeeded in ending the extreme hyperinflation, and stabilized public finances and re-structured the economy. Besides this, in 1992 the Fujimori administration ended the years of terrorism of Shining Path. But not before Fujimori, on 5 April 1992, instituted a coup d’état against his own government (known as the ‘autogolpe’). He closed the Congress, reformed the judiciary system, and eliminated all political opposition especially that opposed against his economic program. This was a direct violation of the Constitution he had pledged to defend. As stated by Gonzales de Olarte (1993), Peru’s business faced a new era in which its fluctuations would depend not just on its external restrictions, but also on the will of the new president, given the lack of any other institutional limitation, even that of the military. This situation enabled Fujimori to adopt, on his own initiative, both a liberal economic program and an authoritarian political regime (Gonzales de Olarte, 1993). So, one could state that Peru had ended the era of terrorism, but at the cost of losing their democracy. As summarized by the BBC (2011), “To his supporters, Alberto Fujimori was the president who saved Peru from the evil of terrorism and
economic collapse. To his opponents, he was an authoritarian strongman who rode roughshod over the country’s democratic institutions in order to preserve his hold on power”.

Especially the poor became victim of the reforms. As described in the New York Times (Brooke, 1990) “within hours of Fujimori’s televised announcement, hungry slum dwellers started sacking food markets. Police officers and soldiers, operating under a virtually nationwide state of emergency, moved quickly, arresting hundreds of people and killing four looters.” Poverty and misery grow because of rising food costs, the minimum wages decreased and mass dismissals of personnel in the public sector and non-competitive industry occurred (Granér, 2007).

The neo-liberal and open markets had devastating consequences for local manufacturers. Complete sectors were unable to compete with cheaper imported products and had to sell their factories to large multinationals, which became important urban actors (Fernández-Maldonado, 2006). Poverty deepened and inequalities became more acute. The long-term growth effects were horrific: living expenses increased in 400% in the 1990-2000 period and new economic crises appeared in the late 1990s.

4.2 Titling programs in a new urban situation

This new political focus had also its consequences for urban Lima. As suggested by Maldonado-Fernández (2006), as a result of the new regulations, urban planning was almost abandoned in Lima during the nineties. The neo-liberal focus reduced the state’s role in most social sectors and urban sectors became privatized and liberalized. The market was seen as the solution and the state’s only role was to facilitate a good functioning market.

This attitude implicated less governmental participation in housing subjects, which was illustrated by the dismantle of the Ministry of Housing, the Central Mortgage Bank, the Housing Bank, development banks, housing cooperatives and public programs for land delivery (Fernández-Maldonado, 2010). Housing policies were completely absent during the nineties, which was confirmed by the removal of the right to adequate housing in the Constitutional revision of 1993. So, housing was given less priority in the distribution of institutional and financial resources. As stated by Fernández-Maldonado (2010), even during relatively economic growth from 1993 until 1997 money was not invested in housing (the poor), but in the more profitable privatized sectors.

A key moment in the urban policies of Lima was the year 1996. The years before, the Peruvian Ministry of Presidency created state agencies to provide food and nutritional supplements or low-cost loans for subsidizing improvement projects. But with the existing state institutions, it was unable to respond to the continuing informal occupation of urban land by the poor (Kagawa, 2001). As a
response to these occupations, Fujimori launched a formalization initiative in 1996 with the creation of The Commission for the Official Registration of Informal Property (commonly known as COFOPRI). In order to avoid time consuming formalities and speed up the distribution of land titles, COFOPRI took the responsibility for land regularization away from municipalities and took full charge of this duty. This meant that local governments lost their authority for land titling in informal settlements; local government became less influential and important. The World Bank became actively involved and gave a loan worth 38 million dollars to the Peruvian government for the project.

The purpose of this program was to promote access to formal credit mechanisms by providing land titles to promote housing investment. This was supposed to develop a citywide real-estate market and consequently improve living standards of the urban poor (Fernández-Maldonado, 2007). COFOPRI was completely designed after the ideas of Hernando de Soto and almost all the COFOPRI employees came from de Soto’s own NGO, the Institute for Liberty and Democracy. President Fujimori promised that 1 million land titles were to be given out nationally before July 2000. Since then, 1 million became the magic number for COFOPRI. They saw that this number was large enough to convince the private financial markets that the residents in formalized settlements are worthwhile to be seen as potential clients to access credit (Kagawa, 2001). Today, already 1.5 million families have the property of their land enrolled in the public property registries. Calderon (2002) argues that in terms of the distribution and registration of land titles, the success of the formal registration policy is undeniable.

But besides the fact that it is questionable that municipalities were removed from the process by undermining their legal role in the urban system, Calderón (2001) suggests another negative aspect of this official registration process. It focused on legal aspects, but ignored the urban aspects. This because already in 1968 popular pressure for land titles forced the government to eliminate two decrees that required installing services before obtaining land titles. Thereby the link between the urban and legal aspects of the legalization process disappeared. Consequently, some districts now have water supply but no land title, and others have a land title but lack water supply.

Although a law already issued in 1961 banned new invasions, various legalization processes (not only in 1996, but also in 1968, 1981 and 1986) occurred by ‘amnesty laws’. The creation of COFOPRI – and thus the acceptance of invasions by providing them land titles – could be seen as a result of the government’s inability to create other alternatives suggests Calderón.

Did the program meet its aims? According to Calderón (2004), the COFOPRI program was based on the assumption that titles would enable poor households to gain access to formal credit. But according to his research, this has only been granted to about one per cent of the receivers. Up to
2002, 17,324 families in Peru who received title deeds from COFOPRI gained access to mortgage loans, which means 1,3 per cent of the total (1,3 million) title deeds handed out over the whole period. Kagawa (2001) offers similar results. According to him, the access of credit is an important indicator, because it identifies whether the theory of de Soto is working or not. According to his research, access to credit in Lima is very limited. From the researched 629 households that received a property title, only 16 (2,5 per cent) gained access to formal credit. Besides, these credits were provided by a state agency of the Ministry of Presidency, which mainly loans construction materials instead of money.

Calderón (2004) suggests that the little access to formal credit of the poor has to be seen as a failure of the property formalization policy. “The big mistake was the presumption about a linear connection between title deeds and the availability of credit from the private banks which was not forthcoming.” The philosophy behind this proposal was the idea that the state would act as ‘facilitator’. But, in spite of their legal mandate, COFOPRI has not been able to achieve the objective of enabling those with title deeds to obtain formal credit. It has therefore focused on improving the land register and promoting the use of registers.

Also Ramírez Corzo and Riofrío (2005) question the success of the formalization program. According to them, the legalization of the land leaves aside all the other aspects of urban upgrading. “Everything that was possible to be titled at a low cost has been titled, regardless the costs of the future necessary upgrading of those places”. When focusing on Lima’s Southern Cone (where La Nueva Rinconada is located), between 1992 and 2001, 179 new pueblos jóvenes were formed (Ramírez Corzo & Riofrío, 2005). Most of them are located on steep slopes or in canyons with limited accessibility. From these new pueblos jóvenes, around sixty percent have benefitted from land regularization program of COFOPRI. But many of them are located in unsuitable lands for residential use. However, most of those that did not benefit from the land titling program were for reasons which do not have to do with the quality of the ground, but because private property was invaded or by other legal reason: the land occupation took place after 1996, the deadline according to the law that created this program.

COFOPRI was furthermore faced with people who illegally invaded private land. As suggested by Calderón (2004), at stake here is not the possession of the land, eviction of these families is difficult because of the social cost this would imply. The main question here is the price to be paid for the land to gain access to the property. The government prefers to leave private owners to follow the judicial process and COFOPRI insists on promoting negotiation and conciliation processes between the squatters and the owners.
Invasions of private property occur less often than invasions of public property, but in Lima disputes over private property definitely are problematic. Not only in La Nueva Rinconada, but also in other areas of the city. Ramírez Corzo and Riofrío (2005) give the example of Los Laureles, located in the district of Villa El Salvador. Here, the invasion took place in 1994 en 1995, so before the introduction of COFOPRI, but after the entrance of Fujimori. The invaders occupied a hill of fine sand, similar to a dune. A place very unsuitable to live on, because the dune does not provide any stability to build on.

According to Ramírez Corzo and Riofrío, the families should have been relocated immediately because of security reasons. However, COFOPRI included the place in the land formalization program. The regularization process advanced quickly until the lawyers discovered that the occupied land coincided with a private property. A conciliation process with the owners was started in order to purchase the land, but it could not achieve good results due to confrontations between the inhabitants. Finally, COFOPRI chose to deliver land property titles to the area that was located on state property and to leave the area located over the private property on her own. Now the ridiculous situation exists, in which some families who only have a property title of a part of the land they occupy. The neighboring new pueblos jóvenes fall completely within private property, so they are not titled. In another example provided by Ramírez Corzo and Riofrío – the invasion of Rafael Chacón in Villa Maria de Triunfo – it is suggested that the first squatters arrived by a relocating promoted by the mayor of this district with clear electoral aims. These examples show some similarities with the illegal occupation of La Nueva Rinconada as we will see.
METHODOLOGY

In this part the followed research methodology will be explained. The chosen methods with explanation, the decisions made in the field, the difficulties faced, and interview and analyze techniques.

5.1 Flexibility in research topic

Doing a research abroad you may quickly find out that your original research idea is not the most accurate one. It is very hard to estimate the actual situation in the country you want to visit, when you have only read articles back home. The reality you will encounter ‘on the ground’ is always a surprise. During a conversation I once had with Dutch journalist Rik Delhaas he advised me to be always flexible to new situations. Do not hesitate too long and have the courage to change your topic if you find something else that looks more interesting or feasible, he suggested me. Well, that happened to my research.

The initial idea was to do a research about the housing situation of second generation dwellers in the urban poor area of Lima. I read articles, met specialists in the Netherlands and wrote a proposal. But, learned from previous research experiences abroad, as soon as I arrived in Lima I organized some meetings with Peruvian specialists to ask for their opinion, recommendations and contacts. One of the people I met was Gustavo Ríofrío. A Peruvian urban development expert with a lot of experience. I already read some of his articles back in the Netherlands and was very curious about his opinion about my research plan. He told me that my initial research about the housing situation could be an interesting one, but it would not give a lot of new information. However, he came up with another area to do a different research that would provide new information that could be useful in the urban planning of Lima. Of course I needed some time to think about his proposal, because I had prepared another topic and expected to do a different research. But soon I remembered the words of Rik Delhaas and decided to change the research and to shift to a research about a land property conflict in another part of the Lima district I already had planned to work in.

5.2 Contacts and collaborations

So, the meeting with Gustavo Ríofrío was a key factor in the research process. Ríofrío offered me a hypothesis while talking about the complicated situation in the area and suggested me to investigate
the conflict by interviewing the various actors. Later, I met Daniel Ramírez Corzo, who was already specialized in the La Nueva Rinconada situation. He explained me some of the problems and we decided to visit the area.

Meeting Ríofrio and Ramírez Corzo also meant a direct connection with the Municipalidad Metropolitana de Lima. They were interested in my findings in La Nueva Rinconada. So, doing my research I could help the municipality of Lima in getting information about an area they did not know a lot about. That way, I did not just do a research to write my thesis and eventually graduate, but with my research I hopefully really contribute to future governmental policies with as ultimate goal solving the problems in La Nueva Rinconada.

One of the key factors in my research was the collaboration with the Peruvian NGO Aynimundo. Before I left to Peru I had contact with Michaela Hordijk from the University of Amsterdam and because of her I got in contact with the director of the foundation and a Dutch architect working for them. Aynimundo works in La Nueva Rinconada and they were also struggling with the situation and were curious about the reasons behind the lack of progress in the area. Through them I got in contact with some invaders in the area, to do the first interviews and via these contacts I expanded my network in the neighborhood. Besides the contacts in the area, the people from Aynimundo helped me a lot with reflection on and interpretation of my research findings. With all their experience in the poor urban areas of Lima, they could give me some very interesting perspectives and interpretations. Every Thursday I worked at their office in the Lima neighborhood of Barranco and discussed my latest discoveries. They also gave me useful tips in approaching my respondents, especially when it turned out to be difficult to talk with the land owners. Together we made a plan how to approach them and what to say to get an interview. These strategies worked very well.

Another key aspect of the research was my own ‘native’ experience. After my previous visits to Latin America, I decided I did not want to live in a rich or middle class area of the city of Lima. No, I wanted to experience the poor urban area by myself. Also here, Michaela Hordijk from the University of Amsterdam was the key link. Through her, I was able to get in touch with a Peruvian family living in Pampas San Juan, as La Nueva Rinconada, also part of the district of San Juan de Miraflores. This was my initial research area. Living in my research neighborhood would give me the opportunity to participatory research and could provide me of valuable and unique information. Although I had now decided to change my research area from Pampas San Juan to La Nueva Rinconada, living in a poor urban area really contributed to my research. I was now able to observe the living situation of a family while being part of it. I was in the situation to observe and analyze the decisions this family and their neighbors take. I noticed the way they are spending their money, how family relationships
work out, they told me about their future dreams and prospects. All this information, although not directly linked to my research in La Nueva Rinconada, helped me a lot in understanding the living circumstances in the Peruvian urban poor areas. Besides that, Nora, the mother of the family, is a local dirigente: the leader of a small part of her neighborhood. Many times I got the chance to join her when she had to go to the district municipality. Hence, I had the opportunity to see bureaucratic difficulties and got to know people working for the district of San Juan de Miraflores, including district mayor Adolfo Ocampo. All these observations helped me a lot both during and after my time in Lima. It me enabled me to put interviews and literature in perspective of the real situation of the urban poor in Lima on a micro level.

5.3 Research Design
First, a schematic representation of the research design:

1. Literature review: urban development of Lima

2. Explorative research: La Nueva Rinconada

3. Research question: what is the influence of the interpretation of De Soto’s ideas in the Peruvian urban policies in the ‘90 on the ground. The Case of La Nueva Rinconada

4. Clarifying research: conducting interviews with land owners and land invaders

5. Literature study: the theory of De Soto and the interpretation and implementation of his ideas by the Fujimori administration

6. Analyzing the results
5.3.1 First literature review
The research process started in the Netherlands with reading about the urban development of Lima. In two of my geography courses, Lima was an important subject. I followed a course at CEDLA, the Latin American institute of the University of Amsterdam, about the urban identity of Latin America. Here, Lima was a frequently used example. Besides, I wrote a paper about the barriadas of Lima and its representation in the movie ‘Paraíso’ by Héctor Gálvez. ‘Paraíso’ is a sober record of the everyday life of the Peruvian adolescence in a poor neighborhood in Lima. Although not very spectacular, the movie gives a good image of the somehow hopeless situation of the characters. For example, one of them decides to leave his house after familiar conflicts and occupies a small plot and constructs his own precarious house. For the course I started reading articles about Lima and its urban development. Through a regular geography course at the Radboud University, I became familiar with de ideas of Hernando de Soto. We had to read his book ‘The mystery of capital’, discussed his ideas and talked about some of the critical response. So, both reading de Soto’s book and critical reviews of his theory, shaped my own perspectives of the land property issue. And although my initial idea was not to do a research directly related to land property, when this theme was suggested, I was already familiar with the topic of land property and de Soto’s theory.

5.3.2 Explorative research
First aim of the field research was to discover the actual situation on the ground in the La Nueva Rinconada area. As said, Gustavo Riofrío introduced me to the La Nueva Rinconada case, by suggesting that the area was struggling with a property conflict for already twelve years. To understand this conflict, it was necessary to get more knowledge about the people living in the area and about the land owners. So getting to know the two conflicting groups and trying to understand their relation was an important research task. The questions I asked myself were: why is there a conflict in La Nueva Rinconada? This question I could reframe as: who are the actors and what are their aims in the La Nueva Rinconada property conflict?

The questions I asked myself are primarily qualitative research questions, looking for in-depth understanding of human and political behavior and the reasons behind it. One of the key aspects of qualitative research is to conduct your research in the area (Vennix, 2006) and the case-study is a perfect method for this kind of research. It is a strategy for empirical research in its real context to describe a contemporary phenomenon using different kinds of evidence (Saunders, Lewis, & Thornhill, 2008). Key in case study research is to get understanding of the process.

According to Saunders, Lewis, and Thornhill (2008) explorative research is very useful to understand a problem. It is a flexible way of doing a research and you are able to change the research direction
as a consequence of your findings. To achieve this aim, observation in the area was the first strategy. The visual impact of the situation in La Nueva Rinconada is impressive. One day I noticed a bus with tourists entering the area to observe the reality in one of Lima’s most precarious neighborhoods. As a researcher, walking around and studying the geography of the area, the living circumstances and the constructions of the buildings helped me in analyzing the situation and to actually see the consequences of the conflict I was about to reveal.

Besides observation, conducting interviews was a second strategy in this explorative phase of the research. Helped by the contacts of NGO Aynimundo, I got in contact with a family who participated in the invasion in the year 2000. Via this family I got to know many other invaders and was able to interview them. This was of vital importance to get to know the position and story of the invaders, to see and experience their daily life. I returned frequently to the area and the people started to know and trust me.

I had prepared a list of themes and questions and during the interview I decided which part would be more relevant and important. Aim of these interviews was just to find out the situation in the area.

The questions focused on:

1. Their personal history. Where and in what circumstances did they lived before the invasion?
2. The invasion itself. Why did they participate. A description of the invasion, what happened? What did they encounter in the area?
3. The problems of the area. What problems did they face at the moment of the invasion and what are the problems today?

Conducting these interviews provided me of an image of the situation in La Nueva Rinconada. So far, I only had spoken with the invaders, and it turned out to be much more difficult to talk with the landowners. They do not leave in the area and are harder to locate and approach. But hearing the stories of the invaders gave me enough information about the problems of the area, so I was able to construct a research question.

5.3.3 Developing the research questions and structure
Using the gathered information, and discussing them with some local specialist, I was able to formulate my research questions. I asked myself: why does the conflict in the area after twelve years still exists and what are the political underlying political processes? As suggested before, with the knowledge about de Soto’s ideas I noted various concepts coming together in the La Nueva Rinconada case. The ultimate aim of the research became clear: to find out how a political interpretation of de Soto’s theory could work out on the ground. Therefore I had to develop various
sub questions. First, a historical overview of the development of Lima is needed to understand the circumstances in which the city developed. Then, a complete understanding of de Soto’s theory and the critical responses of other scholars is necessary. Subsequently, an analysis of the Peruvian urban politics in the nineties, the so-called ‘Fujimori era’. After having cleared the urban history, the theory and its implementation, my own empirical results can be analyzed.

5.3.4 Clarifying research in the area: semi-structured interviews
So, again I entered the field for empirical research. This time the purpose had a more clarifying angle, focusing more on the land property situation and underlying factors. To find answers to the questions, I have conducted more interviews. I kept the semi-structured interview focus which is a useful strategy in clarifying research (Saunders, Lewis, & Thornhill, 2008). During the interviews I made notes in a small notebook, one of the items I always brought with me. I also used a memo recorder, but sometimes I supposed it was better not to use it, because it could disturb the respondent and prevent them of saying everything they wanted.

I spoke with around 25 invaders, 2 big land owners and 5 small land owners. The majority was women; when visiting the houses in the area during the day I encountered more women than men. To talk with the invaders was no problem: I got some good contacts in the area and it was easy to locate them. The strategy was mainly just knocking on their doors and ask them if I could interview them. Sometimes no one responded, but usually the invaders were really willing to talk and share their stories.

The mother of my Peruvian host family joined me to go to La Nueva Rinconada in order to help me with conducting the interviews. I noticed that entering the area alone – it is so obvious I am a foreigner – would not be a good idea, both for my own safety situation and for my position as researcher. I needed someone to introduce me to the inhabitants, to explain what I was doing and the presence of a Peruvian would help in gaining the confidence of the respondents. Besides that, the mother of my host family had some very interesting perspectives on the stories we heard because of her own invasion history (in her case an invasion of state owned terrain). We walked many kilometers, in the heat and burning sun, breathing in the dust and the smell of pigs and garbage and we spoke with many invaders in the different parts of La Nueva Rinconada. La Nueva Rinconada can be divided in three parts: Sector A, Sector B and Sector C. In all sectors I have conducted interviews to get the best spatial dispersal possible. But mainly Zona A and Zona B got the most problems, so I focused on these areas.

Pretty soon I had a clear view on the invaders side of the conflict, but I realized that would not be sufficient for a good and valid research; a conflicts always contains two groups. I had to speak with
the land owners as well to get the full picture of the conflict and therefore I had to develop a strategy to get in touch with them. They do not live in La Nueva Rinconada but in other neighborhoods in Lima. So they are not that easy to locate and visit as the invaders, you cannot just knock on their door. I had to find their phone numbers and just call them. The first time I called one, I did not expect such a hostile reaction as I received. The owner was really suspicious, not willing to talk and even pretty aggressive. It was clear he did not want to talk with me. I realized I had to prepare a better introduction and explain my aims and purposes more clearly. So two weeks later, when I called another time, I had a better story and put myself more on the ‘owners side’ by saying that I could not understand the situation and that in my country an invasion of private property would be impossible. This kind of diplomacy was necessary to get the confidence of the owner. After all, I got the chance to talk with his wife, who was in charge of defending their property. It turned out to be a vital part of my research to get their perspective as well. Later I heard that another big land owner could be found at the entrance of La Nueva Rinconada. The owning family rents a not invaded part of their terrain to a bus company and every day a family member is there to ‘protect’ the area. I decided to go there with the mother of my host family to try to interview a family member. At first, a son did not want to speak with us. We had to come back later, to try to talk to his sister. When we got there to talk with her, she first said that the family did not want to give any more interviews. She was about to close the door, but we started some small talk and slowly the door opened and she started to talk. We talked for about half an hour and it looked like she was content to talk about her situation with an ‘outsider’. In this case I decided not to use my memo recorder, because I thought that would interrupt the conversation and would make her realizing we actually did have an interview. So direct after the interview the mother of my host family and I sat down to write everything down what the landowner just had said.

I also got to know the mayor of the San Juan de Miraflores district. I first met him when I joined the mother of my host family, who – as being a dirigente – had a meeting with him. I was introduced and explained what I was doing. He invited me for a roundtable meeting with dirigentes from La Nueva Rinconada, representatives of a local NGO and employees of COFOPRI. In the last week of my stay in Lima I also got a personal interview with the mayor.

5.3.5 Second literature study
Of course, doing research is not a linear process, but has an iterative development. So, during and after conducting the interviews, more literature study was necessary. I had to read more about Hernando de Soto’s theory and started to collect more critical reviews of his theory. Reading those articles helped me in interpreting the stories I heard during the interviews and helped me to see connections and structures. Also a more in depth understanding of the Fujimori era was necessary.
Reading articles describing the urban situation in Lima in the nineties was a key step in the research. This allowed me to make a connection from the theory to the ground. Links between the theory of de Soto and the (urban) policies in the nineties became more visible.

5.3.6 Analyzing the results

Still in Peru, conversations with the people from Aynimundo and the Lima municipality were really helpful in understanding and interpreting my discoveries. With their experience in La Nueva Rinconada and areas alike, and their historical knowledge, they were able to help me to understand my findings.

As soon as I was back in the Netherlands, I had to structuralize and organize my gained knowledge in La Nueva Rinconada. Really useful was the contribution of my brother, a visual translator. I told him about all my discoveries and he was able to summarize them in an illustration (see figure 8). The different actors and their relationships are visualized. A timeline indicates the important events and political influences are show. Having all the discoveries visualized, this was a really good starting point to start the writing process.

Figure 8. Schematic image of the encountered aspects of the conflict in La Nueva Rinconada (source: Herman Weeda)
Aim of the conducted interviews was to get a perception of the situation and circumstances in which La Nueva Rinconada arose. Therefore, it was more important to get the ‘bigger picture’ than to analyze every individual case on its own. The ‘bigger picture’ implies understanding how it was possible that the invasion happened twelve years ago. What was the underlying political system that created this situation, lasting till today? Hence, hearing the stories of the invaders and of the owners and later discussing these stories with professionals in the field of urban development shaped my perspectives on the case.

Because of the focus I have chosen, it is not necessary to analyze every single interview I have had systematically using programs like Atlas TI. All the interviews together give me a good overview of the situation and problems in the area. The goal of the research is to explain the circumstances in which La Nueva Rinconada arose. Circumstances highly influenced by de Soto’s theory and by the political situation in Peru at that time.

The interviews will be the foundation of my argumentations using quotations of my respondents. Combined with explanation of Hernando de Soto’s theory and an analysis of the Peruvian urban policies in the years before the invasion this will lead to my conclusion. This way I will analyze the patterns in the development of the area, explaining the maintenance of the conflict and its political backgrounds and finding underlying factors making the situation as it is. Hence, I will be able to make some appropriate conclusions and give a few recommendations.
CASE STUDY:
THE PROPERTY CONFLICT IN LA NUEVA RINCONADA

After describing the urban context, the theory of Hernando de Soto, evaluating these ideas and the Peruvian urban politics in the nineties, this chapter will describe the situation on the ground. What is the real influence of de Soto’s ideas and its implementation by the Peruvian urban policy makers in the nineties? The empirical research conducted in La Nueva Rinconada will describe an influence of De Soto’s ideas of handing out property titles that is not or too less mentioned in literature: speculation.

First, to understand the conflict and the impasse that stands for twelve years in La Nueva Rinconada, it is necessary to understand how the conflict started and who the different actors are. The first part of the empirical research is based on following basic questions with which I started my interviews in the area:

- Why is there a conflict?
- Who are the actors?

6.2 Why is there a conflict in the area?

In the year 1968, the Peruvian state sold around 860,000 square meter of land located in the districts of both San Juan de Miraflores and Villa María de Triunfo to the Asociación Agropecuaria Industrial de la Rinconada de Ciudad de Dios (Oyola, 2012), an association of entrepreneurs who bought parcels for agricultural objectives. At that time it was a desolated and dry area, a former garbage dump, far away from the city border. It seemed too inhospitable to live for big amounts of city dwellers. The new owners built stables to breed pigs and some of them cultivated cactuses. The majority of these owners did not live in the area, but in other, better, neighborhoods of Lima.

As described in chapter two, Lima started to grow. The city expanded and its borders moved up. Slowly La Nueva Rinconada came in sight of the growing city. More and more people lived in the lower part of Pamplona Alta. The 8th of January in the year 2000, the invasion of la Nueva Rinconada took place.
6.2.1 Who are the land owners of La Nueva Rinconada?
So, who were these owners who saw their property being occupied? Two types of owners can be distinguished: owners living in the area and owners living in another neighborhood.

First, the small owners living in the area, owning plots of around 500 to 1000 square meter. Generally these plots are seen as an investment: the parents bought the terrain, exploited them for years by breeding pigs which generated some income. But almost all small pig farmers told me they bought the plot as an investment for their children. They hoped that the area would become livable with the years, that services arrived and that the agricultural zoning would change in a living purpose. It could be stated that those small farmers speculated on urban reforms, hoping that their agricultural terrain would change in a living area, a place where their children could live. Today, the original buyers often are elderly people and their children are grown up. But the area still is not formalized, and services have arrived neither. So in that sense, the expectations of these small pig farmers were not met. They expected to hand the plot over to their children around now, but are still faced with an unlivable area.

Some of these small pig farmers saw their property being invaded in 2000. In an interview with the daughter of such a small owner, she told me that her farther ordered her to come and live in La Nueva Rinconada just after the invasion took place. The purpose was protecting their property. So, she as well lives in the area now, without services, next to their own pigs and with her three children. In another case, four brothers sent their sister with two children to their small and dirty pig farm to keep it occupied until a formalization process will be started.

The second group, and the more complicated one, is the group of landowners living outside La Nueva Rinconada; they mainly live in better neighborhoods in Lima. This group owns big plots of land – often around 30.000 square meters – in the area. The biggest part of the zone is owned by just a few land owners, some of them own four or five different terrains in La Nueva Rinconada. Generally, they bought the land to exploit it agriculturally, as one owner told me who started a cactus farm. In many cases the people who bought the land are not in charge of it anymore, but their children have taken over the ownership and responsibility. Often, this is a complicating factor, because regularly the family members do not agree about the destination of their property. In some cases their terrains are used as guarantees for a mortgage at the bank. So in fact, the bank is also owner in some situations.

6.2.2 Why did the invaders decide to invade?
Many of the invaders used to live in the lower part of Pamplona Alta. As also suggested by Ramirez and Riofrío (2005), in general, they lived with a relative; generally a cousin or an uncle. Before living
in Pamplona, many of them came from one of the provinces of Peru. Some of them were not capable of speaking Spanish, they only spoke Quechua.

Almost all invaders told me about the difficult situations they faced while living with a relative. Privacy was rare and many lived in conflictive situations. They had a dream to live with their own family and in their own house. But it was hard to find one. Various invaders told me they saw no other option than invading. “We had nowhere to go and did not have the money to buy or rent a place to live” is an often heard argument. The La Nueva Rinconada area was, although privately owned, mainly empty. “The area was just garbage and weed” they told me. But for them it was a logical place: located next to Pamplona Alta where they already lived. The night of the 8\textsuperscript{th} of January in the year 2000, the massive invasion took place. The first houses were very precarious, just mats of reed, planted in the sand (see figure 9, next page). Many people, both the invaders as the owners, remember it as a very violent time. Regularly, confrontations between invaders and owners occurred. The invaders had to stay at home 24 hours a day, to prevent being eradicated by owners who saw their property being occupied. Many invaders left after some time, realizing it would be very hard to live in the area. But the majority stayed, hoping for better times. And new invaders joined them.

Figure 9. Newspaper photo showing the first shacks of the invaders in La Nueva Rinconada
6.3 Why is no progress achieved in the twelve years after the invasion?

The invasion took place already twelve years ago, but still hardly any progress can be noticed in the area. The property conflict between owners and invaders still exists, the living circumstances in the area are still inferior and public services are still lacking.

As suggested before, in the case of the invasion of private land, the government prefers to promote negotiation and conciliation processes between the squatters and the owners or to leave private owners to follow the judicial process. So, the government did not participate in the conflict at all.

Currently, some owners are negotiating with invaders to sell them their terrain. Selling the plot to the invaders would be an option, as it solves the property conflict: the owners sell their property title to the invaders. But the negotiations are tough, from both sides. Complicating aspect is the very conflictive situation between the invaders and the landowners. Conciliating the problem is made difficult because of the clear rivalry between the different groups. The owners frequently talk about ‘delinquents’ referring to the invaders. “They are criminals, they have to pay or leave!” an owner said. Some just neglect the whole conflict: “La Nueva Rinconada? It does not exist for me. This is just an agricultural area” another owner told me. It looks like many owners are driven by rancor. Rancor because of the injustice caused to them, about the political failure of protecting their property, about the invaders who destroyed their stables. The owners state that the invaders have committed a crime against them and now they want a ‘proper’ price for their property. The invaders say the owners only try to speculate to get the maximum price and negotiate unfairly. The government is not involved, so an agreement has to come out of the negotiations of the two groups themselves.

Many of the invaders do not have jobs, or have very irregular and low-paid work. Men generally work in construction and I also met for example single mothers selling sweets on the streets of the Lima business district of Miraflores. When I asked the invaders about the price the owner demands I got answers varying from 10 US$ to 55 US$ per square meter, depending on the owner. And if the house is build out of stone bricks the asked prices easily exceed the 85 US$. With the low and irregular incomes the invaders have, these are very high prices. According to research conducted by Pebal (2009) 59% of the plots have a surface of more than 80 square meters. Taken an average price of 35 US$ and a plot 80 square meter the invader should pay 2800 US$ (which is almost 7.400 Peruvian Soles) which is a huge amount of money for the poor invaders. On the other hand, the landowners state that the invaders live for free for already twelve years, so they had the opportunity to save money to buy a legal plot or house. They also doubt if the invaders, after twelve years without paying anything, really are willing and able to pay for their plot.
The negotiations are difficult because there are not so many options. It seems to be clear that the 30,000 dwellers of La Nueva Rinconada will not leave the area voluntarily. Judges admit that the owners do have the legal rights and that the plots are their property. But according to them, the ‘social costs’ of a forced eviction are too high. This refers to ‘human blockades’ with women and children that will be organized if the police decide to enter the area for eviction purposes. So, evictions are not likely to happen, because of its violent consequences. This implies that the owners will always ‘lose’ their terrain. But some of the owners are very radical. One said: “I will never sell my property. We bought it with commercial motives, we wanted to start business here, create jobs. And that is what we still want. I will not accept the invasion of our property. I respect the law and the norms. I am an entrepreneur, wanting to work for my money. I rather die than receive.” She does not want to negotiate nor talk to the invaders.

Another owner I interviewed twice and she gave me her personal written notes about the invasion of her property. Also she was pretty radical. She is sick of the situation. According to her, she still receives threatening phone calls at 3 o’clock in the morning from invaders and had to change phone number for three times already. According to her, when she enters her terrain in La Nueva Rinconada, invaders throw stones at her. This owner now suggested selling her land to the highest bid. She is so sick of the whole situation that she does not care anymore about the area: if a land trafficker offers the highest bid, she will accept it. If this would happen, the whole situation will be even more complicated. Those traffickers are not willing to conciliate at all, they just want to make more money out of it.

It was striking to see the attitude of a huge amount of the invaders I talked with. A form of resignation seemed to be predominant in many parts of the area. Many invaders blamed the owners and the politicians for the situation they are living in. This is a group of people waiting for the government to intervene. According to them, the responsibility in solving the conflict is totally for the politicians. “Ollanta Humala [the Peruvian president] himself has to come and solve our problems” one of the invaders told me. But the invaders lack confidence in the politicians: “The municipality or politicians never come to help us. Only with elections they enter this area, to promote and to buy votes; they exploit our poverty.” Many invaders seemed to be bitter, because the invasion did not work out as they had hoped. “We are forgotten. We are used by politicians who use our labor during their campaigns and they give us some small presents, like a T-shirt. But they never do what they promise”. One respondent said five times “we suffer a lot” during the same interview.

In other parts I met people with a much more positive and constructive attitude, really willing to improve the situation. And they, for example, had managed to get a small doctor’s post of the
Ministerio de Salud (Ministry of Health) in their street block. This is a group of people taking their own initiative.

A frequently heard comment during the interviews was the egoistic attitude of fellow invaders. It appears to be very hard to unite all the people in the area; fragmentation is a complicating factor. The 30,000 inhabitants live in 123 ‘asentamientos humanos’; small communities within the area, frequently just one block of just fifteen to twenty houses. All these “asentamientos” have their own “dirigente”, the district leader. Many respondents told stories about difficulties within the “asentamiento”: “dirigentes” only trying to enrich themselves instead of contributing to the development of the area. And sometimes one neighbor is not willing to participate in the discussions. Some do not want to pay anything to the land owner: “I will not pay anything, the government has to give it to me for free” they said. Other only want to buy their own plot, so without streets. The land owners often described this attitude of the invaders as a lack of education. According to them, this is not only a problem in La Nueva Rinconada, but in the whole Peruvian society. Many blame Fujimori for this; there at a certain point his policies were not at all to stimulate education.

But also the owners are not united. The started an association to combine their forces as being landowners of invaded terrains.

6.4 What is the influence of de Soto?

In this thesis, various critiques on de Soto’s ideas have been discussed. Both theoretical and practical arguments have been introduced. During the research in La Nueva Rinconada, more clear examples of the negative effects of Hernando de Soto’s idea of solving poverty by giving land titles appeared. Three main negative sides of his theory are important in the La Nueva Rinconada property conflict:

1. Politicians did not take their responsibility in providing housing to their people. They left it to the market.
2. It causes land speculation, people anticipating on handing out land titles. Two ways of speculation can be distinguished. First, the invaders occupying the area speculating on receiving land titles from the government. Second, land traffickers speculating on formalizations to sell their plots for higher prices.
3. Neighborhoods without proper urban planning on locations unsuitable for living purposes arise.

First, it is very important to realize that La Nueva Rinconada is not an area where de Soto’s land titling ideas could be realized right now. It is not the standard self-constructed shantytown where, according to de Soto, the economic situation can be improved by giving land titles. The complicating
factor in La Nueva Rinconada is the fact that it is an invasion of private property. In this respect, it is important to interpret the theory correctly.

Of course, de Soto does neither say nor advice to invade private property. His ideas are only applicable on state owned areas where informal settlements have arisen. But what is the connection between de Soto's theory and de situation in La Nueva Rinconada? The important aspect is that La Nueva Rinconada arose in a time where de Soto's theory was put in practice. I argue that the establishing of La Nueva Rinconada is the result of this political climate, based on de Soto's neo-liberal perspectives.

6.3.1 Political irresponsibility
As shown in chapter 5, the Peruvian urban politics in the nineties were very much based on opportunistic populism. The neo-liberal political focus left also housing to the market. First permitting or even stimulating the invasions and later only responding with handing out the land titles was a common strategy.

In this perspective the invasion of La Nueva Rinconada has to be seen. The neo-liberal governance of Fujimori, based on the market, did not provide an urban planning or housing to its people, but just handed out land titles. This ‘leaving to the market’ was an easy way of not taking any responsibility in the housing problems that Peru faced. As stated by Miranda (2002), this process of formalizing property has been used, on a very large scale, for political purposes and this has not benefited the poor population. The political use of formalization by the Fujimori administration could be phrased by: ‘one title, one vote’. Such approaches imply more conflicts than solutions. And according to the UN Economic and Social council, the practice of supplying titles by COFOPRI “is flawed when viewed in the context of Peru’s obligations to the human rights instruments” (Fernández-Maldonado, 2007).

As also suggested by Fernández-Maldonado (2007), this political attitude combined with the Peruvian history of invading land and the easy way of handing out property titles have made land invasions accepted as the way by which the poor get access to land and housing in Lima. The huge pressure for land and the incapacity of the Peruvian government to develop a proper urban policy, caused that instead of stopping the land invasions, the newcomers felt encouraged to invade new land and demand the regularization of their settlements.

And this is exactly what happened in La Nueva Rinconada. The invaders felt supported by the urban politics of Fujimori, stimulating invasions. Although almost all respondents admitted they knew the area was privately owned, they decided to invade. They were supported by local politicians, which can be concluded out of the interviews with the land owners. According to them, no authority helped
or protected them when the invasion took place. Although they are the formal land owners, with property title, the police did not intervene. The police suggested they had “orders from above”, preventing them of taking action against the invaders, who, in fact, were committing a crime: occupation of private property. These “orders from above” came from local authorities. According to one of the owners, and also suggested in newspaper Liberación (Alvarado, 2000), the invaders claimed support of the Municipalidad de San Juan de Miraflores, especially from the ‘regidor’, the alderman. Also mayor Adolfo Ocampo has been accused of supporting the invaders. “The mayor stimulated invasions and the asentamientos that should not exist at all” one of the landowners told me. It looked like they preferred to support of invaders – right now they represent 30,000 votes – above maintaining the law and protecting the legal owners. Nowadays, Ocampo is mayor of San Juan de Miraflores again and he is organizing round table meetings to show his effort to conciliate, although it is clear and commonly known he does not have a lot of power in the conflict because of his own history. Many higher authorities do not recognize him in the La Nueva Rinconada conflict because of his ‘history’ and ‘agenda’. Also many invaders do not have a lot of faith in him: “the mayor frequently said that the pig farmers will leave, but it never happened”.

So, it could be stated that the invasion of La Nueva Rinconada is encouraged by first an absent government causing a situation in which the poor inhabitants saw no other option than invading. Second, because of politicians stimulating the invasion and taking the side of the poor mass. When local politicians prefer to support the poor mass instead of maintaining the law, it is very hard for the legal owners to protect and keep their property. La Nueva Rinconada shows that housing is not something the free-market can provide in a country like Peru, with a large urban poor population searching for a place to live. De Soto’s ideas stimulated invasions and giving poor urban dwellers the expectation of owning their own plot by receiving a land title over their occupied terrain.

6.3.2 Speculation
A result of this political inability to maintain the significance of private property is an increase of speculation, not only by the invaders (with their purpose of obtaining a living space) but also by traffickers simply trying to make profit.

The invasion of the dwellers can be seen as a strategy, a way of getting their own terrain – geographically well located in the city of Lima – without owning sufficient money to buy or rent something. As suggested before, these people speculated on receiving their property titles, based on the political focus in Peru in the years before the invasion. They speculated on property titles and public services arriving within a few years.
Gilbert (2002; 2012) argues that the prices of plots will rise by providing titles. Consequently, the prospect of formalizing the area attracts speculation. Land traffickers speculate on urban reforms to make profit out of the terrains. Various houses in La Nueva Rinconada are not populated, traffickers just occupy a terrain and hope to sell it with profit when the area is formalized and land titles are provided.

Figure 10, for example, shows a house that is for sale. In an interview the neighbor stated that no one is living in this house. Besides, the parcel is not 160 square meters but much smaller. Some of the landowners also said that a lot of the invaders are traffickers with various parcels.

And as suggested in the literature, the poorest become victims of these speculators. During the interviews a huge lack of information and knowledge was encountered by the invaders about their legal situation. One respondent in La Nueva Rinconada, who was running a small wood workshop, told me he was negotiating with the landowner about buying the parcel he had occupied. But suddenly the landowner had sold his plot to a third: a land trafficker. Recently, he heard that the new owner asks the double price for his plot. The invader was not aware of the potential consequences of this sale: not only his living space but also his business is at risk.

But also the land owners speculate. Another invader had built a big house out of stone bricks and with large windows. However, he is not negotiating with the owner of his invaded plot. Even worse, he does not even know who the owner is. So he is investing in his house, which is built on someone else’s property without having any contact. Other invaders suggested that land owners easily ask
double prices during negotiations for houses made out of stone bricks, because “people being able to buy these material, have more money and have made a bigger investment in their house, so they are willing to pay more for it”. Thus, being able to improve your housing situation often implies an increase of the asked price of the terrain.

This said, one could also state that the invasion is not only in disadvantage of the landowners. A terrain occupied by 30,000 people has of course a much higher value than an area only inhabited by pigs. On the other hand, they have made high expenses, paying lawyers to try to get their property back. One owner told me that she and her husband have invested all their savings in the area and later in the lawyers and legal processes. She also said: “I still have to pay taxes over my terrain, although it is occupied by hundreds of invaders who do not pay anything for twelve years already... If I do not pay, the bailiff comes to my house!” She felt not protected nor supported at all by her own government, “what is the significance of private property anymore if the government does not protect me at all, what is the value of having these property titles when these ‘delinquents’ are allowed to occupy my terrain?” Besides that, she stated that not only material and economic damage is caused because of the invasion; also their health is being affected, with her man suffering a heart attack twice.

The risk of speculation was also noticeable in my own status as researcher. At the Municipality of Lima they told me I should never suggest any connection between me and official authorities existed. As soon as people notice authorities may involve themselves in the conflict, speculation increases, prices will rise and solving the conflict only becomes more complicated. So, I always introduced myself just as a Dutch student doing a research for my thesis to graduate in the Netherlands.

But in some way, it also could be stated that their property now has much more potential value than before the invasion. Land with 30,000 people living on it is potentially more worth, than land with only some pigs and garbage. So in this sense, the potential value of their terrain might be even higher than their benefits from pig farming. Also this price increase has resulted in speculation. More people now see the potential rise of the value of these terrains. Especially when the area is formalized this value will rise. External people come to La Nueva Rinconada to see if they can buy a plot, not to live but just as a speculation object, as an investment.

6.3.3 Lack of urban planning

As stated by Ramirez Corzo and Riofrío (2005), many titling projects are carried out looking for massive and fast results (and as suggested before, often with the credo: “one title is one vote”). But often, solving the legal situation of some families implies that the necessary urban planning is
ignored. This has negative consequences for the medium and long term situation of the families living in these areas and for the urban structure for the city as a whole.

An encountered problem is that generally the invaders are not contributing in ‘creating a city’. As suggested by Riofrío (2003), their priority is not to develop the settlement, nor to construct a house, but to find the means to survive. Riofrío suggests that a consequence of the political focus in the nineties – that failed in redistributing the economic growth – is that families are just looking for a space to camp instead of founding new settlements. Often, these families choose to build on terrains close to already developed areas with access to the social networks of the settlements and to already existing services. But many times, these areas had other purposes or are (underdeveloped) private lands – as in La Nueva Rinconada – with large conflicts as result. To avoid these conflicts, many decided to invade lands on the side of hills, in valleys with disaster risks, or in any other lands which have not been occupied because of complications, and cost. The authorities do not show a lot of interest or effort in conditioning these settlements.

La Nueva Rinconada is a clear example of a neighborhood build on a location unsuitable for living purposes. Entering La Nueva Rinconada for the first time is a shocking experience, immediately you are confronted with the poverty and precarious living situation of thousands of people. The first thing that attracts your attention is the greyness of the area, it is just sand and dust, and there is no vegetation. At the lower, flat, part of the cave, small farms accommodate pigs in concrete or wooden boxes, sometimes covered by plastic or canvas. Some of the farmers live next to their pigs, in small wooden houses, often surrounded by garbage (see figure 11). The excrements of the pigs are regularly dumped at the side of the unpaved streets. It dries out and mixes with the sand and dust. The wind blows it in the air and in people’s faces, causing diseases and other physical problems. Also the vermin, attracted by the pigs, have bad influence on the health situation.

Figure 11. Small pig farm (source: personal archive)
The pigs live at the most ‘livable’ flat area, while more and more people have occupied a plot up the hill. They had to dig out a flat parcel out of the rock, before were able to build their first precarious house. During rainfall, water flows down the hill. Sometimes, this water, containing excrements of pigs, flows into people’s houses.

The whole area contains around 5,000 houses, mainly made out of wood with corrugated iron roofs. Rocks and car tires are used as foundation and have to prevent the house from collapsing (see figure 12). One of the most problematic aspects of its location is its status as high risk area for earthquakes and landslides. The car tires may absorb some vertical earth movements, but with an earthquake, it is very likely that the houses will collapse. At some places, inhabitants have constructed retaining walls to prevent landslides. But these walls only protect a small part of the area. Especially the most recent constructed houses are located on risk areas and some constructed their house at the top of the hill.

Figure 12. Foundation of a house made of stones and car tires (source: personal archive)

A consequence of the absence of the state is the lack of public services in the area. Gonzales de Olarte (1993) has analyzed Fujimori’s privatizing governance and suggests that in general the largest state enterprises supply basic public services: water, electricity, transportation. This normally provide the state a way to redistribute income towards the poorest sector, those who cannot afford to pay the full market price for these goods or services – electricity, water, kerosene – on their low incomes. According to Gonzales de Olarte, when privatizing these kinds of enterprises is to make a choice
between efficiency and equity. “The Fujimori administration just accepted the proposal for a neoliber- al approach uncritically and without any discussion of its domestic implications”.

Also in La Nueva Rinconada the consequences of this privatizing governance are visible. The area is lacking official garbage disposal, paved roads, electricity, water and sewerage. And because the invaded area is private property, not the state but other groups are fulfilling this duty at the moment.

With 30,000 people living in the area all in need of water and electricity, a large black market has arisen. Informal mediators provide electricity, but at a very high price and very unreliable. Many invaders complained about their electricity: “for only a television [everyone has a television] and two light bulbs we pay 50 soles [around 16 euro’s] a month”. “We do not even have a fridge, but we pay more for our electricity than a common family in a formal neighborhood in Lima”. For the electricity mediators, the current situation is very lucrative. For them it is perfect if the area stays in its current informal status, because that allows them to maintain their income. The people in La Nueva Rinconada are extremely vulnerable for exploitation by third groups in respect to public services, because there is no official institution (capable of) offering it.

Many invaders stated that the lack of water was the most problematic at the beginning of the invasion. Today, water is delivered by trucks. But also in this case, external enterprises fill the people’s water bins for ridiculously high prices. Water in La Nueva Rinconada is much more expensive than water in the formal Lima areas. Sometimes the delivered water is of inferior quality. The water is kept in huge tanks, but it is difficult to remain them clean and the burning sun on the plastic tanks badly affects the water quality. Besides that, many times the water tanks are surrounded by garbage (see figure 13).
Because also a good organized garbage pickup is missing in La Nueva Rinconada. As a consequence it is dumped at the street sides (see figure 14, next page) and sometimes people set it on fire, causing toxic smoke of burning plastic and other materials. The whole area used to be a garbage dump in the sixties; if you dig in the ground you will still encounter trash. Research proved that 95 per cent of the children in the area have parasites in their stomach. That does not surprise when you see barefooted children walking in the garbage and loose sand and playing with the countless street dogs. Mothers worry about their children’s health and many adults have problems with their bronchus or lungs.

During the more recent years, also the highest parts of the hills in La Nueva Rinconada have been invaded. Unlike the lower parts, these terrains are not privately owned, but are state property. As a result of Fujimori’s policy, COFOPRI (The Commission for the Official Registration of Informal Property) already provided land titles to the occupiers. But these are the most dangerous, unlivable areas because of the earthquake and landslide risks. Offering titles in these parts of La Nueva Rinconada is irresponsible and only stimulates people to occupy risky areas that should not be used for housing. Still every week I noticed new occupiers living higher up the hill in shacks of plastic or canvas. It also suggests that the area will stay a living area, although the original zoning is still agriculture.

As suggested before, de Soto’s ideas encourage invasions and – in the case of La Nueva Rinconada – the invaded area turned out to be an area inappropriate to construct a settlement. But the ‘leaving to the market’ focus and the political irresponsibility has permitted the squatter settlement not only to appear at this location, but even to remain here. Without the potential conditions necessary to
transform in a livable area, people constructed their precarious houses. Without any governmental participation – who saw their strategy “leave it to the market” as a permit to not providing any service – the invaders developed their own ‘infrastructure’. But, as suggested by Riofrío (2003), they are not trying to build a ‘city’; they just look for a way to survive. As a consequence, La Rinconada has developed into a chaotic, unstructured urban part of the city. Bringing public services here, like sewerage or paved roads, seems an impossible task without eradicating (large) parts of the settlement. Twelve years of unstructured and unplanned constructing has resulted in an almost impossible task to create a livable area.

Of course, the absence of legal titles is part of this problem: the government is unable to provide services as long as the area is privately owned. So, in this sense, one could state the de Soto is right: property titles would help in providing services. But this is only possible with an active participating government, and not with a government leaving their responsibility to the market, as happened in Lima. As Saunders (2010) stated, just giving land titles is not sufficient if political participation and governmental investments are lacking.
CONCLUSION

During the years many arguments against De Soto’s theory are opposed. An absent state is one of the most dangerous consequences of his ideas. As shown, his ‘leaving to the market’ can have devastating effects and creating unlivable neighborhoods located on unlivable areas.

Another critique I want to suppose has to do with the effects created by policies based on De Soto’s ideas: the risk of speculation.

Looking at the situation in La Nueva Rinconada I suppose that groups, invaders as well as owners, can be seen as victims of urban policies made by a populist government that allowed the invasion of La Nueva Rinconada in de first place. Invaders are victims because they live for twelve years in an area that is not suitable for living circumstances, and although they were supported by authorities to invade the area, no one helped them afterwards in getting land titles or services. So by now, they live in inhumane circumstances for more than twelve years.

Also the owners are victims because they lost their private property. Although they do have the land title, their land has become useless because it is occupied by thousands of dwellers. The owners’ investments are lost, sometimes their buildings are destroyed and they have lost a lot of money hiring lawyers to try to get their property back. Besides, they have lost confidence in their own government and legal system that was not able to protect their legal property.

In the Peruvian case, de Soto’s theory is interpreted as a carte blanche for invasions. First, by governments not taking their responsibility. They adapted de Soto’s market based policies and interpreted it as if it permitted them to follow an urban strategy of only handing out titles, without providing any public services. At the same time, they permitted poor urban dwellers to invade dangerous areas, not suitable to live on.

Second, and consequently, the poor urban dwellers looking for their own house. It may look as an act of despair by the poor urban dwellers, but it could also be seen as a strategy, they interpreted this policy as a permission to invaded, and this way to obtain a living area for free. The prospect of getting the land title has stimulated speculation on the area: people not interested in living in La Nueva Rinconada or willing to invest in it, occupy terrains only with the purpose to make profit out of
it. Land traffickers search their opportunity to make profit by buying plots at the right moment. Also landowners try to find the best strategy and moment to sell their title and to get the highest price.

Third, complete neighborhoods appear on places unsuitable for constructing and with a total lack of urban planning. The urban planning and infrastructure of the city is totally abandoned. Urban dwellers live in dangerous and unhealthy situations and are not thinking about ‘creating a city’; they just search for ways to survive. Bringing public services to these areas is extremely difficult.

Many politicians do not want to touch these difficult cases, being afraid not being reelected. As said, these 30.000 invaders of La Nueva Rinconada represent 30.000 votes. The risk of losing them is calculated as too big. The only thing they do is just making promises during their campaigns, saying they ‘will solve their problems’, but in reality for twelve years already, no one did anything. And as noticed, sometimes politicians even encourage the invasion, with the prospect of receiving their votes at later elections.

De Soto’s ideas are easily used and maybe also misused by populist policymakers. Can de Soto be blamed for that? As said, he never encourages in his book the invasion of private property. And with his neo-liberal ideas, private property should be respected. But de Soto *did* create a theory adapted by a populist government he supported and advised. He first convinced Fujimori to follow an extreme neo-liberal political path, with devastating results. Before Fujimori’s ‘autogolpe’, de Soto already resigned as an advisor of Fujimori (see article) but with de Soto influence on the foundation of COFOPRI – and its clear links with de Soto’s NGO ILD – he returned to be involved in a government led by a dictator. Also de Soto’s support at the 2011 elections to Keiko Fujimori – the daughter of Alberto Fujimori –, who had as main goal to free her father, shows that de Soto did not distance himself from the Fujimori policies, which – as demonstrated – turned out to be devastating for both Peru’s democracy level and its poverty level.

Later, de Soto proposed a more influential state (Van der Molen, 2012), but that seems too late. Fact is that Peru implemented formalization in the nineties, based on de Soto’s ideas and without an actively participating state which has caused problematic areas like Nueva Rinconada.

### 7.1 Recommendations and discussion

What would be a proper solution for the conflict in La Nueva Rinconada? I asked myself this question many times. And every time I had to conclude that the situation is so complicated, that a solution seems to be really far away. The area faces various problems. The first factor in the obstruction of the area’s development is the social conflict. Should the government intervene in the conflict? I think a third – outside – group is needed to lead the negotiations between the invaders and the owners.
The negotiating process seems to be very difficult and little progress is achieved in the last years. So, an intermediating government could facilitate the conciliation process. But what are their options? Expropriating the land owners? That is a very unrealistic option; it would indicate the end of the significance of private property and only stimulate more invasions. Besides, the owners should be compensated for their property and to buy all their terrain would be very expensive.

And what about eradication of the invaders? That is just even unrealistic. As suggested before, the 30,000 invaders will never leave voluntarily. So an eviction would signify a forced eviction. This will definitely end in violence and many victims, because the invaders will fight back or make ‘human fences’. The government will never take this risk.

The best option I see is a governmental facilitating role in the negotiation between the invaders and land owners. Bring them together in order to find a mark comfort price. Make sure the owners will be compensated with an acceptable price. As government, try to start a credit program so the invaders will be able to pay the landowner of their plot. Key question of course is: will the invaders pay after living in La Nueva Rinconada for twelve years without paying anything? Maybe, when the government can promise them the public services the area so badly need. All invaders suggested that they are willing to pay – “a reasonable price” – in order to receive public services in the area. If the government could suggest to the invaders: “if you find an agreement with the owners, we as government take the responsibility of providing piped water, sewerage, electricity, paved roads”. I definitely think this would be a huge encouragement to the invaders: the prospect of having public services, of improving their living circumstances is what most people desire.

Remains the question: how to improve this problematic area. Once you have solved the social conflict, the huge physical problems still exist. Improving it will be a huge investment, because – as said – the area is not suitable for living purposes. Question of course is: does the government have the finance and political will to intervene in the area? But I think it is the only way to improve the living situation of these 30,000 dwellers.

7.2 Practical reflection

Critical question that can be asked is of course: is La Nueva Rinconada representative? Is it possible to generalize from this particular case? The combination of factors in La Nueva Rinconada– invasion of private property plus a dangerous unlivable area plus the existence of the pigs plus the weak political apparatus – seems to be quite unique. As shown in the examples of Ramírez Corzo and Riofrío, several of these aspects also occurred in other parts of Lima: invasions of private land or
invasions encouraged by (local) politicians. So, La Nueva Rinconada is not the only example of the negative effects of de Soto as described before.

Besides, one could state that de Soto is actually right: if the invaders of La Nueva Rinconada had their land title, a big part of the problem would have been solved. In this sense, I will not neglect the possible positive effect of formalizing. For example, bringing the lacking public services in the area would be possible if the invaders were the owners of their terrain. So de Soto’s ideas could certainly help in improving the living circumstances of the urban poor. But the crucial aspect, as described in this thesis, is that many aspects are not considered while implementing his theory. Instead of improving the living circumstances of the urban poor, the formalization process has encouraged people to invade areas not suitable for living purposes. So the principal argument of this thesis is not the land titles are principally wrong, but in the Peruvian case, it has caused many negative side effects with huge consequences for the urban poor and the urban planning.
REFERENCES

Alvarado, S. (29 de January de 2000). Y en San Juan de Miraflores, propietaria denuncia a regidor Vamos Vecino como activista de invasiones. Liberación, pág. 11.


APPENDICES

Appendix A. Article about a recent invasion in Lima

Source: El Comercio, July 22, 2012
## Appendix B. Death capital according to de Soto

<table>
<thead>
<tr>
<th>Urban</th>
<th>Total population (millions)</th>
<th>Urban population (%)</th>
<th>Urban population (millions)</th>
<th>Urban Dwellings (million)</th>
<th>Informal Urban Dwellings (millions)</th>
<th>Value of Informal Urban Dwellings (trillion US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>1.747</td>
<td>29%</td>
<td>503</td>
<td>101</td>
<td>85</td>
<td>1,75</td>
</tr>
<tr>
<td>Africa</td>
<td>525</td>
<td>32%</td>
<td>167</td>
<td>33</td>
<td>28</td>
<td>0,58</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>371</td>
<td>57%</td>
<td>211</td>
<td>42</td>
<td>36</td>
<td>0,74</td>
</tr>
<tr>
<td>South America</td>
<td>328</td>
<td>78%</td>
<td>256</td>
<td>51</td>
<td>44</td>
<td>0,89</td>
</tr>
<tr>
<td>Mexico, Central America and the Caribbean</td>
<td>161</td>
<td>64%</td>
<td>103</td>
<td>21</td>
<td>18</td>
<td>0,36</td>
</tr>
<tr>
<td>China, NIS and Eastern Europe</td>
<td>1.611</td>
<td>38%</td>
<td>619</td>
<td>124</td>
<td>105</td>
<td>2,16</td>
</tr>
<tr>
<td>Subtotal</td>
<td>4.743</td>
<td></td>
<td>1.859</td>
<td>372</td>
<td>316</td>
<td>6,48</td>
</tr>
<tr>
<td>Other Developing countries</td>
<td>191</td>
<td>39%</td>
<td>75</td>
<td>15</td>
<td>13</td>
<td>0,26</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4.934</td>
<td></td>
<td>1.934</td>
<td>387</td>
<td>329</td>
<td>6,74</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Rural</th>
<th>Rural Area (thousands ha)</th>
<th>Informality in rural area (%)</th>
<th>Informal rural area (thousands ha)</th>
<th>Informal rural area: croplands (thousands ha)</th>
<th>Informal rural area: grasslands (thousands ha)</th>
<th>Value of Informal Rural area (trillion US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>489,586</td>
<td>44%</td>
<td>215,164</td>
<td>147,798</td>
<td>67,365</td>
<td>0,59</td>
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<tr>
<td>Africa</td>
<td>738,639</td>
<td>50%</td>
<td>368,792</td>
<td>88,166</td>
<td>280,626</td>
<td>0,39</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>444,665</td>
<td>40%</td>
<td>177,866</td>
<td>59,660</td>
<td>118,206</td>
<td>0,25</td>
</tr>
<tr>
<td>South America</td>
<td>607,407</td>
<td>49%</td>
<td>297,895</td>
<td>51,006</td>
<td>246,889</td>
<td>0,24</td>
</tr>
<tr>
<td>Mexico, Central America and the Caribbean</td>
<td>134,541</td>
<td>53%</td>
<td>71,025</td>
<td>20,813</td>
<td>50,212</td>
<td>0,09</td>
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<tr>
<td>China, NIS and Eastern Europe</td>
<td>1.151,280</td>
<td>47%</td>
<td>540,142</td>
<td>188,721</td>
<td>351,421</td>
<td>0,80</td>
</tr>
<tr>
<td>Subtotal</td>
<td>3,566,118</td>
<td></td>
<td>1,670,884</td>
<td>556,164</td>
<td>1,114,719</td>
<td>2,36</td>
</tr>
<tr>
<td>Other Developing countries</td>
<td>359,926</td>
<td>47%</td>
<td>169,165</td>
<td>56,308</td>
<td>112,857</td>
<td>0,24</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3,926,044</td>
<td></td>
<td>1,840,049</td>
<td>612,472</td>
<td>1,227,576</td>
<td>2,60</td>
</tr>
</tbody>
</table>

| (Dep Soto, 2000, p. 36) |
Appendix C. Peru’s Poor Feel Hardship of ‘Fuji Shock’ Austerity

By JAMES BROOKE, Special to The New York Times. Published: August 12, 1990

As an armed soldier stood guard, Carlos Gomez struggled to keep up with spinning numbers on a gas-pump meter. A gallon of premium had jumped from 41,800 intis to 1,200,000 intis.

In dollar terms, the overnight price jump was from 13 cents to $4. “It’s disastrous,” Mr. Gomez muttered.

The huge price rise was not the result of an international oil crisis, since this country is self-sufficient in petroleum. It was instead the result of what Peruvians call “Fuji shock.” All over Peru, people are reeling from an economic shock program decreed Wednesday night by the new Government of President Alberto Fujimori. Mr. Fujimori was elected in June largely by playing on Peruvians’ fears of a radical, anti-inflation shock program proposed by his opponent, Mario Vargas Llosa, the novelist.

Now Mr. Fujimori has ushered in much the same thing. To close a gaping Government deficit left by Alan Garcia, the departing President, the new Government has lifted subsidies, removed many price controls and allowed the inti to float against the dollar. The result has been traumatic in a nation where the minimum monthly wage is $15. Overnight, prices of bread and milk tripled. The cost of noodles and newspapers quadrupled. And the price of cooking gas increased 25-fold. The aim is for inflation to stabilize after the initial shock.

Within hours of Mr. Fujimori’s televised announcement, hungry slum dwellers started sacking food markets. Police officers and soldiers, operating under a virtually nationwide state of emergency, moved quickly, arresting hundreds of people and killing four looters.

Today, most stores here remained shuttered, partly out of fear of looters, partly because private bus owners were on strike and many people could not get out to shop. The bus owners said they could not operate without passing on to passengers the 30-fold increase in gasoline prices.

With traffic thin on the streets of this city of 7 million people, many residents traveled in the backs of pickup trucks.

Chaos reigned on Friday at Lima’s airport terminal as airline companies increased domestic air fares six-fold -and charged the increase retroactively to passengers holding tickets purchased before Wednesday. Reflecting the new astronomic numbers of Peru’s economy, a one-way ticket from Lima to the Andean tourist center of Cuzco has jumped from 4 million intis to 27.7 million intis.

This week, the inti fluctuated in street trading in a range between 200,000 and 400,000 to the dollar.

"Today, it's 240,000, yesterday it was 300,000,” a young man said on Friday as he exchanged $20 through a car window. "Who knows what it will be tomorrow with the new bills?"

'We Say 500 for 500,000'
On Friday, Peru's central bank issued the latest high-denomination note, the 1 million inti bill. With the inflation rate at 63 percent last month, the bill that had been the highest denomination, the 500,000, is only worth $1.66.

"We say 500 for 500,000 and 100 for 100,000," Rolando Julca, a taxicab driver, told a foreigner who arrived at the airport unversed in the vocabulary of Peru's hyperinflation.

This month, inflation is expected to hit 300 percent. Last year, prices rose 3,100 percent.

On Wednesday, Carlos Hurtado Miller, Peru's new Economy Minister, promised to cut inflation "to less than the Latin American average" by the end of the year.

But with a third of Peru's 22 million people living in poverty, the main preoccupation for many is to get enough food to get to the end of the week.

"The price of chicken has flown out of reach," said a Lima housewife, holding an empty shopping bag as she stared at the new price: almost 300,000 intis a pound.

The Government has said that it will begin a $415 million social program to ease the impact of the economic shock. But as of today there was little sign of Government aid.