

Expanding Housing Choices for the Sector Popular: Strategies for Mexico

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Abstract

By the year 2000, some 40 million people in Mexico will live in settlements commonly called the informal sector. Most will live in houses that they have constructed themselves and that have some infrastructure deficit. To meet their needs, the authors propose a set of demand and supply strategies. Emphasis is placed on the increased use of small group savings programs, the provision of progressive infrastructure, and the creation of housing-related employment. The supply of low-cost land must be increased, which will necessitate reforms in the *ejido* land tenure system. Examples of locally derived, non-government-supported betterment programs are presented.

The article concludes by calling on the federal government to create stronger links with the informal sector and to reestablish its role as the supporter of social housing in Mexico.

Keywords: Low-income housing; Markets; Mexico

Introduction

Most of the urban poor (*sector popular*) in Mexico live in settlements commonly called the informal housing sector. By the year 2000, at least 40 million people will live in these settlements, and these areas are likely to expand. The demand for urban land over the next five years will exceed 150,000 hectares (375,000 acres), 35 percent of which will be for housing. Of the total area required, 65 percent will come from land now held in *ejido* and communal status (Secretaría de Desarrollo Social 1996).¹

¹ Ejido is a juridically defined system of land tenure and land use for the community of peasants that reside on the land. It is a corporate holding system in which the defined users (ejidatarios) have shareholder rights. Until the constitutional reform of article 27 in 1992, the ejido members could not legally alienate their shareholder rights. The 1992 reform allows for alienation and for the ejido commission also to enter into contracts with outside interests

Coupled with the need for land is the need for affordable housing and mortgage credit. With a housing deficit of more than 3,000,000 units, over 80 percent of the population cannot afford to participate in the national mortgage finance system (Barry, Castañeda, and Lipscomb 1994; López 1995). The income disparity in Mexico is such that, for example, in Mexico City, which has the highest regional wage scale in the country, 60 percent of the population receive less than three minimum salaries (one minimum salary being about \$85.50 per month), whereas 10 percent of the population receive 40 percent of the income. Of those actively in the labor force, 18.3 percent receive less than one minimum wage. (See Díaz and Perló 1994.)

Given the great housing need faced by Mexico, what can be done to improve the situation? This article explores strategies to improve demand and supply options for the urban poor and discusses how the informal sector functions and the possibilities for integrating it into the formal housing system. Confronting the housing deficit will be a difficult task: Nearly 60 percent of all urban housing is self-built and located in irregular settlements, so this sector must be an important component of any national housing policy.

Changing global policy positions

It is useful to understand the global setting influencing national housing policy in developing countries such as Mexico. Over the past 20 years, there have been three “generations” of global housing policy. In 1976, the United Nations (UN) Habitat Conference identified the state as having the central role in settlement policy, always with the active collaboration of low-income people. The policies that the UN and international finance agencies (the World Bank and the International Monetary Fund) adopted in the 1970s and early 1980s advocated that government be the central promoter and supporter of urban development and housing. It was assumed that the private sector would follow along and take its cues from these national program efforts and investments.

In the late 1980s, a second generation of policies that took into account macroeconomic trends and practices emerged. These policies placed special emphasis on institutional reform at the

and use the land as collateral for joint development projects. Communal lands are for indigenous (tribal) communities and fall under the same 1992 reforms. See also Jones 1994 and Siembieda 1996.

expense of operational projects (Cohen 1991; Farvacque and McAuslan 1992). The type and structure of loans, especially for progressive housing, changed from loans linked to projects to loans linked to national finance institutions that would adhere to more global housing sector strategies (Mayo and Angel 1993).

Providing adequate housing for everyone by the year 2000 was the general objective adopted by the UN Human Settlements Commission in 1988. Implementation of this objective was set forth in Agenda 21, which marked the third generation of global housing policy and which adopted a facilitation strategy that could bring together the potential of all the different actors involved in producing and improving housing (Asamblea General Comisión de Asentamientos Humanos 1995). This strategy focused on government actions that would make the land markets and the financing of housing more efficient. Together with the World Bank, the UN proposed that Third World countries abandon their historic roles as housing producers and instead become facilitators of others' production of housing.

These third-generation policies focus on having government pay more attention to seven operational instruments: Three focus on demand stimulation, three facilitate the processing of supply, and one creates a general institutional framework (Mayo and Angel 1993). The objectives of each of these instruments are to increase the efficiency of the real estate markets and to change for the better the expectations of the poor in the housing sector. Viewed together, the seven instruments provide a framework for programmatic intervention in the formal market and, to some extent, in the informal one as well.²

However, these policies are directed toward achieving efficiency rather than producing units. The facilitator strategy is one in which the central government serves as a guide to fulfilling the formally or informally structured private sector actions. The central government now places more emphasis on meeting global economic requirements in order to carry out its national economic development strategy. The basic problem is that this role provides very little direct support for most of those needing housing: that is, the low-income class and the poor. It does,

² The operational instruments are as follows: developing property rights, developing mortgage finance, rationalizing subsidies, providing infrastructure for residential land development, regulating land and housing development, organizing the building industry, and developing the institutional framework for managing the housing sector. All are good instruments in and of themselves and should be pursued as part of a systematic strategy to improve the informal sector.

however, attempt to lower the various barriers that make it difficult for the *sector popular* to secure land, housing, and urban services.³

The demand and supply challenges

The housing crisis in Mexico presents two challenges: first, how to convert the current informal⁴ sector housing needs into effective demand for housing and urban services, and second, how to increase the supply of land, urban infrastructure, and housing.⁵ These challenges are linked. Increased demand will put pressure on the supply side to loosen constraints, including land regularization, installation of basic infrastructure, and access to low-interest loan schemes (social interest funds). Just as the demand and supply aspects are linked, so is the relationship between community groups seeking to achieve more in an era of less direct aid and government policy and actions. Facilitation by itself, while needed for market efficiency, will not do the job. The state must still be involved in direct support for housing as a social good. The facilitator strategy focuses more on the operations of the formal private sector and not on the informal, or irregular, sector. The various housing assistance activities presented later in this article provide evidence of the continuing need for state support.

A programmatic approach to improvement on the demand side requires the creation of microfinancing systems (small savings schemes directed at lower-income workers) to improve the capital base. The microfinancing system strategy includes

³ Although this article addresses the Mexican case directly, it is also applicable to other Central and South American countries with low wages, weakening presence of the state in direct grants-in-aid, and expanding urban metropolitan areas.

⁴ The term “informal” tends to be pejorative and connotes that people are not participating in jobs and earning a living. This is not the case. People work hard for low wages each day, although the wage may be earned in a nonregistered place of business. Also, people do pay for the land and houses they occupy. Another less pejorative term is needed, but none is as readily available or as commonly used as “informal.”

⁵ The housing deficit in Mexico is about 3,000,000 units and is growing at an annual rate of 200,000 units (Barry, Castañeda, and Lipscomb 1994; Zearley 1993). These disparities are more severe in some areas, such as Ciudad Juárez, where the deficit runs to about 20 percent of the total housing stock. In Guadalajara, the country’s second largest metropolitan area, the 1995 deficit was 336,000 units, and estimates are that it will reach 426,000 units by the year 2001 (López 1995).

(1) increasing targeted savings (for housing-related expenditures) through locally based savings groups, (2) pooling group savings into community trusts, and (3) linking the trusts to national housing finance programs. Access to staged and progressive loans that help people in a gradual, affordable fashion is needed. Also needed are community-based production and employment, targeted subsidies, and staged and progressive loans coupled with extensive technical assistance.

Community-based production means employing people in local construction-related businesses and providing space for small production enterprises. Subsidies are needed and should be structured as savings incentives and local economic development incentives. Both work to build new demand: Incentive subsidies for savings efforts should be earmarked for housing sector expenditures, while local economic development incentives are linked to creating jobs in the housing sector.

Technical assistance is an essential component of community betterment. Residents need assistance in housing (i.e., design, construction, and public services) and in finance (i.e., collective and household schemes) as well as in employment activities. This assistance draws on the resources of the government, social organizations, the private sector, and the education community, all working in partnership with community residents.

Improvement on the supply side requires initiating administrative reforms, promoting progressive infrastructure, lowering prices of materials, offering supportive private sector initiatives, providing low-cost land, improving the stock of existing housing, and negotiating growth management with citizen organizations in the informal sector.

There are two basic elements to administrative reform: building regulations (norms) and state-level regularization of land, either ejidal or private. Progressive infrastructure means promoting innovations in materials and system installation costs and financing these in a staged manner linked to local flows of project financing over time. Locally produced building materials will help with supply issues and will generate employment. The formal construction sector should be challenged to take the lead in using appropriate technology that keeps its workers employed. Because ejido land is essential to meeting the housing demand, ejido councils should be encouraged through incentives to supply land at reasonable costs. The supply of existing housing requires direct programmatic action in three areas: improved material conditions, basic services, and regularization of title. These goals

can be accomplished with adequate leadership at the state level. Complementary policies that help attenuate fiscal, legal, and procedural constraints are essential to enabling the informal sector to improve conditions.

Understanding the composition of the informal housing sector is useful to any discussion of demand and supply constraints. The following section provides a profile of the informal sector and an analysis of the structural issues it faces.

Characteristics of the informal housing sector

In the formal housing sector, the development process follows a sequence of parcel (site) acquisition and planning, infrastructure and services installation, house construction, and then sale and occupation. Each stage has its own documentation procedures and recording of permits and agreements. The reverse is true for the informal sector, where the sequence involves three stages: occupation, transition, and consolidation. Occupation is the act of taking physical possession to claim usufruct rights on a parcel. When occupation is not forcefully opposed by the authorities or the landowners, the transition stage begins. It consists of the occupants' filling in the unoccupied parcel with other families, beginning to construct houses themselves, and then requesting basic services and utilities from state and local governments. Consolidation, the last stage, includes obtaining all basic infrastructure and urban services and receiving titles to the land (regularization).

There is no set time period for the beginning and end of each stage: The length of the process depends on the mix of economic and political factors at any given time. Within a large settlement area, the stages tend to overlap at the edges of various neighborhoods, resulting in a patchwork of improvement projects. A variation on the sequencing model presented here has been put forth by Paul Baróss (1990), who believes that the most inexpensive way to provide housing is for the people to first occupy sites. Building on the sites then follows, as does the installation of services such as water and sewer pipes. At each stage, the value added accrues to the occupant, not to other interests protected by the judicial-administrative process.

This reversal of the formal sector process is based on three realities: First, the formal sector usually offers housing as a complete product, whereas the informal sector offers the opportunity for progressive or self-built houses. Second, obtaining

housing in the formal sector normally requires a mortgage that carries with it installment payments over a long period of time. The informal sector is based on the pay-as-you-go system, which allows the resident to make adjustments according to the family's economic situation at any given time. Third, with a mortgage and a highly fluctuating inflation rate, the buyer in the formal sector faces an uncertain equity situation. In the informal sector, the progressive house is all equity. It can be lived in, sold, rented, or passed on as family patrimony, however modest and incomplete (Cabrales 1996). In cultural terms, housing is treated as a resource, not as a commodity. It is housing resource values that motivate people in the informal sector.

At least one of four conditions is present when a settlement is defined as informal (irregular or illegal): (1) The land and house lack legal status. (2) The land lacks some urban infrastructure. (3) The land lacks appropriate zoning and building permits from the local authorities. (4) The housing is not built according to adopted standards. Legal status is usually the leading cause of irregular settlements. Many subdivisions lack some urban services, notably drainage, storm sewers, and water; electricity is less of a problem, because the national electric utility extended service to many areas, especially during the Salinas de Gortari administration (1988 to 1994).

Over the past 20 years, the informal sector has produced more than 60 percent of the housing in major Mexican cities (Lemus 1994). The percentage of irregular land varies from city to city. For example, in Guadalajara, the nation's second largest urban area, estimates show that 22 percent of the total metropolitan area (about 29,000 hectares, or 72,500 acres) is irregular. Along the U.S.-Mexico border, about 13.5 percent of the Tijuana and 31 percent of the Ciudad Juárez urban areas are in irregular status. One study of the 12 major municipalities in the state of Mexico found that 33 percent of all urban land was occupied by irregular settlements (Iracheta 1984).

The informal sector acquires and occupies land from four sources: ejido land, government land, private land, and communal lands. In the informal housing sector, land is either sold illegally and then occupied or else occupied and then purchased. Sometimes land is occupied and never purchased. The order of occupation or purchase depends on supply constraints (who owns it, where it is located, what type of political support there is, and so on). In general, land close to major roads and existing infrastructure is preferred. Because land acquisition is a major key to

ensuring financial arrangements, the four land sources are discussed below.

Ejido land. The largest source of illegal land sales has been ejido land. There are nearly 29,000 ejidos in Mexico, comprising some 55 percent of the total land area. Not surprisingly, there are ejidos near every major city. The scope of illegal ejidal land sales is vast. Over the past 40 years, ejidos in the state of Mexico contributed some 69 square kilometers of illegal land, while for the greater Mexico City area, the amount exceeds 200 square kilometers. Ejido conversion is also extensive in other regions of the country: In the Guadalajara metropolitan area, for example, some 80 square kilometers of ejido land have been transformed to urban use since the 1960s.

Two distinct sale processes occur on ejido land: external and internal land subdivisions. First, external subdividers buy land without title from the ejido council, subdivide it, and sell it without title or local municipal approval. Most often a buyer receives a seller-provided deed-type document indicating location, lot size, and price. To finance sales, these illegal subdividers provide loans, usually for two or three years, with a down payment and specified installment payments—sometimes monthly, sometimes weekly. The faster the land sells, the faster the subdividers can buy more land from the ejido council. Many of the illegal subdividers practice their business in various ejidos within a single city and adjust their sales and political practices to suit submarket conditions. The second process is for the ejido members themselves to sell plots of land, thus bypassing the illegal land subdivider.⁶

Illegal ejidal land subdivisions (*fraccionamientos ilegales*) can occur on a very large scale. In Guadalajara, the largest irregular settlement (Colonia Jalisco) grew from an initial population of 2,000 in 1982 to 70,000 in 1992. Colonia Jalisco covers 235 hectares (588 acres), with an average density of 300 persons per hectare (Siembieda 1997). Among the largest of Mexico's illegal settlement areas is the Valle de Chalco, located between the Federal District and the highway to Puebla. Covering some 2,100 hectares (5,250 acres), its population of 250,000, most of whom arrived in 1984, is organized into 19 neighborhoods (Hiernaux 1995). In Chalco, nearly 70 percent of the residents used informal loan mechanisms, usually seller financing, to

⁶ It is interesting to note that in the case of the Valle de Chalco, the price per square meter offered by the ejidatarios was far lower than that offered by outside land subdividers.

purchase lots. Most lots fall into two size ranges—either 120 to 200 square meters or 200 to 250 square meters.⁷

Illegally sold and occupied ejido land can be regularized (given a proper fee title and recorded in the local land registry) through the Federal Commission for the Regularization of Land Tenure and through special state agencies, such as those in the states of Sonora, Nuevo Leon, and Jalisco. Under the Salinas administration, 2.12 million plots throughout the country were regularized (Varley 1996). The speed of regularization depends on the specific case, its age, and technical issues related to the community location. From 1989 to 1994, 84,393 hectares (210,983 acres) of land were regularized by the national and state governments (Secretaría de Desarrollo Social 1996). Once regularized, these settlements are no longer informal. They become part of the municipal territory and secure the same administrative status as any other neighborhood.

Government land. The second major source of land for the informal housing sector is government land. Generally held as territorial reserves, mostly for housing purposes, government lands are located in 25 states (Lemus 1994). In these cases the land is first occupied. Then the occupying group asks the government for basic infrastructure services and arranges some form of partial or complete payment. In some instances, illegal occupation of government lands will result in the expulsion of the occupying groups, but the general practice is for some compromise to be worked out.

Government land is of great potential importance in the supply of urban land for housing. The national urban development program calls for local governments to pay special attention to ending the cycle of invasion-expropriation-regularization of territorial reserves. Government policy is that the reserves should be used as instruments in local growth management programs and as stimulators for locally derived public-private partnerships that result in social housing projects.

Private land. The third major source of land for the informal housing sector is privately held land. Private land is brought into the informal sector through illegal occupation followed by a negotiated sale or direct sale between seller and buyer. Such transactions, however, occur without proper permits or

⁷ About 40 percent of the Chalco lot sales were for less than \$5 per square meter and 30 percent were for \$5 to \$10 per square meter, about 70 percent below formal market price per square meter at the time of sale.

government agreements. In the first instance, illegal occupation of lands with marginal urban uses usually results in a land sale by the owner to the government, or else the occupying group makes some arrangement to purchase the parcel over time. In the second instance, the private owner simply illegally subdivides a parcel and sells it off, usually with some short-term seller financing. In this manner the private owner does not incur the costs of installing infrastructure or paying land transfer taxes or government permit and notary fees. This practice usually occurs on the city's far urban edge (*la periferia*). In Ciudad Juárez, across from El Paso, over 300 hectares (750 acres) of irregular settlement on the city's southern edge began as illegal private sales. Between 1960 and 1980, 21 percent of irregular settlements in the state of Mexico were derived from private land holdings (Iracheta 1984).

Communal lands. Communal lands are those held in trust by the federal government for indigenous tribes. As in the case of ejido land, some of these holdings are illegally sold and subdivided. Communal lands can now be regularized and are subject to the same 1992 constitutional reforms as ejido land.

Infrastructure

Once occupied (through purchase or irregular settlement), how do these areas get infrastructure and urban services? Basically, once a parcel is occupied, residents ask the government for assistance, which takes various forms: government-installed systems, resident-installed systems, and cooperative (government and resident) installation. As most municipalities have very limited local resources, the state and federal levels provide most of the funds. Federal assistance during the Salinas de Gortari administration was provided through the national anti-poverty and infrastructure assistance program, PRONASOL, which in 1993 reached funding levels of more than 1 percent of the gross domestic product. Municipal and state assistance, usually supported by the Federal Secretary for Social Development, varies according to revenues and location.⁸ Assistance with infrastructure upgrading can be programmatic (e.g., PRONASOL), or it can be on an ad hoc basis to garner electoral support for individual politicians.

⁸ There is also a national "100 cities program" that provides assistance to municipalities to address issues dealing with the informal housing sector, as well as improvement in management, fiscal systems, and land tax assessment.

Political alliances are also important in this process. The fact that many voters live in informal housing settlements is not lost on political parties that wish to gain votes by delivering improvements, such as paved roads, schools, and public markets, or by serving as advocates to secure these improvements. In fact, many illegal settlements have been assisted by political operatives wishing to establish a constituency literally from the ground up. In some cases, plots of land are sold or negotiated only to those buyers who will vote the party line.

Converting the need for housing to demand

With over half of the informal sector earning less than two minimum wages in pesos (about \$171 per month), any strategy aimed at improving demand must seek to mobilize available domestic resources (e.g., household income, labor, and mutual assistance) and direct them toward increased production efforts.⁹ To enable the informal housing market to work better than it does and to help poorer Mexicans share in what Doebele calls “the wealth producing process of urbanization” requires the adoption of new approaches (1994, 49).

The Doebele approach requires that a bigger economic pie first needs to be created before cutting it up and saying who gets what piece. This approach means that the notion of allocation, or “who gets what,” comes after expanding access to wealth-forming activities, including those in the informal sector. However, the private sector in Mexico is composed of the formal and the informal. The formal contains all businesses that use legal practices and associated systems. The informal exists outside the legal norms and regulations. Both sectors seek personal gain, profit, accumulation of wealth, and security. However, the formal private market receives the support of the national government, thus limiting the informal private sector’s capacity for expanding its wealth.

Improvement in the demand side can be accomplished in a number of ways. It requires increasing savings in mutual savings societies or savings groups and linking a portion of these funds to national housing finance programs. It also requires creating

⁹ An income distribution profile in the informal housing sector can be constructed from case data from Mexico City, Morelia, and Guadalajara. Based on 1993 data, on average, 12 percent earn less than one minimum wage, 55 percent earn between one and two minimum wages, and 29 percent earn more than three minimum wages.

employment that is related to construction (i.e., materials banks) and helping with the administrative and financial management of community-based business.

Based on positive, ongoing housing development experiences in Mexico and Brazil, López and Fausto (1996) support a four-part program of collaboratively linked actions that begin at the community level. The first component is group savings directed at housing; the second is local production and jobs; the third is the use of mixed technologies for infrastructure and housing construction; and the fourth is more intense and continuous use of technical assistance provided by the government, volunteer, business, and education sectors.

Resident housing savings program: Group approaches

In the Mexican context, the concept of mutual assistance is the cornerstone of constructing timely, cost-effective housing solutions for low-income people. Mutual assistance implies that a wide number of groups participate and that residents, as well as private sector interests, are given standing in the process.

To provide funds for continuous development, including land acquisition, infrastructure, and construction, the first step is the creation of resident savings programs. Once established, savings (group or individual) can be tied to incentive programs (external subsidies) sponsored by outside sources and tied to community development efforts. In all these savings programs, the keys to success are paying benefits in materials, land purchase, or project work (not cash); providing savings incentives via subsidy; and using legally established savings organizations to assist local groups. The use of subsidies here is to strengthen the savings culture and to channel expenditures into housing production rather than consumer goods. These subsidies are good investments, because they serve to create ongoing local organizations that can energize the housing sector.

Grouping together individual pools of savings into a legal trust provides a mechanism to attract other finance capital, to protect against default, and to receive and manage subsidies (López and Fausto 1996). Such a trust can maximize the potential benefits of individual savings, and when properly capitalized, it can provide the seed capital for initiating infrastructure projects. These projects can include main sewerage drains as well as bridge loans (short-term special-purpose funds) to acquire land from ejidos. Group funds are accumulated through a dedicated

type of rotating saving and credit association called the Mutual Assistance Plan (MAP), which is described below. (It should be noted that such plans have not always been successful throughout the world.)

MAP

The MAP (Plan de Ayuda Mutua) is an assisted self-financing system for residents of informal settlements. It is a system of dedicated savings funds to be used for land, housing, and infrastructure rather than for consumer goods. This concept is an extension of an existing microsavings practice in Mexico called *tanda*, in which small groups of people save together (Mansell-Carstens 1996). Operationally, the MAPs are community-based groups of small savers assisted by a collective agent, such as a nongovernmental organization (NGO). MAPs can also be assisted by government, private, and donor sectors through savings incentive contributions and seed capital loans.

Each family or participant contributes a self-determined amount on a weekly (or possibly daily) basis over a savings cycle. The duration of the cycle for a given number of participants (for example, 40 families) and the amount of weekly savings should not exceed 52 weeks so as to hold participants' interest. Fund distributions can be made every week or month by means of a lottery in which one participant receives the benefits (equivalent to the sum of the savings cycle). Benefits are received in the form of construction materials, labor, or down payments on land. No cash payments are made to these winners.

A winner can pass up benefits if they are not immediately needed and receive them later. By receiving a large one-time benefit, savers can get enough money to complete a lot purchase or begin a major house improvement. The amount of the total benefit is equal to the sum of individual savings during the program plus any incentive or contributed funds (borrowed or granted) from public and private agencies. After a series of local MAPs are established, an operational public savings trust fund could be created. The MAPs could draw down funds for land, housing, and infrastructure projects. The trust fund provides some protection against fraud and also has the advantage of operating under the legal statutes needed to work with other financial institutions.

MAPs in practice

The Taller de Arquitectura Popular (TAP) is an NGO that has been operating for several years in the state of Jalisco. Since 1992, the TAP has organized 600 families into MAPs.¹⁰ In one case, local MAP objectives were to purchase a land parcel large enough for their needs and to sell off excess plots to finance phased installation of basic infrastructure. In a second instance, the local MAP group put funds aside for the sole purpose of purchasing building materials at a discount. In a third instance, savings were used to establish a building materials production business, both for on-site use and for sale in the local market. In all cases, each saver sets aside an equal amount of money (called a “salary sacrifice”). Equal savings provides equal participation and group oversight to keep each participant responsible for timely contributions. The TAP uses the *tanda* method of group saving and adjusts it to the housing and land sector.

Forming collective groups to acquire land for housing is not an uncommon practice in Mexico. In many states, occupationally based groups, such as schoolteachers and electricians, have gathered together members to acquire land through special savings programs. Commonly they form civil associations and open an account at a bank, to which members regularly contribute. In this fashion, members acquire land at a fixed price and install simple infrastructure. In the state of Michoacán, parcels in the government territorial reserve program have been purchased by such groups, which then contract with a civil engineering company for land subdivision and design of community infrastructure. Such efforts are usually undertaken by families who earn more than two minimum salaries and have the ability to participate in a multiyear savings scheme. For the poor or those with irregular wages, these schemes can work if the group sets realistic savings requirements. At times, land is purchased by informal savings groups in the irregular sector with the objective of keeping plot prices low and later obtaining legal title. Other groups in the *sector popular*, sometimes called *uniones de colonos*, come together at times first to occupy land and then to negotiate a payment plan with the owners (private or state).¹¹

¹⁰ The value of the 600 families’ total investment now exceeds the FONHAPO (federal housing fund for the poor) funding for the state of Jalisco during the same period.

¹¹ Outside of Morelia, the capital of the state of Michoacán, an entire group of neighborhoods called *Colonias Unidades del Sur* was established on private land. Once the land was occupied, the people negotiated with the state to buy the land and then to repay the state at a fixed rate.

These types of savings efforts are not restricted to the nongovernmental sector. The federal PRONASOL effort experimented with a collective saving system using a Canadian model known as Caisse Desjardins, a century-old mutual savings fund.¹² Savings groups are organized and interest paid on funds directed at social programs and housing. Although the concept appears sound, stronger safeguards are required to renew efforts on a nationwide basis. This program has had problems with fraud and corruption and is now under administrative review.

Linking informal demand to national housing finance

Current and pilot programs

Whatever increases in savings are possible through collective associations, not much progress will be made until new links are established with the national housing finance system. In Mexico, commercial banks provide residential loans to people earning above five minimum salaries.¹³ This remains far beyond the means of informal sector residents, most of whom earn two minimum salaries (about \$171 per month) or less. Those families earning below the commercial bank minimum loan requirements

¹² Efforts in Brazil and India illustrate the potential of mutual assistance. The Cearah Housing Company, an NGO, operates an important mutual assistance effort in Fortaleza in the state of Ceará, Brazil. Housing is built as group-based projects that include sites for small business and future urban services, such as schools. Building materials are provided through locally owned companies. MAPs are also used. The final component is an extensive technical support effort funded by the state, a French technical agency (GRET), and a grant from the European Economic Community. The state of Ceará is involved in assisting on the demand and the supply side. For some projects, state land is provided under a loan agreement. Residents who earn less than one minimum wage pay 5 percent of their wages for a period of six years (GRET Urbano Brasil 1993). Residents build progressively and thus valorize their plots over time.

A private sector variation on the MAP is provided by the ELECO company in the city of Agra, India, which organized local savings groups to finance its own projects. First, the groups collectively purchased a parcel and then saved for installation of infrastructure in conjunction with government programs. Finally, they built houses, tapping the various loan schemes available from public and private sources. At the end of each phase, ELECO made a small profit, while none of its own funds were placed at risk. The keys to the program's success were the collection of savings on a daily basis and ELECO's hiring of a "savings motivator" to stimulate and maintain the interest of the group's members (Garg 1990).

¹³ The Mexican minimum wage is called the *salario mínimo*. In April 1996, this was 20.86 pesos a day, about \$3.

can turn to a group of government-supported or -managed programs.

Established in 1982, the federal housing fund for the poor (FONHAPO) tries to provide assistance to the largest segment of Mexico's population, families making two minimum wages or less. FONHAPO funds are normally restricted to construction and material costs. Under present policy, land purchase is excluded, thus continuing a constraint on supply. A positive aspect of FONHAPO is its link to state housing agencies. State agencies could play the role of organizing pre-regularization projects with the informal sector for lands that are slated to be regularized. At present, the FONHAPO budget is very small. It made only 12,000 credits nationally in 1995, a figure far too low to have any national impact. FONHAPO needs to refocus its activities so that more joint-venture and partial cost-recovery projects are implemented with state housing agencies and NGOs. External support from international donor agencies is expected to be limited,¹⁴ so FONHAPO needs to look inside the country to solicit finance from private and public-private partnership sources.

Another supply-side pilot project would be a revolving fund that allows state agencies to acquire land for resale to civil associations, with the purchase subject to regularization and basic services. This fund could be derived from transaction fees or property tax, or from an international finance loan with long-term repayment provisions. More often than not, poor people do pay for the land they occupy: Default rates are not high in the informal sector mostly because credit is difficult to secure and people do not want to lose their property.

The national housing mortgage trust fund (FOVI) began in the 1960s with assistance from the Alliance for Progress, which supported beginning programs for saving linked to the housing sector. It is now supported by the Mexican Treasury and operates in the two to five minimum salary range (about \$171 to \$428 per month). The lower end of this range is where residents of the informal sector are most likely to participate. A bridge is needed between the FONHAPO and FOVI efforts, one that would allow for pilot programs to be tested in different parts of the country. One type of pilot program would call on the private sector to organize projects in order to confer legal status on informal areas with less restrictive construction regulations. Because of the near collapse of activity in the formal housing sector, the construction industry has great interest in providing

¹⁴ Nearly half of FONHAPO's budget comes from the World Bank, which is reducing its support.

work for its employees and experimenting with a range of program types.

Another pilot program option is to work directly with, or through, community-based trusts to secure loans for either progressive or completed basic housing, whichever is more appropriate. For the trusts to mature and establish themselves, it may be advisable to keep such loans in a separate portfolio for a while. Over time, such loans should be marketable alongside other mortgage packages and offered to the national worker pension funds for purchase.

Mexico's two largest housing mortgage funds are essentially special-purpose mortgage banks funded through employers' contributions of 5 percent of their wage bill. The INFONAVIT fund is for salaried workers in the private sector, while FOVISSTE is for government workers. Both provide mortgage loans to vested participants for housing provided by the private construction industry but approved by the fund administrators. While in theory an INFONAVIT-vested participant has rights to a loan, in practice strict rules apply so that loans are granted on a needs scale. This is a targeted market well served by the formal construction sector. It is also the largest provider of housing finance whose funds derive from social legislation. However, even this source could fund no more than 10,000 units of construction in 1994, far below national demand and its own production targets (López 1995).

Intermediary financial mechanisms

A new type of private housing mortgage company has just been established. Mexican housing finance companies (SOFOLEs) began operating in 1995. They can engage in financing below-market-rate (social interest) mortgages. Because of their small size and structure, there is some evidence that SOFOLEs are well positioned to respond to local needs.

SuCasita, a SOFOLE in Mexico City, successfully obtained house construction financing for a large group of 400 families who had collectively purchased a parcel of land over a four-year period. With the land secured, SuCasita set up a special reserve fund for families who did not meet the minimum salary requirements and whose income varied by the month. In this manner, SuCasita could establish a credit history and qualify the borrowers. The reserve fund acts as an insurance reserve pool against default. This type of partnership is a positive example of one form of

collective or mutual practice where flexibility and adaption create new effective demand.

At present, the SOFOLEs are limited to making loans on serviced lots, holding legal title in urban zones. To make projects in the informal sector work, some adjustment in this policy would be required. SOFOLEs could prove a useful partner for state housing agencies: That is, if the state housing agencies worked on the supply side to guarantee regularization of land sites (proper title and platting) in the short term (24 months or less), the SOFOLEs could work on the demand side with local MAPs or trusts in financing progressive or stepwise loan projects. Here again, the concepts of mutual assistance and complementary strengths come into play. While there are real efficiencies in standardizing loan procedures, flexibility should be encouraged throughout the finance system to accommodate locally derived solutions.

Improving and expanding the existing stock

While there is an extensive need for new housing, there is also a need for improving the hundreds of thousands of self-constructed units that comprise the informal sector. Although experience with loans to poor people has been mixed, some patterns reflecting “best practices”—operations that work—have emerged.

In Ciudad Juárez, the Cooperative Housing Foundation (CHF) established a housing improvement model to benefit the working poor. Using a small (\$50,000) seed capital grant from the Ford Foundation, CHF funded 47 loans. CHF works with local loan-granting NGOs, such as the Mexican Federation for Health and Community Development, to select participants as well as to operate the program. All the loans are interest bearing, but none is made in cash. Funds are used to make direct payments for materials, labor, or specific house or site improvements. The lender makes such payments directly and thus knows how the funds were used. Loans are made on loan worthiness, based on a person's employment history. Participants are not required to hold legal title to their land or to live in a regularized (government-approved) subdivision. The default rate is extremely low because of participants' desire to keep their credit-worthiness and because of good technical program management. Given the opportunity to obtain small loans for improvements to existing houses, participants repay principal and interest quickly and with minimal collection problems.

This program is now being expanded in two new directions: First, the Ford Foundation will provide an expanded pool of low-interest capital funds to CHF. Second, two U.S.-owned factories that operate under the *maquiladora* program will provide CHF with funds for home improvement loans to their company employees. Tying the industrial sector more closely to the low-income housing sector is a positive step in labor-management relations. The industrial sector sees its contribution as an investment in the labor force, one that will hopefully reduce employee turnover. The use of an NGO as a financial conduit allows funds to be funneled into local housing betterment without passing through any government agency. Companies operating in Ciudad Juárez have no control over the 5 percent of the wage bill they contribute to INFONAVIT, but they can see a direct result from the CHF effort. The key is access: Demand will increase when access to finance, construction materials, tenure rights, and adaptive technologies (flexible construction systems) is provided.

Linking the industrial sector

There is growing evidence that businesses in the industrial sector are willing and able to support housing activities that improve living conditions for their workers. The four assistance methods discussed in this section are rental units, rent-to-own schemes, home improvement loans, and down payment/subsidy loans.

Near Toluca in the state of Mexico, a manufacturer of cellular phones has financed a worker rental housing project across from its factory site. In 1991, Ford-Mexico built 500 units of worker housing adjacent to its Nuevo Hermasillo assembly plant in the state of Sonora.¹⁵ This project is a rent-to-own scheme linked to worker longevity at the assembly plant. Workers pay rent for a fixed period of time, after which they have tenure rights to purchase the unit at an attractive price. Financing is arranged through a housing management company. If a worker leaves the job before acquiring purchase rights, no equity is accumulated from rent payments. It is likely that manufacturers seeking a stable work force will be open to providing down payment loans and payment subsidies for workers wishing to make a long-term commitment to the companies.

¹⁵ The initial 500 units were part of an overall scheme for 1,500 units of worker housing built as a small community with a local school, social centers, and space for stores. The project has had problems with unit design and management, however, and it is not certain whether additional units will be constructed.

Housing improvement loan funds provided by Cummins Diesel and Dale Electronics in Ciudad Juárez are positive signs that the industrial sector can be brought into the housing financing arena through targeted actions. In the tourism sector, housing has been provided for many years by FONATUR (the project development department of the Mexican Tourism Secretariat) and by hotel companies in resort areas such as Cancún and Huatulco. These, however, usually have deep government subsidies.

Materials banks

Part of the strategy to reduce financial constraints on the demand side is the development of local employment projects that build community participation into project management. A project directly tied to housing is the creation of construction materials banks that can be linked directly to home construction programs as well as to the installation of infrastructure. Materials banks can realize major economies for the saving groups in this housing sector. To be successful, the management of these banks must be tied to community needs in terms of product availability, technical advice, training, and cost competitiveness (Gough 1996).

Construction materials banks function on two levels: on-site production of certain types of materials (cement block, reinforcing bars, adhesives, and so on) and bulk purchases made directly from manufacturers and distributors. Materials banks permit the introduction of flexible approaches such as trading work for materials and adaptation to varied production (for example, simple prefabrication methods). Banks are also a place for business and technical training. Operationally, the banks need links with centers that conduct training for residents (for example, through the organizational leaders), provide technical assistance, and offer supervision by a specialized technical group consisting of NGOs, skilled professionals, and the local government. The initial operation of materials banks does require some financial subsidy and some technical support. A sample start-up mix might consist of funds from community residents' savings (50 percent), government (30 percent), and international funds (20 percent). Funds generated by direct sales of materials in the marketplace would reduce subsidies over time.

Materials banks for self-construction projects are not new concepts for Mexico: They have been operating in various guises with federal government support since the 1980s. Under the PRONASOL umbrella, they were linked to the Préstamo de la

Palabra program, where materials were given to people based on their promise to repay. Diligent local oversight ensured that the repayment rates were very high, but individual families needed to have legal title to a plot of land to participate in the program. The needs of neighborhoods in irregular settlements, especially where legal title was absent, were not addressed by this effort.

Materials banks, as part of an overall self-sustainability strategy, have achieved some success in other parts of Latin America. In Fortaleza, Brazil, materials banks are integrated, wherever possible, into a program of mutually assisted housing construction and building for small-scale production (microindustry). In Pereira, Colombia, materials banks are part of the state-sponsored housing fund for low-income households (Fondo de Vivienda Popular Pereira), where materials are manufactured, built, and sold and profits are plowed back into the community in the form of service buildings (Gough 1996). A state-run financial institution also provides some loan funds for materials, which speeds up the process of finishing houses and consolidating the participating neighborhoods. Thus, this system meant that the supply of housing was increased.

Increasing the supply of land

Land occupation and regularization

Access to ejido land is basic to increasing land supply for low-income people because ejido land is usually priced lower than formal market plots and because home builders in the formal sector view ejido land as having various risks (time delays, legal issues, and so on). In the short term, these higher risks will result in less competition for this land from the formal housing sector. In addition, organized social housing groups have had many years of direct contact with ejido councils and are less likely to be concerned with formal legal procedures over the short term.

The reality of urban expansion (*la mancha urbana*) in Mexican cities juxtaposes the judicially based legal city with the socially constructed real city (Azuela 1989). The contradictions between the legal and real cities will continue for many years. For the average Mexican worker, the loss of real purchasing power over the past decade, coupled with inflation-risk-indexed mortgage loans, makes the informal housing sector a necessary option to pursue. Aside from partisan political interests, there is the need for state and municipal governments to manage urban

expansion in ways that accommodate both the legal and real cities. This management is accomplished in various ways, including negotiation, progressive infrastructure, and organized technical assistance programs.

In Ciudad Juárez, the municipal government enters into discussions with resident associations in the informal sector (such as the Uniones de Colonos and the Comité de Defensa Popular) regarding the most appropriate areas for future group occupation. These are practical political discussions in the sense that the municipality prefers invasions to occur in areas where future urban services can be provided at low cost. All parties to these discussions understand the fiscal limitations of the government and strive within these constraints to maximize their own interests. In the final analysis, it may not be important who starts out owning the land as long as the long-term settlement patterns prove efficient in terms of transport to the workplace, cost of services, and political stability.

In several states, the government is moving to accelerate the land regularization process for occupants of ejido land. For example, the states of Nuevo León and Guerrero have made agreements with the federal attorney general for agrarian reform to run the land regularization program on ejidal lands that have been sold and occupied in an irregular (or illegal) manner. In the state of Jalisco, a special program titled Regularization of Urban Ejidos in Eighteen Months has been put forth by the state attorney general for urban development. Here the objectives are to legalize and integrate plots into the city limits and to plan for the designation of appropriate open spaces and public buildings as part of the regularization process. Through expropriation and replatting of large lots into a greater number of smaller lots, the supply can be increased and the land offered at an affordable price. Once regularized, a plot owner or a group can ask for low-interest loans from a state-operated housing agency or can work with a SOFOLE to obtain FOVI construction credits. Also, MAPs or other social groups can enter into agreements with newly forming ejido real estate agencies to acquire parcels of land in cooperation with state and municipal agencies. (The 1992 constitutional reform of article 27 sets up the framework for ejidos to establish their own real estate enterprises, to enter joint venture projects with others, and to hypothecate their lands.)

Infrastructure and public services

Fiscal, legal, and administrative constraints prevent the conventional infrastructure supply system from servicing a major part of the irregular housing sector. These constraints make plots more costly and time-consuming to produce. The validity of these constraints is being called into question. In recent years, World Bank policy papers have taken the position that less emphasis should be placed on physical objectives, such as miles of sewer installed, and more emphasis on reforms that open up land for residential development more rapidly and more efficiently (Farvacque and McAuslan 1992; Mayo and Angel 1993). They recognize that such supply-side procedures as plot regularization need to be reformed.

Mexico's 1995–2000 national urban development program calls for the introduction of progressive infrastructure and urban services. Fewer constraints on land supply will relieve speculative pressure and may encourage a broader range of private sector involvement. López and Fausto (1996) suggest that meeting infrastructure needs in a progressive or gradual fashion requires strong technical assistance to community groups and individual families. They point out that successful projects result from mutual efforts that include collective participation, subsidized incentives, innovative technology, evaluation and diffusion of experience to other low-income communities, and support from assistance groups such as NGOs.¹⁶ Their proposal requires a much more open approach to urban facilities management than presently exists. They believe that gradually upgrading water supply and sanitary systems through what can be called “intermediate technology” will lower costs and increase the number of serviced plots entering the market. It is also possible that some systems can be operated, fully or partially, by private companies

¹⁶ López and Fausto propose a comprehensive set of activities to support their concept of a progressive project. These activities include the following: (1) reducing costs, taking into consideration two factors: a national registry of leading-edge technologies and design of a program of evolutionary or step-by-step technology; (2) adopting in fact and in law innovative technology that provides solutions to basic problems; (3) absorbing the greatest possible number of local inputs to maximize the options presented in the local area; (4) devising technical solutions at low cost that can be offered to small groups of users on a progressive basis; (5) financing these schemes, with users paying 65 percent of the costs and the remainder coming from other sources; (6) using technical services from the private sector and the social sector—not-for-profit, whenever possible; (7) refusing to make land tenure an issue in any implementation scheme (the issue is rather lowering constraints on access to land); and (8) creating permanent mechanisms for evaluation and diffusion of program information.

under public franchise contract concessions, even if these are on a small scale.¹⁷

Within a progressive infrastructure framework, the central government plays two roles. It is the vehicle to obtain financing for the major infrastructure investments required at the municipal or metropolitan levels, and it also encourages, through political or legislative means, arrangements whereby the municipal and state governments play a stronger role in area-based approaches, such as urban service concessions or partnerships. In part, the Mexican government has been moving slowly toward these roles since at least 1982, when constitutional article 115 was reformed to give more power and responsibility to the state and to municipalities. The rise of active multiparty politics during the past six years has given these reforms more credibility.

Alternative community infrastructure arrangements

In the absence of ongoing direct government assistance, self-help is the way for citizens to push for low-cost housing solutions. In Ciudad Juárez, local groups that control irregular settlements (for example, the Comité de Defensa Popular) collect a weekly fee from residents. This money is used by group leaders to contract directly with private companies for infrastructure improvements such as road grading. Admittedly, such irregular arrangements occur outside the municipal norms for infrastructure construction and improvement, but they demonstrate the community's capacity to improve neighborhood conditions without state assistance. The working poor are willing to pay for direct neighborhood betterment whether their house is in a legal neighborhood or not. In many Mexican cities, organizing neighborhood groups to improve basic infrastructure is common. Progressive work is also common and in some sense relieves the local government of the pressure to install services that are beyond its budget capacities.

Local assistance centers

For supply-side reforms to operate properly, local assistance centers (LACs) with the autonomy to undertake several

¹⁷ The Mexican experience with urban and road concessions is mixed. Concessions have been withdrawn after operations have started, and some have failed. However, the range of possible concession arrangements is vast and can be staged to serve partial sector requirements.

functions ranging from production technology to fiscal management must be established. These are technical organizations located in irregular settlements that provide a broad range of services, beginning with savings programs and expanding into other technical areas as local participants require.¹⁸ All technical support, whether from an NGO, university, or government program, could be coordinated with the LAC, whose core mission is to help with all aspects that allow residents to increase housing quantity and quality with a maximum amount of local control and adaptation to a wide range of community needs.

Conclusion

Enabling the informal housing market to work requires no major policy changes. It already works and provides a great deal of much-needed but underserved and minimally constructed housing. Most people already pay something for land and for shelter. The informal housing sector is not well articulated to the national economy and so suffers less from recession than the formal sector: It is therefore a type of reserve for meeting people's basic needs. What the informal sector needs is a more direct government partnership. Such a partnership should support a strategy that promotes a variety of savings methods, flexible and progressive infrastructure systems, judicial regulatory reform, increased employment, and community involvement.

The key to this strategy is the notion of helping people mobilize local resources with the confidence that the fruits of their efforts will return to them and not be lost to the vagaries of political interests. Ameliorating market constraints, promoting social reforms, and increasing wealth through locally controlled production are continuing themes that require constant support. Meeting the demand- and supply-side challenges of the informal sector requires a complementary set of policies to match the dynamic of what is already occurring without any official support. A strategy based solely on facilitating macrosystem

¹⁸ The LACs can provide technical assistance on construction projects, offer courses and seminars on do-it-yourself construction, inform users about building materials and construction components, disseminate methods of progressive or gradual development, provide advice about financial alternatives for housing construction, and train residents to organize mutual assistance groups that draw on the resources of local residents. The assistance centers also sponsor the employment of service professionals with teams from universities and nonprofit social action groups. These service professionals have practical skills to offer and know how to train residents in the basic techniques of bookkeeping, business management, legal requirements, and savings strategies.

elements simply will not accomplish any housing goals. Facilitation supported by resources creates a more viable approach. Enabling the informal housing sector to work better entails increasing access to existing institutional systems and making resources available as a constant share of the national wealth.

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