

Institute of Social Studies

**LAND TITLING AND LOCAL ECONOMIC DEVELOPMENT:  
THE MISSING LINK?**

**EVIDENCE FROM TWO SQUATTER SETTLEMENTS IN LIMA, PERU \***

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## ABSTRACT

This paper<sup>a</sup> investigates the impact on local economic development of the legalisation of *de facto* property rights in Lima, Peru. Land titling in Peru's squatter settlements is now a nationwide World Bank-supported program, and security of tenure has received considerable attention in development discourse recently, making this a pertinent research topic.

Starting with an outline of the research problem, questions and methodology, chapter 1 provides an introduction to the steps taken and methods used in order to test the working hypothesis that *land titling stimulates local economic development in squatter settlements*.

Chapter 2 introduces the main concepts essential to understanding what formalisation of property means for squatter settlements: informality, property rights and development. Questions essential to the debate around legalisation of tenure are addressed, including: Why do legal systems create informality? How does property legislation favour certain groups in society? What are the consequences of this 'legal exclusion'? How can incorporating squatter settlements into the formal city have a developmental impact? The chapter then goes on to explain how Lima's informal settlements were formed and matured, and how public policy responded.

Chapter 3 reviews the literature on legal tenure and housing, and legal tenure and economic and capital market development, before proposing a new theory which links legalisation of tenure and local economic development processes, specifically community economic development. This chapter helps clarify the difference between *de facto* and *de jure* property rights, an issue at the heart of the urban land tenure debate.

The effects of legalisation are examined in chapter 4 through two case studies. Empirical data from two surveyed settlements in Lima – one which received titles ten years ago and one control group – are evaluated with respect to six indicators of community economic development, and then broken down into different types of local economic development effects.

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Chapter 5 reflects on research findings which show that formalisation of property does generate local economic development processes and changes the nature of the relationship between communities and the state. Some conclusions with respect to the importance of land titling as part of a local economic development strategy are then offered along with recommendations for action to be taken at the local, meso and macro level to promote further local economic development in urban settlements.

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