INNOVATION & COMPETITIVENESS IN URBAN SLUMS

Case Study of Lima’s Successful Economic Transformation Through Property Rights Reforms

Shantytowns near Huayacan Business District in Lima, Peru

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INTRODUCTION

Secure property rights are crucial to economic growth. Yet, most developing countries are struggling to find ways to move from the informal paradigm to something that falls under the umbrella of formal property rights. In fact, most policy initiatives have been unsuccessful in bringing legal reform to improve the land ownership challenges in the developing world. This report presents an in-depth study of one such recent economic reform process in Lima, Peru, which has been successful in efficiently allocating property rights.

Peru’s economic story has witnessed several episodes of success and failure in the past few decades. On the macroeconomic front, Peru is largely a commodity driven economy, successfully establishing itself as a leader in the export of commodities.\(^1\) It is also ranked very high in fish production and export. The microeconomic picture is similar to that of many developing countries as the poor traditionally had limited access to economic opportunities and the law.

Economic growth was hampered in the 1980s as Peru witnessed a spike in terrorism across the country. The terrorist group “The Shining Path” was known for terrorizing large parts of population across the country, which led to massive displacement of hundreds and thousands of people across the region.\(^2\) It was at this time that Hernando de Soto wrote his book “The Other Path,” as an answer and a solution to the menace of

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terrorism. The book laid out a path for economic reform which centered on the premise of individual ownership and property rights as a tool for legal empowerment of the poor. The book had a huge impact across Peru and the terrorists were frustrated by its widespread appeal -- the Lima office of the Institute for Liberty and Democracy (ILD), which was founded by Hernando de Soto was itself a target and was bombed.

To understand the ILD process and their approach to property rights reform in Peru, it is important to note that ILD scholars look at the amount of “dead capital” that cannot be utilized by the citizens as it is not effectively accountable. The amount of dead capital is based on the extralegal assets in the economy. According to the ILD analysts, extralegality consists of the following circumstances:

- Illegal occupations on state owned or privately owned lands
- Unauthorized subdivisions and buildings in rural and urban areas
- Public housing units without property titles or with limited titles
- Property with confused tenure status or unregistered transfer of property

As such, extralegality refers to the lack of legal and economic instruments needed for an economy to reach full economic potential. So it’s quite possible for a country to have a system of perfect property rights, but if one cannot transfer the property, it would be considered extralegal.

The first step in the economic reform process design is the diagnosis stage. In the diagnosis stage, ILD researchers quantify the amount of real estate that is extralegal. The ILD scholars found that the poor across Peru have very limited access to law. They are

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4 Ibid.
5 ILD research presentation during field visit, January 2012. Lima, Peru. Website: [www.ild.org.pe](http://www.ild.org.pe)
often marginalized and have no ownership of land where they may reside. In most cases, they hold fake titles and are subject to harassment from the landlords who extract monetary benefits from their illegal status.

According to ILD researchers, finding extralegality is the seed for reforms and converting extralegal to capital is the overarching goal of ILD's approach. ILD's findings in the late 1980s were quite revealing of the enormity of the problem – researchers found that over 65% of Peruvians held their assets extralegally. In other words, the owners of such extralegal assets were unable to use the land as collateral or sell the land at market prices due to the inherent lack of clarity in legal ownership of the asset. Their research found that formalizing property was time-consuming and costly. For instance, ILD analysts simulated the steps needed to legalize property of state-owned land in Peru – it took over 728 steps spread over 15 years. Furthermore, to foreclose or enforce mortgages, it took on average 117 steps and three years for an ordinary citizen to go through the judicial procedure.

In terms of starting a business, the situation wasn’t any better either – ILD researchers found that it took on average 60 days to open a small store, while it took almost 289 days and over $1200 to open a small business unit. In other words, the “cost of doing business” remained extremely high. Such high costs have a direct impact on the level of enterprise development. An entrepreneur would think twice about formalizing a business when the time and cost of doing so is high. What that also means is that a huge part of the economy remains outside the formal economic framework. Everyone loses –

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6 Ibid.
7 ILD research and statistics on the Peruvian Economy. Website: www.ild.org.pe
8 Ibid.
the individual who cannot use his/her land to raise capital or sell at a market price; the government misses out on the revenue from participants in the shadow economy; and also the investor and business community, which considers it high risk to enter a market where bureaucratic procedures can be a hindrance to their operational efficiencies.

Extralegal, however, does not mean undocumented, as one ILD researcher put it. On the contrary, ILD researchers have found that extralegal practices exist that allow individuals, communities, and even the state to prove ownership. Such documents include tax and utility bills, affidavits as well as sale and rental contracts.

**PROCESS OF REFORM: HISTORY AND ACHIEVEMENTS:**

Economic reforms began in the late 1980s when the Peruvian government decided to initiate institutional changes to reduce poverty, encourage access to capital and to reduce the threat of terrorism for the citizens of Peru.

Hernando de Soto’s ideas received a lot of traction as it offered a peaceful solution to the two biggest challenges facing the country – terrorism and anemic growth. It was at this stage that De Soto’s organization was asked to frame the fundamental framework for the Peruvian reform process. One of the first steps by ILD was the establishment of *RegistroPredial* (property registry law) in 1990, an organization that ILD helped to bring into existence. Its main goal was to ensure that extralegal property was titled and recorded. In order to expand the property formalization process across the country, the Peruvian government under Alberto Fujimori accepted ILD’s proposal to establish

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The ILD is also credited with supporting institutional reforms that are aimed at minimizing the costs from bureaucratic red-tape and to engage citizens through public participation and discussions. This reform initiative led to the establishment of the Administration Simplification Tribunal. The ILD also helped to establish the *Unified Business Registry* to facilitate a quicker process of obtaining a license for street vendors.

ILD takes a long-term approach (presented below) to property rights reform and requires the completion of several steps to reach the desired goal of formalization.\(^{10}\)

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**ILD’s Approach to Reforms:**

1. Diagnosis of legal problems and extralegal practices
2. Institutional Reform
3. Designing legal proposals
4. Cost-benefit analysis of the reforms
5. Consensus building
6. Feedback from relevant stakeholders
7. Revision of laws and regulations to include feedback
8. Implementation of the reform process
9. Formalization of the approved reforms

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\(^{10}\)ILD research presentation and scholar interviews. January 2012.
The ILD reform process begins with a diagnosis of the legal, economic and extralegal gaps in the economy and its impact on the institutional arrangement (briefly discussed before). The next step involves designing legal reforms to maximize returns to the economy from the cost-benefit analysis. This is followed by an extensive consensus building exercise aimed at bridging the gap between the political leadership and members of the society -- objective is to gain legitimacy for the reforms. This also includes the process of obtaining feedback from all relevant stakeholders which helps minimize the need to revise legal reforms in the future. After including the feedback into the policies, reforms are introduced economy-wide and formalization process gets underway.

ILD’s success story has been well documented as well. According to the Center for International Private Enterprise, an affiliate of the U.S. Chamber of Commerce, ILD’s reform agenda brought about the following successful changes to the informal sector across Lima.\(^{11}\)

- Over 380,000 Peruvian businesses belonging mainly to the poor were formalized from the time period 1991 to 1994.
- Newly formalized businesses in the Metropolitan Lima area saved $692.5 million in red tape and created more than 550,000 legal jobs.
- Land values doubled in formalized markets across Lima.

Major urban districts were revitalized.\textsuperscript{12}

**CASE STUDIES OF LIMA’S SUCCESSFUL LAND REFORM STRATEGY:**

The property rights reform process in Lima has been led by a consortium of agencies including the government’s various departments, non-profit organizations and quasi-governmental institutions. The following section presents three case studies from the reform process undertaken in Lima. Hernando de Soto and scholars at his think-tank Institute for Liberty and Democracy (ILD) are credited with leading much of the reform process by collaborating with all the stakeholders affected by the land reforms. The research on these case studies are drawn from the author’s visit to Peru in January 2012 on the invitation of Dr. Hernando de Soto and the Institute for Liberty and Democracy.

**Case Study #1: Entrepreneurs in Huayacan Business District:**

There is no doubt that enterprise is a significant driver of economic growth. But when such enterprise is under the rubric of the informal economy in a slum, the entrepreneur often ends up paying a cost to become legal – bribes are a common source of such payments. In other words, the informality raises the cost of doing business. To be sure, these are not poor slums, they are *informal* slums -- there is generally a significant amount of hidden wealth in such informal economic settings. But there is no doubt that the informal character of business in slums limits the ability of entrepreneurs to raise capital at the base of the pyramid.

Hernando de Soto’s early success in turning around a shantytown into a formalized economic powerhouse began in Huayacan. Huayacan is known for being one of first

\textsuperscript{12} Ibid.
shantytowns to come up in Lima. At the height of the terrorism problem in 1980s in Peru, thousands of people migrated to Lima to find refuge, employment, and to begin a new life. Huayacan became a hot bed of informal economic activity as all land was owned by the state. It also became a hub for terrorist activities. The government had found it difficult to reform or offer any economic or political solution to the growing problems in the shantytowns of Huayacan.  

Hernando de Soto’s book “The Other Path” offered a solution from the terrorist group Shining Path’s ideology of violence. His approach was economic and legal – he told residents of the shantytown that they needed to think of property as a tool (in other words a guarantee) to obtain credit.

As such, the story of Huayacan changed the day informal ownership changed into a formalized setting. People who had previously not had land titles were given ownership, largely due to De Soto's collaborative work with the government.

Business is now thriving in Huayacan. ILD analysts shared a success story of a textile manufacturer in Huayacan. According to the entrepreneur, it all began with ownership (see figure 2 for certificate of ownership of business owners in Huayacan). His ability to own the land helped him to use it as collateral to raise capital. Once he had capital, he was able to buy machines and raw material. This cycle of adding inputs and providing products to consumers grew rapidly for the entrepreneur. As he started to expand, his ability to raise larger amounts of capital transformed his business. Now, the business employs over 15 people and has imported machines set up over three floors. The product he sells is the

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Alpaca cardigans, and at the time of packaging, the cardigans are ready with a label and brand to identify the final retail destination, usually headed to a European business house.

Figure 1: Certificate displaying title to ownership in Huayacan district (Lima, Peru)

In understanding the business environment in a setting like Huaycan, it is important to remember that limited liability is important. Once property ownership comes through, limited liability allows entrepreneurs to raise their productivity as they can increase their risk/return profile – limited liability ensures that a firm’s existence is separate from the owners.

Another ILD case study in Huayacan highlights what happened to an entrepreneur who had fled his northern town in Peru from the terrorist activity in the 1980s. The entrepreneur had set up an informal shop in Huaycan with the objective of selling shoes but
had no title ownership -- the land on which he ran his business was illegal. Once land reforms were introduced in Huaycan, the entrepreneur was able to obtain title to the land as well as get his business registered. At the same time, the sprouting of microfinance services in Huaycan increased access to finance. With property ownership, the shoe manufacturer has now been able to open six stores across Lima and is rapidly increasing the export of the shoes to neighboring Bolivia and Chile.

**Figure 2:** Microfinance Services ‘Edyficiar’ and ‘Credit Scotia’ in Huayacan.

**Case Study #2: Gamarra Market:**

As in other parts of the developing world, Peru and its urban areas have their own set of challenges when it comes to dealing with street vendors. The problems are primarily one of legal existence: most street vendors operate in the shadow economy and have little or no ownership over the small pieces of land on which they operate. Gamarra is a market
area on the outskirts of Lima which used to be a hotbed of criminal activity and prostitution. Built upon ILD’s reform process in the early 1990s, the area was successfully transformed from a largely informal market where street vendors had little legal recognition to one where every vendor now has legal ownership, pays taxes, and is able to access capital through the formalized financial network. Specifically, ILD’s success was possible due to its close collaboration with the Municipality in Lima, to which ILD presented a cost-benefit analysis of outcomes of possible economic reforms. ILD proposed that instead of introducing new municipal regulations, street vendors should be given permanence through title to shops or markets. ILD created a private ombudsman office which was called El Balcon de Todos (the balcony for all) to allow citizens to voice their concerns. Further steps included using the Unified Business Registry to reduce the cost of setting up a business in Peru (national registration requirements went down from 289 days to just 1 day and costs of registration fell from $1,200 to $174).

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16 Ibid.
17 Ibid.
Figure 3: Gamarra market district, Lima. Rentals for small shops can go upwards of $15,000 per month in this business district.

Case Study #3: COFOPRI (Commission for the Formalization of Informal Property):

So how does a country approach property rights reform? What institutional support is required? What level of trained bureaucracy is required to initiate the reform? And what about the public’s involvement in the process? It is clear that to achieve such reforms, a comprehensive regulatory approach is required. This is where ILD’s efforts at starting a national property finalization process began. The organization created to tackle the
extralegal framework is called COFOPRI, and was started in the late 1990s as part of the Ministry of Housing. De Soto’s vision of property rights reform is considered to be the guiding force behind the government’s decision to setup this independent institution.

Some of the goals of the COFOPRI-led formalization process included:

1. **Political Willingness**: The first objective for COFOPRI was to encourage a national debate on the issue of property rights and economic development. COFOPRI initiated a national program aimed at reaching the largest amount of people in the rural and the urban areas. The objective was to inform and educate the population about the importance of property rights and land titling.

2. **Adequate Legal Framework**: The second objective set out during COFOPRI’s establishment was the development of a legal framework to support the land distribution and titling process across Peru. COFOPRI initiated a large scale implementation of the formalization process. This was done by engaging with local provincial governments to capture data on the land registration across provinces. This data would then be used for establishing land titles.

3. **National Plan**: Finally, COFOPRI’s goal was to design a national plan for land registry and titling and establish a national public information system.

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To understand the process of formalization initiated by COFOPRI, it is important to look at the key participants and their interaction with each other.\textsuperscript{20}

\textbf{Figure 4:} Policy through cooperation: COFOPRI’s work with municipalities and quasi-governmental organizations.

The Municipality is responsible for the urban planning and zoning of the community. COFOPRI’s role is focused on regularization of the land (formalization of the property). This includes helping the recognition and distribution of plots of lands based on approval from the municipality. Finally, the registration process is undertaken by quasi-governmental organizations such as SUNARP (under the Ministry of Housing) which is responsible for registration of public records.

\textsuperscript{20}Introduction: COFOPRI executive management meeting. COFOPRI Headquarters. January 2012. Lima, Peru
The following flow chart illustrates the COFOPRI process which begins with examining the current legal status of ownership and ends with the allocation of land title.

**Figure 5:** COFOPRI’s approach to property rights reform
Process # 1: COFOPRI only looks at the physical characteristics of the municipality. The objective is to draft a detailed layout of the neighborhood with detailed information on the ownership status by each plot of land. As such, this process recognizes human settlements and boundaries of the land.

Process # 2: Here COFOPRI’s aim is to establish the rightful owner of the land. This process of evaluation involves recording declarations by members of the community. Statements by neighbors to prove that someone has lived on that piece of land is recorded as proof of possession (this is usually done in neighborhoods where there is very little legal ownership of land). COFOPRI compiles all this information and creates a large database of the ownership structure.

COFOPRI’s system of land formalization has seen considerable success across Peru. As part of the public participation objective set out by COFOPRI, a set of publications are released in local newspapers to ask for anyone with general opposition to the formalization process to come forward and file a complaint.21 Any unresolved conflicts are sent to special courts at COFOPRI. If there is still opposition from one or more parties, the case is then sent to the judiciary.

Of course, not all title registration is feasible. In fact, COFOPRI’s management leadership admits that large areas of land often have owners who have lived there for a very short time. COFOPRI’s work is also limited by geography – most of the dispersed towns in the highlands are hard to reach and put through the process of formalization.

POLICY LESSONS FROM PERU FOR COUNTRIES SEEKING PROPERTY RIGHTS REFORMS

Countries across the developing world are struggling to promote inclusive growth and in spite of billions of dollars being spent on foreign aid poverty still persists. The recent turmoil in the Middle East has shown that economic freedom and access to employment opportunities are the most crucial elements of any economic reform process. If the population is unable to find gainful employment and continues to face political and economic repercussions, the outcome is likely to be similar to the ongoing Arab Spring.

Peru’s successful reforms may provide a path to economic development and inclusive growth. In particular, the Peruvian experience illustrates that finding success in legal and economic reform can often be a long-term challenge. This section presents a set of policy lessons learned from Peru’s experience that countries should consider.

1. **Institutions Matter**: Institutions are at the heart of any property rights reform process. Any long-term policy solution needs to take into account the institutional arrangements that are currently in place. In Peru, the government was able to transform its institutional structure to spread the access of property titles as a legal empowerment tool for the poor. The reform process took several decades and several iterations. Several stakeholders were involved and there was a constant push to reform the institutional arrangement. For instance, the creation of COFOPRI as an independent agency tasked with titling and property rights reforms did not occur until over 15 years since reforms were started.

There are three ways that institutional reform can be adopted:

a. It may be adapted or “imported” from another country
b. Assistance from international organizations

c. Through an internal policy mandate led by the national government

Which of the above reform strategies is adopted will depend on the state of legal and economic development in the country. In order to initiate the process of institutional reform, policymakers need to be able to come up with an action plan that takes into consideration the following three things:

i. Institutional reform should be long-term

ii. Institutions should be made more inclusive

iii. The form and structure of institutions should meet the immediate and long-term needs of the country's economic objectives

2. **Effective Implementation:** Policymakers across the developing world cannot be faulted for making a concerted effort at reforming the problem of insecure property rights. Numerous government agencies with thousands of bureaucrats are tasked with public policy initiatives across various ministries. One also sees a slew of international organizations bringing in best practices to the aid of government officials. It is important that one should not discount the role of such players in the development reform process. However, effective implementation is the key to any successful reform strategy. Responsibility and accountability of policymakers leading the implementation process is important too. In Peru, the implementation process went through several stages as the government worked with ILD to initiate reforms. The successful creation of COFOPRI helped speed up the process of implementation of the reforms.
The experience of Peru’s property rights reforms also highlights the importance of building partnerships. There is no single agency that was behind the success of the reforms. Rather, much of the success in the implementation of the reforms can be attributed to the collaborative efforts of the government, non-governmental organizations and the judiciary.

3. **Align Policy with Goals:** The task of crafting policies to meet social and economic goals is extremely challenging. Policies often fail to reach the intended results and precious resources are wasted. Developing countries should integrate the public policy process with a constant review and appraisal. The goals may change as well – often policies end up having little effect as the intended outcome of a policy has changed over time. ILD was able to adapt to the changing needs of the reform process.

As seen in the Gamarra market formalization example in the previous section, ILD prompted the municipality to give up its regulatory efforts to charge the street vendors a fee due to their illegal status. The ILD was successful in clarifying to the municipality that it is more efficient to formalize the market by offering permanent ownership of the land to the vendors. This process is not easy as there are usually different set of incentives driving bureaucrats who may not always be willing to buy into a reform proposal from a non-governmental organization. Needless to say, the effort by ILD and the Peruvian government to have civil society participation helped to have a greater alignment of policy and legal reform with economic goals.
4. **Framing Appropriate Policies**: One of the biggest challenges in undertaking any land rights reforms is that they can have a negative impact on certain sections of the society. For instance, Ananya Roy, Professor of Urban Planning at the University of California at Berkeley points out in her research that when land title is formalized in many cases the title goes to the head of the household, who is usually a male.\(^2\) As such, Roy warns about inadvertently creating a gender based difference through land title which can create an internal tension within the household and also across the community.\(^3\) In many ways, such caution is necessary as policymakers need to realize that land formalization and distribution will often have winners and losers.

5. **Scale and Sustainability Matters**: In Peru’s case, COFOPRI saw tremendous success early on as it was easier for policymakers to work within the boundaries of a city the size of Lima. To that end, a COFOPRI-like model may not necessarily work in a country where the goal is to ensure that reforms meet the needs of its tier-1 and tier-2 cities with the largest densities of population. For instance, as India considers property rights reforms, it will have to think about whether it wants to have a standardized approach or a much more customized approach to policies as it addresses the legal reforms in its metropolitan cities (Delhi, Mumbai, Chennai, and Calcutta) versus reforms in its tier 2 cities (such as Patna, Indore, Coimbatore). The decision on the approach to reform will determine the scalability and sustainability

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\(^3\) Ibid
of the whole process and the government’s legal and economic resources would then be appropriately allocated.

6. **Evaluate the Law and its Validity:** The law is at the heart of any public policy initiative. Developing countries will see greater success if legal reforms go hand in hand with policy reforms. In Peru’s case, ILD researchers were able to draw out this relationship early in the reform process. And the process of engagement was dynamic – ILD worked very closely with the Peruvian government to study the law and its shortcomings.

   The quantitative measure of Peru’s extralegal economy is one such success that highlights ILD’s work in explaining how the law affects entrepreneurs in the Peruvian economic framework. As such, it may be necessary to extract the economic component out of the extralegality to examine the legal aspects of the problem in greater depth. ILD has done this successfully in much of its work across the world. With an (almost) scientific precision, ILD is able to pinpoint the economic loss due to the lack of legal reforms.²⁴

   Policymakers in developing countries need to consider the efficiency of the rule of law in the context of the socio-economic trends in their country. This is especially relevant when one considers the Arab spring and the need for a complete overhaul of the legal system, which in many countries is broken or extremely susceptible to corruption.

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7. **Civil Society Promotion:** The new wave of reform is going to occur through active civil society participation. Peruvian experience shows that reforms were very responsive to the public's needs. The use of public forums to evaluate the efficacy of any legal or economic reform had a dramatic impact on the long-term sustainability of the reform as it was in consultation with the larger population. There is no doubt that the efforts by the Peruvian government to hold open consultation meetings for the general public helped them draft suitable policies that were responsive to the demands of the general public.

As we are seeing in the ongoing struggle across the Middle East, civil society is going to drive the debate on the socio-economic challenges facing a country and its citizens. Social media will be part of the story as well. Government bureaucrats in countries that fail to recognize the role of civil society and their needs will face stiff opposition and calls for their ouster.

8. **Leadership:** Leadership will be crucial to any successful economic reforms. The leadership may come from the government, NGO sector or from civil society. Empowering the leader is another crucial element in crafting a successful reform strategy. Hernando de Soto’s leadership in the Peruvian success story is a case in point. But it can never be a one-man success story. Rather, the collaborative effort to initiate reform requires leadership across the spectrum of agencies involved in the process.
Another challenge is dealing with corruption among the leadership of organizations that are responsible for the reform efforts. Rooting out inefficient and corrupt leadership practices can be the hardest challenge in developing countries where wealth gaps still persist and people are willing to cut corners to make a quick buck. Needless to say, there should be highest levels of accountability to ensure that leadership does not get corrupted or swayed by an agenda that does not bring the greatest benefit to the greatest number of people.

9. **COFOPRI 2.0:** Policy makers across the developing world need to think about what set of institutions and reforms will help bring about the change that will bring the largest number of people out of the informal economy and into the formalized sector. Given the success of the quasi-governmental organization COFOPRI in bringing about change in Peru, should other developing countries think about building a similar institutional arrangement? Would a COFOPRI 2.0 version work in other economic and legal settings?

The answer to this question is not clear. Economic, legal, and political conditions vary across different countries and in many ways what worked in Peru may not necessarily work in another developing country. But the mission and functional aspects of COFOPRI should be strongly considered as policymakers draft institutional reforms. The more innovative and independent such institutions become over time, the more effective property rights reforms will be.
CONCLUSION

Reforms are hard. The complexities of political and economic goals along with uncertainty over outcomes makes the reform process extremely difficult and on many occasions unpopular. How policymakers approach the reform process and collaborate with various stakeholders in many ways determines the success or failure of any program. Negotiations are another aspect of the process which can influence the outcome. Property rights reforms that are built on institutional, economic, and legal changes present a similar set of challenges to policymakers when compared to negotiations in business and politics. The process is extremely complex and often fraught with a lot of uncertainty.

This research paper has demonstrated that property rights reforms must be approached from a broad institutional perspective – one that is able to address the missing links between public policy and economic growth. Such issues are not new – in fact, as the research for this paper indicates, writers as far back as Locke and Hobbes were debating the importance of property and its impact on economic independence and growth. Max Weber’s landmark work in understanding the fundamental organization of a state further alludes to the role bureaucracies and institutions play in enabling economic and political reform.

It also became clear from this paper that economic growth is a function of the economic, legal, and political factors that can either inhibit or accelerate the rate of growth. Even in an extremely controlled economy, there will be some growth, but it will not be optimal. Rather, the challenge is finding ways to free the economy from the shackles of a
command economy. It is also very clear that enterprise needs to be a part of this process if true economic potential is to be realized.

A large part of the developing world is still considered informal and operates outside the rules of a formal economy. The challenge therefore lies in examining how such a large section of the population across the developing world can be brought into the more formalized economic and legal framework which recognizes their rights and permits the greatest use of their resources and talent. One place where we have seen success is in Peru. It is built around Mr. Hernando de Soto's efforts to formalize the reform process. However, the process has been long and often been close to being shut down. Political support matters too. A lot of the success seen by Mr. de Soto’s team would not have happened if the political support from the top did not permit the reform process to begin.

As we have seen from the prescriptive approach of Hernando de Soto’s work in Peru, such legal and economic reforms often mandate a complete overhaul of the laws and policies of the country. Doing so can be extremely difficult and even when you have political support, the citizens may not be completely in agreement with the reforms. At that time, it becomes essential that a process of open dialogue is initiated. There is no better way to achieve success in a reform process than with an overwhelmingly transparent and inclusionary process. The Peruvian success story is built on such inclusion through most of the reform process. Many countries have benefited from emulating the ILD reform approach and it has helped bring millions of individuals into the formalized economic framework. But in many cases the ILD reform process may not be applicable given the rule of law and the economic and political situation in a country. That’s when
policy makers in developing countries will need to reconsider what set of policies and law can really offer secure property rights, spur enterprise, and support long-term economic growth in their country.