

Cuenca, Ecuador

**“Improve your Neighborhood”
Program**

Institute for International Urban Development

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Cuenca, Ecuador



Map of Ecuador with the location of Cuenca.

The city of Cuenca is located in the Ecuadorian highlands in the Azuay province. The canton of Cuenca has a population of 413,000 of which 277,000 are in the urban center and 140,000 in the rural settlements.

Cuenca's physical structure is characterized by three distinct components:

- The "consolidated" urban area where the living environment has been improved during the last years.
- The extension of infrastructure and services has led to an increase in densities and property values, as well as the infill of vacant lots.
- The urbanized area is expanding towards Ricaurte which can now be considered part of Cuenca's urbanized zone. The Municipality has just completed a broad consultative process and prepared the city

development strategy to guide its future development and frame its strategic investment plan.

The Historic center with its invaluable architectural, urbanistic and cultural heritage has earned Cuenca international recognition as a World Heritage city attracting foreign and national tourists. However, the marked increase in the number of poor households, particularly migrants and street vendors, and the conversion of "conventillos", the traditional housing typology in the historic center, into tenements have resulted in rapid deterioration in various areas. Tenure patterns, obsolete infrastructure, overcrowding and misuse of the residential stock are crowding the urban fabric and causing irreversible damage to the integrity of the architectural and urbanistic heritage. New approaches are urgently needed to safeguard and preserve Cuenca's cultural assets.

The rural parishes within the first belt road and the small urbanizing centers on the fringe are growing as a result of the channeling of public funds to rural communities. However, the uncontrolled proliferation of new housing funded by the remittances of expatriate workers is endangering the environmental sustainability and the scenic beauty of the region.

The economy relies on oil, agriculture (bananas), forestry and fisheries (shrimp) as its basic exports which render it vulnerable to fluctuations in commodity prices. Manufacturing accounts for 26% of exports. Traditional sectors include textiles, food (canned fish), tobacco, cement and oil refining. The country is eager to develop new markets in the Andean Region. Construction, a major employer of lower income unskilled workers, has suffered from retrenchment of public expenditure under the IMF program.

Less than half of the active labor force is employed in the formal economy, and 70% of those jobs are in the service sector. Since the late 90's, unemployment has soared, the gap between the earnings of skilled and unskilled workers has grown and income disparities increased. In 2004, over 40% of the population lived below the poverty line and 25 % survived in extreme poverty. The Highlands are in general poorer than the Coast and there is a higher rate of poverty in the rural areas.

Political instability and successive financial crisis in the late 1990's adversely affected the economy while loose fiscal policies led to large increases in the public debt. The situation was exacerbated by the El Niño phenomenon which devastated the agricultural sector. The decision to adopt the US dollar in 2000 as the country's currency (US\$1=25,000 sucres) led to increases in prices of consumer goods exacerbated by the phasing out of subsidies and the freezing of bank accounts. Soaring unemployment and growing impoverishment and the hardships endured by the poor, led to further political upheaval, and fueled emigration. Today, the political scene has stabilized but economic problems persist.

The pace of out migration picked up in the mid 1990's then shot up exponentially from 1998 on. Official data indicate that Ecuador's total migration between 1990 and 2000 was 550,000ⁱ. However, it is estimated that between 1999 and 2003 around 600,000 to 1 million Ecuadorians left the country. Today 14% of the Ecuadorian population relies on remittances as a source of incomeⁱⁱ. Remittances reached US\$1.43 billion in 2002 and constitute Ecuador's second largest source of foreign currency after oil and account for 7.4% of the GDP.

The Azuay province has the highest rate of out migration in Ecuador and Cuenca is becoming a specialized center for migration-related services acting as a gateway for those who want to leave the country and the Andean region. Of the 249,000 people who officially left Azuay between 1990 and 2000, 22,000 came from the Cuenca canton. Massive migratory movements inevitably affect the urban economy. Cuenca municipality receives around US\$400 to \$500 million of remittances annually, that is, US\$1.5 million per dayⁱⁱⁱ. However, according to the mayor, Cuenca's extreme poverty grew from 30% in 2000 to 44% in 2004 despite sustained migratory flows. Since 1999 prices have increased dramatically in Cuenca making it one of the most expensive cities in Ecuador. Most remittances have been used to finance new housing construction, purchase vehicles and home appliances. New housing tends to concentrate in rural communities, mostly on agriculture and pasture land.

The departure of large numbers of persons from the labor force has in turn generated secondary patterns of intra-regional migratory movements and Cuenca today is also an immigrant-receiving region. Peruvians and to a much lesser extent Colombian migrants are coming to Ecuador to work in the trades where labor shortages are most acute, mostly construction and commerce. Peruvians' willingness to work for lower wages makes them attractive to employers. Irrespective of their origin, immigrants are concentrated in the urban parishes, particularly in the city center. Their arrival has generated demand for cheap rental accommodations. "Conventillos" are being subdivided and converted into tenements to meet this demand. Relatively high rents make it a lucrative option for investors. This practice is directly linked to the increase in the level of marginalization of migrants' lives. The increase in housing prices has also eroded the affordability of housing for families who do not have members outside of the country, or households with members abroad but who do not receive remittances.

"Improve Your Neighborhood" Program

In the past several years, the Municipality of Cuenca has adopted strategies and launched major initiatives to address the impact of migration in partnership with NGOs, CBOs, Churches, and other civil society groups. It created the Cuenca Agency of Regional Development and Integration (ACUDIR) to coordinate the public and private sectors in the promotion and management of strategic projects. One municipal program is having a marked impact on the physical and social fabric of the city. "Improve your Neighborhood" is an

infrastructure improvement program that functions as a partnership between the local authorities, the private sector and civil society. It is in many ways structured to capture migrants' remittances and generate benefits for the city as a whole as well as to the individual property owners.

The program services "consolidated" neighborhoods, that is, neighborhoods with a high density of privately owned housing. The implementation of basic infrastructure provision, tree planting and street paving raise property values benefiting both the city and the home owners. The system that has been laid out is simple and very efficient. Neighborhood residents submit a request for improvements to the municipality, directly or through their neighborhood organization. For the selected neighborhoods, the municipality undertakes the technical studies, calculates the costs of the project and the charges to the beneficiaries. Municipal ordinances and regulations are available to analyze the technical details of the works. Infrastructure and paving works along each street are divided according to the block layout into "public works packages" of US\$30,000 to \$40,000 for which construction permits are not required. The packages are distributed among Cuenca engineers who operate as small construction firms; hire the labor and deliver the public works within 60 days. The division of a large public works project in smaller packages limits the risk and reduces the construction time.

Property owners are charged a share of the cost in accordance to the length of their lot frontage payable over five years plus a management fee of 12%. Beneficiaries pay 40% of the charges up front, and the remaining 60% is calculated according to the improved property estimate. A 15% discount is offered to those who prepay the full amount of the charges. To date, the payment rates are close to 98% thereby confirming willingness to pay for access to services. The long waiting lists point to the need, effectiveness and success of this program. The municipality has also set up a system to reschedule repayment in case of hardship and provide subsidies to economically distressed families (single individuals, retired persons or women-headed households) that account for less than 15% of the total. The municipality works with the banks that accept to issue bonds at slightly lower interest rates (around 11% in 2003). The funds go in most cases directly to the engineers or builders undertaking the public works. Property owners make their payments directly to the bank or, in some cases, to the municipality.

Results Achieved



"Improve your Neighborhood" program public works. Photo: Yves Cabannes

The program has achieved impressive results. Between 2000 and 2003, more than 700 engineers were retained to deliver works valued at about US\$21 million. Over 90 km of urban roads/streets (158,000 m²) were paved and serviced with infrastructure. The impact of the program on property values is dramatic. A house originally valued at US\$20,000 could sell for US\$35,000 following an investment of US\$1,500 in public works. This valorization accounts for the enthusiasm of property owners and the long lists of applicants.

In January of 2005, the new municipal administration re-evaluated and expanded the program, renaming it “Barrio para Mejor Vivir” (Neighborhood for Better Living). The objective of the new program is to improve 167 km of urban roads, with a projected investment of US \$60,848,484 from 2006 to 2009. The revamped program began in March of 2006 and has since paved 25 km of roads. Other planned infrastructure projects include potable water systems, sewerage, telephone networks, electricity networks, public lighting, recreational areas and road signs. In addition, the Municipality expects that the new program will employ 600 professionals per year and directly benefit more than 90,000 residents of Cuenca, of which 20,000 own properties located along roads to be paved.

Benefits of the Program

The benefits for the city are clear: not only is the quality of the urban environment enhanced as homeowners invest in their properties and neighborhoods, but the sheer visibility of the public works contribute to sustain the mayor’s popularity. The Municipality does not incur any outlays as the management fee charged seems to cover its cost while the increase in revenue generated by property taxes collected on the valorized property will make a significant contribution to the municipality’s finances. Assessments are updated every five years, roughly corresponding to the time it takes a family to repay the public works.

In this way, the created “value surplus” is distributed among all the partners: banks win with the interest, the municipality wins with the increase in property taxes and families win with an important value increase in their property which otherwise would take a much longer period to reach the same level. Furthermore, the city becomes more attractive for external investments and for tourism.

Running such a program requires excellent managerial capacities and the Municipality of Cuenca has assembled a dedicated and enthusiastic team possessing the necessary capabilities.

ⁱ Banco Central del Ecuador, Dirección General de Estudios. *Las remesas de ecuatorianos en el exterior*, p.16. Cuadernos de Trabajo. No. 130. Agosto 2001.

ⁱⁱ *Receptores de Remesas en Ecuador. Una Investigación del Mercado* p. 4. The Pew Hispanic Center, Fondo Multilateral de Inversiones, Banco Inter-Americano de Desarrollo, Quito, Ecuador, Mayo 2003.

ⁱⁱⁱ Cities Alliance, PGU, Alcaldía Municipal de Cuenca y ACUDIR, *Plan Estratégico de Inversiones para el Desarrollo Local de la Ciudad de Cuenca*, Julio 2001.