

# Changing roles: Public and private sector activity in urban development

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## **The retreat from welfare**

Far from controlling the game, many urban sector professionals in cities throughout the South, especially in transition countries, have become bemused bystanders of the processes which determine the extent and nature of urban growth.

For those educated in the belief that the main role of planning was to meet the shelter needs of *all* citizens, or at least all those unable to satisfy their needs and aspirations within commercially driven markets, housing was a predominantly welfare activity. In socialist countries, where the private market did not exist, the State was pre-eminent in determining the spatial and social allocation of resources in accordance with officially determined policies, standards and procedures. In half of the forty sub-Saharan countries reviewed by Mabogunje (1990), the State also nationalised all land, thereby increasing its monopolistic control over urban development. Since the principle underlying such approaches was to counter the ethos of market forces, the emphasis on costs became increasingly marginal, to the extent that in countries like Armenia and Cuba it is almost impossible to assess the costs of any housing supply component using conventional pricing mechanisms.

The concentration of power and resources in a few hands reinforced a supply driven approach in which housing needs were assessed in terms of housing deficits using arbitrarily defined criteria, such as a minimum acceptable floor area per person. Within this central planning paradigm, forms of provision gradually became driven by political and technical considerations, rather than based on expressed social needs or resources. The concept of 'value for money' was peripheral or absent. Furthermore, centrally determined standards and regulations were often imposed on areas where they were completely inappropriate, sometimes with disastrous consequences. For example, design standards throughout the USSR were controlled by Soviet agencies in Moscow and failed to take into account the need for seismic resistance. Consequently, a high proportion of the casualties in the 1988 earthquake in Armenia were caused by the structural failure of State apartments (Anlian and Vanian 1997:15).

A less dramatic, but equally corrosive outcome of this approach has been the extent to which State assumptions of authority undermined the willingness of otherwise capable groups from contributing to supply. After all, if governments announce that they intend to provide dwellings for those in need, it is hardly surprising if many households able to afford their own housing sit back and wait for a free or subsidised unit from the State, increasing dependency and demand even more. Such tendencies applied in Tanzania during the 1970s and early 80s and may well feature increasingly in South Africa.

Few studies have been carried out to assess the burden such policies have imposed on national or local economies. However, it seems reasonable to assume that the direct and indirect costs combined to accelerate the internal crisis which brought about the dramatic downfall of socialist economies around the world at the end of the 1980s. Since China announced that it was abandoning socialist housing policies in favour of market based approaches as from July 1999, only two countries (Cuba and North Korea) are known to this writer as claiming to implement welfare based socialist housing policies. Neither can be considered to be in a healthy economic state.

Even in mixed and market based economies, housing policy has commonly been based on a welfare approach and this seems to be the basis of South Africa's attempt to improve the living conditions of the black majority. The policy (or rather goal) of constructing one million dwellings within five years of the ANC assuming power is placing a considerable burden on public finances. Dewar (1999) estimates that if 90 percent of households qualify for the full grants available to low-income households and the remaining 10 percent qualify for part subsidies, the total *annual* cost to the State will be about UK£300 million. On top of this has to be added the inflationary impact of stimulating the demand for land and building materials over a short period and the increased dependency of households referred to above. As if this were not enough, the pressure to increase supply quickly has

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led to a standardisation of housing provision in suburban locations which has created alienating environments and separated housing from social and economic activities. The low densities and peripheral locations of most new developments make public transport uneconomic, imposing further costs for transport subsidies.

The collapse of welfare approaches is therefore due in large part to internal inefficiency and the burden of costs on the national and local economies. Throughout the former Soviet Union, housing production declined steadily during the 1980s (Struyk, et al:1996) and in Armenia, State supply virtually dried up altogether from independence in 1991, except for a small amount of reconstruction following an earthquake in 1988. Over 50,000 prefabricated apartment units remain unfinished (Anlian 1997:15). In Cuba, factories producing prefabricated building components are mostly inactive.

Collapse has been accelerated by external influences, especially through the insistence by the IMF and World Bank on market reform through structural adjustment programmes. Attempts to reduce market distortions by cutting subsidies and targeting them more effectively, emphasising the need for cost recovery and insisting on the adoption of individual freehold tenure systems, have forced central and local governments throughout the South to change the way that they see the role of housing within national and local economies.

### **The advance of markets**

Within the transition countries of Eastern Europe, the World Bank and USAID have encouraged the privatisation of the public housing stock and the emergence of private land and housing markets. A key element has been support for the formation of Condominium Associations. Granting ownership of condos to residents on an 'as is' basis removes the increasingly heavy maintenance burden from the State, but transfers it to the residents at a time when other reforms are shedding labour from over-manned State industries. The ability and willingness of residents to accept ownership rights under such conditions inevitably appears as something of a poisoned chalice, since those made redundant have no funds to cover maintenance charges and those remaining in work feel increasingly insecure about future prospects.

In Armenia, the 1988 earthquake proved to be the catalyst to stimulate reforms in housing privatisation when the World Bank approved its first credit of US\$28 million for reconstruction work (Anlian 1997:17). This evolved into a regulation requiring all State construction, no matter what the cost, to be subject to competitive bids. It also introduced the principle of cost recovery, with well-targeted subsidies in the form of housing allowances for those able to satisfy eligibility criteria.

Although most land in rural areas of Armenia was privatised on independence in 1991, land and building maintenance in urban areas remain largely under direct or indirect State control. This had several implications:

- The market value of buildings may be so low that it is impossible to use them as collateral for loans to effect improvements or even prevent further deterioration. In some cases, for example older high rise apartment blocks, it is estimated that the cost of raising their structural ability to withstand earthquakes to present standards would cost more than the local equivalent of a million US dollars per building, indicating that in market terms, many blocks actually have a negative present value.
- As land and housing markets emerge, it is the blocks in central or other advantageous locations which attract limited private sector capital investment. If land remains under State control, it becomes impossible for residents or developers to realise its commercial potential and investment is inhibited.
- Even if land is privatised at the same time as the buildings on it, opportunities to generate economic benefits to cover the costs of building maintenance and environmental improvements will be frustrated unless regulations restricting land use and administrative procedures for processing development proposals are changed.
- Finally, but by no means least important, if control over maintenance remains directly or indirectly with State agencies, the prospects for preventing further deterioration will be limited. In many CIS countries, building maintenance was the responsibility of State agencies called zsheks. These became highly politicised and inefficient, with the result that resources were diverted to limited group interests. In Armenia, attempts were made in 1991 to privatise the zsheks but failed on procedural grounds. Further attempts are being made at present, and some are already operating

as co-operatives, but there is a long way to go before resident groups are able to obtain competitive tenders for maintenance work, even where they are able to afford it.

Another problem is that the introduction of market forces has reinforced previous inequities. As Anlian (1997:3) notes, a family which, by chance or fortune (or by status in the Party) lived in a highly desirable location, in a large well-appointed apartment was able to assume ownership of a major asset, compared to other households which did not enjoy such advantages and inherited what was often a major liability. Under such conditions, it is difficult to envisage the 'level playing field' considered so essential to the development of efficient and equitable land and housing markets. Even where private sector groups have emerged, they generally lack sufficient capital to make a significant impact on either new development or the renovation of the existing stock. What contribution they have made is largely through informal activity by privatised zsheks operating within the shadow economy.

The transition from welfare based approaches towards more developmental approaches has therefore encountered many pitfalls. Policy changes have been accepted with varying degrees of enthusiasm and not all reservations are without foundation.

The 'old guard' of professionals invariably find it difficult to adapt to the new situation and either obstruct innovative policies, (because of vested interests as well as principles), or fail to change their attitudes sufficiently to implement them successfully. Authoritarian practices and attitudes continue even when undertaking participatory projects and are a factor in many countries. Younger, highly qualified staff are often unable to put new ideas obtained from international exposure into local practice. In some transition countries, this has created a bi-polar approach in which some sections of the professional cadres and political elites remain wedded to the previous development paradigms, whilst others are pushing hard to build constituencies of support to introduce new approaches. Such internal conflicts run the risk of rendering public bodies even more ineffective and discrediting new approaches before they have been given a chance to prove themselves.

The priority in many countries is to reassess options for addressing the needs of the poor within increasingly market driven economies. This requires a reappraisal of the role of housing from a welfare burden on economic development to a more positive recognition of its role in stimulating capital formation through domestic savings and investment. Such recognition is not, of course, new and Turner (1976) was advocating such an approach a quarter of a century ago. However, it remains valid in terms of current practice within many countries. This begs the question of why it has taken so long for those in positions of authority to accept this characteristic of housing. More pertinently, it raises the further question of why those of us advocating the economically productive role of housing have failed to persuade those in positions of authority of the merits of our case. Undoubtedly, one factor is the attraction of patronage to political elites and the systems of clientelism which it engenders. Welfare approaches provide considerable power to those allocating the benefits which create their own constituencies of support. It is difficult for academic evidence or lists of references to compete with such attractions.

### **Pragmatic alternatives**

Whilst both central planning and neo-liberal paradigms of planning and housing have therefore been highly influential, both have generated outcomes very different from those intended or envisaged by their proponents. This raises the important question of the appropriateness of either paradigm in addressing the needs of diverse social and economic realities in both transition and market based countries. Yet examples exist in which innovative approaches based on local traditions and practices have proved effective in meeting needs. One way of addressing these issues and building confidence, as well as new constituencies of support, in new approaches is through the dissemination of such successful approaches and their application in pilot projects elsewhere.

Turkey provides a good example of developmental approaches to urban development and housing. When Ankara was established as the new national capital in 1923, it had a total population of about 20,000. By 1969, this had increased to 1.2 million and is presently just over 3 million, a rate of growth as rapid as almost any major city. During this time, local government resources were restricted to a levy on car parks, cinema tickets and other marginal sources, and grants from central government which did not always materialise. This left no resources for direct intervention or subsidies and master plans were routinely prepared, only to gather dust. Yet during the 1960s and 70s, when immigration

was at its peak, it was possible for people to find a place to live and work within months, if not weeks. Housing supply kept pace with demand throughout this period and housing standards within low-income settlements were arguably higher than in the increasingly dense middle class neighbourhoods.

How was this achievement possible? Under the Ottoman Land Law of 1858, unused or unclaimed land could be claimed and developed by anyone needing it. Practices known as 'imece' (self-help) and 'salma' (a local tax) evolved to enable isolated Anatolian villages to obtain essential infrastructure and social facilities. When villagers migrated to the city, they claimed and developed land and housing according to these traditional practices, often oblivious of the fact that they were acting in defiance of urban planning procedures. They settled in areas where they could find relatives or friends from their village and collaborated to build houses and obtain infrastructure. Since the municipality had no funds to intervene directly, it evolved a form of 'ad hoc' planning (Payne 1982) through which new settlements, or '*gecekondus*' were incorporated into the administrative boundaries of the city and entitled to representation on the municipal council. Each ward, or '*mahalle*' would then lobby for its priorities and for new settlements, this invariably involved demands for access roads and bus services.

On receiving a request, the city would send a planner and surveyor to plot the best route. Rather than impose this on the community, however, the proposal was sent to the community for them to approve or modify it. If there was no agreement, the road would not be approved and the planners and surveyors moved on to other areas. Any objections naturally came from residents whose houses lay in the path of the proposed road, so the local community had to overcome the problems by offering alternative plots and help in relocating in order to meet the wider public interest. Even when agreement was reached, the lack of funds meant that implementation could often only proceed if residents contributed in the construction process by clearing routes and digging trenches.

Throughout this process, local communities learned how to provide their own houses and even to develop their own settlements. As the commercial value of even illegally occupied or subdivided land increased in the late 1970s and the 80s, many residents sold their plots and houses to informal developers who built apartment blocks for sale to middle income households. The *gecekondus* were increasingly replaced by 'apartmentkondus', increasing land densities and values to the point where initially low-income households have often become more affluent than salaried professionals. Housing and urban land development, in other words, became a means of economic development for a large proportion of settlers who came to the city as poor migrants. What is even more remarkable is that the process enabled the supply of housing to match demand throughout a period of rapid growth and resource scarcity. Similar informal land development and housing processes operated in many other countries, such as Egypt (eg Davidson 1984), for many years, though their increasing commercialisation during the 1980s made access to such benefits for later generations of low-income households harder to obtain (Payne 1989).

However, officially sanctioned forms of land development and shelter provision have generally failed to deliver these benefits at any time. Unrealistically high standards, restrictive planning regulations and cumbersome (and hence costly) administrative procedures inhibited the ability of either public or private sector suppliers to address either the scale or nature of demand. Antipathy between public and private sector interests constrained opportunities for innovation and raised the cost of entry to legal shelter.

Increasing emphasis upon the role of the private sector to meet economic policy objectives under globalisation pressures has recently generated considerable interest in various forms of public-private partnerships<sup>2</sup>. This partly reflects an increasing awareness that neither the State, nor unrestrained market forces, are able to meet the basic needs of the majority of people.

Public-private partnerships (PPPs) are seen by many as a way out of this impasse and of constituting a political 'Third way' in which the relative strengths of both sectors complement each other. Among the examples of urban development and housing which embody a partnership approach, land readjustment and land pooling, guided land development, participatory development projects and Requests for Proposals (RFPs), have been most widely adopted.

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<sup>2</sup> See, for example, Payne, G (editor) 'Making Common Ground: Public-private partnerships in land for housing' Intermediate Technology Publications, London 2000

Among the examples of innovative partnerships developed recently, three deserve particular mention.

The first of these is land pooling/readjustment (LP/R). This approach has been adopted in many parts of Asia, including Nepal, Japan, Korea, Thailand and Australia. It is designed to facilitate the consolidation of small land parcels under different owners for their planned development. The essence of the approach is that in peri-urban areas under pressure for urban development, the urban development authority may designate an area as suitable for an LP/R project. If a predetermined proportion of the affected land-owners accept the proposal, a development plan is then prepared. Under land pooling, the land-owners surrender their title deeds to the development agency once the scheme is approved and receive a receipt which indicates the value of their parcel as a proportion of the total site area. Once the site has been developed, the development agency disposes of sufficient serviced plots to recover the costs of developing and servicing the area and returns the balance to the original land-owners in proportion to the value of their contribution. In land readjustment, the same approach is followed, except that the original land-owners retain their title deeds until the site is developed and then exchange them for titles relating to their new plots.

The major advantage of LP/R for government agencies is that they do not have to undergo the time consuming, expensive, and often contentious process of land acquisition, whilst for land-owners, they become stakeholders in the development of their land and receive a better return than they could expect through piecemeal development. At the same time, households are able to acquire residential plots in developments which provide best value for money. Since land-owners receive smaller areas of land after development than they possessed before, the major attraction for them is that the value of their newly serviced plots will be worth significantly more than their original holdings. This makes it difficult to meet the needs of low-income households, but improves the efficiency of urban land development.

Another approach which embodies a pragmatic approach to development is that of guided land development, an approach which has been applied particularly widely in Nepal and Pakistan. It consists of planning a development in collaboration with private developers, and allowing the residents to design and manage the construction of their own dwellings. In this way, the land available is put to the most efficient use, the residents have control of the design and cost of their dwellings, and the State's objective of developing sustainable and affordable urban development for all income groups can be met. The 'Khudi ki Basti' project in Hyderabad, Pakistan is a good example of this approach<sup>3</sup> and has subsequently been adopted in other parts of the country with funding from the World Bank. In Nepal, the authorities even employed informal land developers in the guided land development scheme because of their considerable experience in knowing and meeting the needs of lower income groups.

RFPs also have much to commend them, especially in situations where local authorities are less aware of the potential costs and benefits of a particular development, or what options might be most appropriate for a particular site. They have been widely adopted in the transition countries of Eastern Europe, such as Russia and Bulgaria, and are currently being adopted in Lesotho. Under this approach, a local authority identifies a site suitable for development and prepares a brief which stipulates the mandatory components a developer will need to fulfil, plus a series of additional optional features which are considered desirable. Having prepared a brief, the development agency then invites proposals from the private sector, NGOs, land-owners or any combination of actors and the one which meets all the mandatory elements and the greatest number of additional features, wins the contract to develop the site.

The main advantage of the approach for developers is that they know at the outset what conditions are required in order to obtain planning permission. They can then decide how many additional features they are able to provide whilst still making a reasonable profit. It also reduces uncertainty and costs, since once the proposal is submitted, proposals are compared and the successful bid can start immediately. For development agencies, sites can be developed in conformity with social, economic and environmental policy objectives without the need to acquire land or commit scarce public resources, whilst for households, it provides a responsive form of development, because developers cannot sell units which cost more than people are able and willing to pay for.

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<sup>3</sup> Ahmed, N 'Public-private partnerships in Pakistan: Some examples' in Payne, G (ibid)

To make RFPs work, development agencies must develop the capacity to assess the degree of leverage which they can exert over the potential developers. By being too demanding, they will discourage potential developers from bidding; by not being demanding enough, they will lose the potential public benefits which could have been extracted. Given that every site offers unique opportunities and constraints, getting the balance right requires experience which can only be gained from practice, though advice can help in the early stages. RFPs have proved highly effective in stimulating the development of a local private sector where none existed before. They are also effective ways of improving governance, since proposals are generally evaluated openly in meetings at which representatives of key stakeholders are present.

Even in Cuba, the authorities are considering new approaches. Increased emphasis on tourism as a source of hard currency has led to the development of massive tourist developments and generated inward migration to nearby towns by people seeking employment. The need to stimulate planned housing supply under conditions of extreme resource scarcity has encouraged the government to explore alternative approaches which place greater emphasis upon community participation in the preparation and development of residential areas. A pilot project is currently being proposed in Matanzas, near the tourist resort of Varadero, to encourage demand-led housing and urban development processes in the expectation that they can be adapted and replicated in other areas.

Such locally based projects can provide a practical basis for re-positioning the public sector within emerging or existing land and housing markets. Of course, there is no guarantee that such micro-macro linkage will occur and there are numerous examples in which pilot projects have remained just that. However, by emphasising the development of new relationships between all key stakeholders, confidence can be built in new ways of working which can encourage responsive, pluralistic market systems.

The literature on partnership approaches, together with the examples reviewed above, suggests that the approach should include a wider range of stakeholders than just public and private sectors. When local land-owners, community groups and NGOs are included, it is easier to identify and meet the priority needs of each group. For this reason, it may be best to advocate Multi-Stakeholder Partnerships (MSPs) rather than PPPs.

### **Getting the regulatory framework right**

A major consideration in the application of any partnership approach will be the relevance of the regulatory framework of planning and building regulations, standards and administrative procedures required by the public sector in approving a development. In this respect, a key consideration will be the minimum requirements to which developments by or for poor households needs to conform. Where requirements cannot be met, either because of costs or bureaucratic delays, households will be forced into various unauthorised types of housing. Establishing the terms and conditions which determine access to the bottom rung of the legal housing ladder is therefore a critical role for government action. For example, it is not much help requiring that roofs be designed for snow loads in countries where it never snows, or requiring roads to be designed for heavy vehicular traffic in residential areas where car ownership is virtually unknown. Yet many countries still retain regulations, standards and procedures which have been inherited or imported from the West and do not reflect the current conditions with which they seek to deal. By imposing such inappropriate frameworks, governments force households unable to conform into various unauthorised solutions which could have been prevented by the existence of a more appropriate regime. For example, by restricting the incremental development approach adopted throughout urban Egypt and imposing immediate conformity with official building regulations, the Ismailia Demonstration Projects were unable to serve the needs of low income households as effectively as intended.

Ongoing research into regulatory frameworks<sup>4</sup> is currently being conducted in a number of countries to assess the ways in they can be made more responsive to local realities. The research involves carrying out regulatory audits to assess which elements represent the greatest constraint to affordable legal shelter. By relaxing or removing these on a trial basis, it is hoped that empirical evidence can be

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<sup>4</sup> 'Regulatory guidelines for affordable shelter' - a research project funded by the United Kingdom Department for International Development (DFID) being undertaken by Geoffrey Payne and Associates and teams in India, Lesotho, South Africa, Tanzania and Turkey.

obtained on the consequences of such change, before deciding whether or not to adopt them at the wider scale.

### **Global theories and local practices**

Governments throughout the world have been struggling to develop responses to macro-economic change which take full account of their social, cultural, economic and political realities. Within the housing and urban development sectors, such transformation has involved a general move away from reliance upon either the State or the market to meet diverse, but ever increasing, needs and the evolution of more pragmatic, participatory approaches. Public sector staff are learning the need to understand better how land and housing markets work in order to use their limited powers more effectively in regulating them. Private sector developers and investors are also beginning to accept that they have a social responsibility towards less affluent groups, if only to protect their own long term interests. At the same time, the poor majority has demonstrated an ability to develop a wide range of rational and creative responses to the problems facing it and that it is better for all to work with this grain rather than against it. The way in which cities develop in the future will depend to a large degree on the extent to which these challenges can be seen by politicians, professionals and other stakeholders as opportunities rather than threats.

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