

Urban land policies for the uninitiated

Foreword

I. Introduction

Land markets in the urban economy

Political aspects of land development and management

Land development and poverty alleviation

I. Land markets

Land tenure

Characteristics of efficient land markets

Land speculation

II. Government interventions in the urban land markets

Land registration

Planning tools

Land development

Legislative and fiscal tools

III. Coping mechanisms of the poor: Informal land markets

Slums

Squatter settlements

Illegal subdivisions

IV. Bringing the poor into the formal land market

Increasing supply of land for the poor

Increasing effective demand for land for the poor

V. Land policy formulation and implementation

Objectives of an urban land policy

Process of formulating and implementing urban land policies

Further Reading list

Foreword

Several books, monographs, studies, manuals etc. on land development and management have been published over the years (see Further reading list), citing both policy successes and failures. However, most of these have not had a significant impact on government land development and management policies, perhaps because they concentrated on the technical aspects of land development and management rather than its political aspects. Moreover, in most cases their target audience were technical staff and experts involved in urban planning, development, management and policy formulation. However, decisions on to how vigorously to implement a policy or whether to implement it at all, are taken not by experts but by generalists, who are either elected or appointed, often on political rather than technical grounds.

This publication is aimed as a primer, for the uninitiated generalists. It focuses on concepts and issues in urban land and on possible policy tools to address these issues. A special emphasis is placed on increasing the access of the urban poor to the formal land and housing markets.

I. Introduction

By the year 2025, most Asians will be urban dwellers. How well cities function as a system will determine the future of Asia.

In the past 30 years the urban population in the Asian and Pacific region has increased by 560 million people (or 260 per cent) and in the next 30 years it is expected to increase by about 1,450 million people (or 250 per cent). This unprecedented urbanization process has been fueled by rapid economic growth and even more rapid industrialization. With the globalization of economies this trend towards rapid economic growth and urbanization is likely to continue and even increase. Several mega-cities and large cities, with populations over a million have emerged and will continue to emerge. If present global trends continue, the twenty first century will be an Asian century, with Asia poised to become the world's dominant economic powerhouse. By the year 2025, most Asians will be urban dwellers. Cities in Asia and the Pacific are centres of both hope and despair: while being engines of economic and social development they are also congested centres of poverty and environmental deterioration.

With most of its value added economic activities and populations located in urban areas, how well cities function as a system will determine the future of Asia.

Land markets in the urban economy

If land and property markets are not regulated, they can contribute to the collapse of capital markets, and cause unemployment.

The urban economy comprises three basic markets: the urban land market, the urban capital market, and the urban labour market. These markets are inexorably linked and dependent on each other. Of these markets the land market most directly affects the urban environment and the quality of life in cities. Efficient and equitable land markets are a prerequisite for well functioning cities. However, most cities in developing countries of the region suffer from

land market distortions caused by poor land development and management policies including poor planning, slow provision of infrastructure and services, poor land information systems, cumbersome and slow land transaction procedures, as well as under regulation of private land development, leading to unplanned or ribbon/corridor development of land in the urban periphery.

Distortions in the land market often lead to land speculation. In fact, as it became evident recently in the South-East and East Asian economies, if land and property markets are not properly regulated, they can contribute considerably to the collapse of capital markets, and cause unemployment in the labour markets.

Political aspects of land development and management

The key to efficient land markets is the easy and rapid availability of developed land. This does not mean less regulation. In fact in the urban periphery there is need for more planning controls. What this means is proper regulation which facilitates the development of land but at the same time provides rules which protect the environment and improve the quality of life of urban residents. The main constraints to efficient land markets are often more political than technical.

Constraints to efficient land markets are often more political than technical.

Land in and around urban areas are either owned by the government, or by the private sector or, as in most Pacific island economies, it is owned communally by tribes or clans. Often large land owners, be they governmental, communal or private, have a vested interest in maintaining the status quo. These vested interests gain more by keeping the land markets fragmented, without proper controls and by keeping the dealings in the land market non-transparent. While they profit from the status quo the prime losers are the urban residents, particularly urban poor.

Land development and poverty alleviation

The urban poor suffer most from a dysfunctional city. Distortions in the land markets allow land speculation which often prices the poor out of the formal land markets, into the informal land markets which are exemplified by slums, squatter settlements and illegal sub-divisions, mainly in the periphery of cities. This leads to longer commuting time and costs, very poor living conditions, caused by a lack adequate infrastructure and services, causing poor health and greater expenditure, thereby entrenching the cycle of poverty.

I. Land Markets

In traditional capitalist literature land is regarded as one of the three basic factors of production in an economy together with labour and capital. Land is a special component because unlike labour and capital it is finite. Land or at least land-use rights have been used as a commodity to be bought and sold in capitalist systems for at least the past two centuries.

Land tenure

Most countries of the region put restrictions on the use of both free-hold and lease-hold.

Once individuals or corporate entities acquire either land or land-use rights they acquire tenure. This tenure can either be sold or leased by the owner. Therefore tenure is divided into two categories: lease-hold and free-hold. Leases can vary from 30 years as in Thailand to 99 years or in perpetuity as in South Asia. The longer the term of lease the more it resembles freehold. Most leases place restrictions on the lease holder. For example a lease holder may be allowed to construct a building over the land but may have no rights to the minerals in the land. Free-hold has very few restrictions on it and is considered by economists to be more secure. Lease-hold is considered more equitable as it reserves the right of ownership of land to the society as a whole rather than to an individual. However, most countries of the region put restrictions on the use of both free-hold and lease-hold in the better interest of society. Most countries of Asia and the Pacific have a mixture of free-hold and lease hold tenure.

Characteristics of efficient land markets

Once land is traded as a commodity a land market is considered to exist. A well-functioning land market could be defined as one which is:

- Efficient

The system governing the land market encourages quick development and transaction of land.

- Equitable

The system governing the land market provides reasonable access to all income groups.

- Environmentally sound

The system governing the land market protects its sustainable use for the good of both current and future users

- Compatible

The system governing the land markets is integrated with other laws and regulations governing land, such as, planning, taxation and provision of public infrastructure and services.

A poorly functioning land market leads to several ills including, land speculation, creation of slums and squatter settlements, environmental deterioration, and an inefficient urban development pattern which increases the cost of doing business in the city and adversely affects the urban economy.

Land speculation

Land speculation can drive land prices beyond the productive value of the land, causing a "bubble" land and property market. When the "bubble" breaks, financial institutes which lent money to land and property speculators find themselves unable to recover their loans, causing a crises in the financial markets.

Land speculation occurs when the demand for land, at the present time or in the near future,

outstrips the supply of land. This can be caused by several factors both on the demand side and on the supply side.

On the demand side land speculation can be triggered by excess liquidity in the financial markets caused either by rapid economic growth or by a lack of opportunities for investors in other sectors of the economy, in slow growing economies. In either scenario investors invest, on a short term to medium term basis, in the land market, waiting for prices to increase and sell their tenure at a profit.

Rampant land speculation can drive land prices beyond the productive value of the land, causing a "bubble" land and property market, where prices of land and property are overpriced. This can spiral into loans taken on value of land and property at inflated prices from the financial markets. When the "bubble" breaks either by internal or external factors, financial institutes which lent money to land and property speculators find themselves unable to recover their loans, ending up with bad debts, triggering a collapse of the financial markets. Land and property speculators have been blamed for triggering the financial market crises in South-East Asia.

In stagnant or slow growing economies with fewer options for investment, investors speculate in land creating a "bubble land market". When investment opportunities increase, investors diversify their assets and land prices plummet. The impact on financial markets of land market collapse although not as severe as in bubble markets of rapidly growing economies can still be devastating.

On the supply side land speculation is caused by bottlenecks in the availability of serviced land (land with access to basic infrastructure such as roads, water, electricity etc.). These bottlenecks can be caused by several factors either in the land development phase or in the transaction phase.

Slow provision of infrastructure and services can cause the bottlenecks in supply of serviced land. This is often the case where government agencies are in charge of providing infrastructure as is the case in many South Asian countries and countries with transition economies. Some studies have shown that the average time lag between the announcement of a land development scheme and actual delivery of severed plots can take as long as five years.

Bottlenecks in the supply of serviced land are caused by slow provision of infrastructure and services, poor city planning, poor land records, and cumbersome procedures to buy and sell land.

Another cause of slow land development is poor city planning. The Government often provides arterial infrastructure, leaving the provision of secondary and tertiary infrastructure to individuals or private sector developers. Because of the inability of the private sector or individuals to assemble raw land, only land closest to the arterial infrastructure is developed, causing ribbon or corridor development. Such development is often found on the periphery of Asian cities. Land farther away from the arterial infrastructure is often left unserved and thereby unusable for urban purposes. Thus one gets city development patterns with large pockets of vacant, undeveloped land in the city. This type of development causes increased costs of doing business in the city as it increases the costs of transport and provision of

infrastructure.

Bottlenecks can also occur in the transaction phase of land development. Due to poor cadastral land records, slow bureaucratic procedures, it can take a long time to buy and sell land in the market and to register such transactions with government institutions.

In addition to high economic costs land speculation has high environmental and social costs.

The environmental costs of land speculation can be high. Rather than develop existing vacant land within a city land developers find it more profitable to develop new land along transport arteries in the periphery, often by converting agricultural land or land earmarked as green areas. This type of ribbon development puts greater pressure on natural resources, particularly water as it increases the amount of leakage. It also increases the costs of disposing urban waste water and solid wastes. Because of greater commuting distances and lack of an adequate transport infrastructure it also increases air pollution.

Social costs of land speculation can also be very high. As stated earlier it can drive the urban poor out of the formal urban land market, pushing them into squatter settlements, illegal subdivisions and slums. Poor housing and infrastructure conditions not only increase the cost of living but also cause poor health and entrench the cycle of poverty.

In some countries, speculation in the land markets has made housing unaffordable even for the middle classes. Surveys have shown that some lower middle class families are forced to find shelter in illegal land subdivisions.

II. Government interventions in the urban land markets

The rapid urban development process taking place in developing countries leads to swift and drastic changes in the physical, economic, social political and administrative structures of the countries and the cities. Historically governments have felt a need to guide and control the important structural changes which occur within their domain. This holds true especially for a scarce resource such as land. Three main justifications for government interventions in the urban land market are often cited:

1. Eliminating market imperfections and failures to increase operating efficiencies.
2. Removing externalities so that the social costs for land market outcomes correspond more closely to private costs.
3. Redistributing society's scarce resources so that disadvantaged groups can share in society's output.

Governments have a wide variety of tools available to implement their objectives of regulating land market within its boundaries. These include planning tools, zoning ordinances, building regulations and by-laws, permits, inspections and penalties. However, their implementation has had limited results.

The European planning models used in most developing countries of Asia, are usually old and out-dated and have been abandoned even in the country of origin.

A general problem is that these tools were either inherited from colonial powers or developed either in Europe or in North America. There are many characteristics which make these

planning tools unsuitable for Asian cities. Although there is a great variation of situations in the Asian region, there are some common characteristics which include physical expansion and population growth rates, high levels of centralization and hierarchical administrative and political structures, as well as, features which reduce the productivity of land, such as land speculation. Furthermore, the European planning models, which are in use in most developing countries of Asia, are usually old and out-dated and have been abandoned even in the country of origin.

Land registration

Efficient functioning of land markets require efficient and updated land registration systems which clearly indicate legal ownership of land

As populations gradually grew in most societies, land became an increasingly scarce resource and various types of rights to use the land developed. Traditionally, land transfers became a legally binding agreement upon the delivery of the transfer price or an oral agreement. However, it became increasingly necessary to develop systems which would clarify ownership and minimize disputes. The three major land registration systems which developed are the deeds registration system, the title registration system and the private conveyance system.

In the deeds registration system, the transfer document (the deed) itself is registered. The deed does not prove the ownership and the chain of ownership has to be traced back either by lawyers or the land registration authority.

In the title registration system the certificate itself is the proof of ownership. This system was developed in the United Kingdom and exists in countries which had been under British influence. In some countries this system has led to an incomplete land registration system either because it is not compulsory to register transfers or because it is only necessary to register when land is sold or subject to long lease. The Torrens system is a variant of the title registration system developed in Australia. The advantage is that there are two certificates to each parcel and the original is kept at the land registry. An ownership transfer is merely endorsed on the back of both the original and duplicate. Variations of this system have been adopted in countries such as Thailand, Malaysia and Kenya.

The private conveyance system is the most common system in developing countries. It is based on the system to register deeds. However, only about 10 to 20 per cent of transactions are registered for example in Bangladesh and Pakistan with the remaining transactions conveyed either formally or informally with or without a person of legal training involved. A practice has gradually developed in most societies whereby the land transaction should be written and that there should be a witness.

The process of registering deeds is often very time-consuming in developing countries. Efficient functioning of land markets require efficient and updated land registration systems which clearly record legal ownership of land. The market attaches great importance to legal titles to land. This is evident from the fact that land without legal or disputed titles is seldom bought. In situations where untitled land is bought, such as in illegal settlements, prices are much lower than that of land with titles.

Land registration is also important for governments for collecting property taxes. Without

knowing who owns the land and what that land is being used for, governments cannot levy property taxes.

An efficient land registration system (juridical cadastre) consists of two parts: The first part is a written record or register with information on each parcel, such as owner and the rights of the land, while the second part includes a detailed description of the parcel in the form of a map or survey measurements. The second part is normally cross-referenced with the first. When the records and descriptions are combined, then the land registration system provides considerable benefits. Some of the major benefits are listed below.

- Security of ownership and tenure rights

This is the most important impact. It reduces the amount of land disputes which currently is a major issue in developing countries. The security of ownership also stimulates land development.

- More efficient land transfers

The costs of delays for permits is a serious constraint in most developing countries, and an efficient registration system makes transfers easier, less expensive and more secure.

- Security of credit

The land title can be used as collateral for loans. This security has a positive impact on the productivity of the land since it enables the release of major financial resources for investment in the land.

- Public control of land markets and intervention

Policies such as land redistribution and control over foreign land ownership are difficult to implement without a functioning land registration system.

- Support for the land taxation system

The expenses for improving the cadastral system would, in actual fact, quickly be covered by increased property tax revenues.

- Improved land use and management

It can directly provide better information on land ownership and rights for physical planning as well as facilitate the development of other planning tools such as information banks covering land use, land values, population etc. It can also provide a tool to restrict certain land uses with a negative environmental impact.

Governments have been unable to improve the efficiency of land registration systems because of institutional, technical and economical constraints and a lack of political will.

The problems which governments are facing in developing countries can be divided into four categories: institutional, technical, economical and lack of political will. The institutional problems include shortage of skilled and lack of interorganizational and interdepartmental

coordination. Technical problems include the inefficiency and inflexibility of the existing system and the high standards regulated for surveys. Financial problems are incurred through high costs for subsidizing the system. It has been proven in many countries that the costs for improving the registration system can be recovered within a very short time span with revenues from land transfers and/or property taxes. The motivation problem often stems from the fact that registration of such a scarce and valuable commodity such as land is politically sensitive matter.

It has been recommended that developing countries should use progressive systems. This means that when a new cadastral/land registration system is introduced, or an old improved, its design should be such that, although technically simple, it can be upgraded easily and is readily adaptable.

However, before setting up a progressive system it is necessary to assess the existing system and define the objectives for improvement. It is very often necessary to improve the institutional arrangements and strengthen the technical skills of staff. It may also be worthwhile to consider introducing some incentives for individuals to register their land. The incentives may include, for example, inexpensive registration fees, introduction of grace periods from property taxation and legal assistance to low-income groups. It could also be desirable if the national control boards for banks provided stricter rules so that a mortgage could only be provided for land which is officially registered.

- Land Information Systems

Historically, governments have established records (cadastres) for fiscal and legal purposes, based on either ownership, parcel (plot) or a series of plots with the same owner (land-holding). These records have been established and kept separately. In an increasingly complex society with an abundance of data and information, there are many reasons for developing a system to attain and combine information on land in a systematic, rational and efficient manner. There are now considerable efforts being made in many countries around the world to create land information systems with data from different sources based on a cadastre where each parcel has a unique identifier. With the advances in information technology it is becoming increasingly cheaper to develop and maintain land information systems.

Land information management is an integral part of urban development and urban management. The actions which are required in order to improve the land information system may vary depending on the city and country context but there will always be a basic need for cooperation between different government agencies.

The need for efficient land management systems in developing countries are evident. Initial efforts to develop a land information system can be vary time consuming as some information and data may be non existent or different sources may provide conflicting information or data. Land information systems should be developed incrementally to iron out these problems, as well as, to train staff to utilize it to its maximum capacity.

Planning tools

Physical planning in developing countries is most often regarded as essentially static in nature, lacking effective land-use control mechanisms and investment priorities. Planning is

restricted by the lack of feasible means to ensure implementation, anticipate market reactions, as well as, means to consider the cost implications for various government agencies and the economic impact on various income groups.

The most commonly used planning tools include comprehensive general plans, master plans, strategic plans and structure plans. The broad objective of these plans is to guide the development of the city for a specified time period and to promote the land-use pattern which most efficiently fulfills the objectives of the government.

- Master plans

Experience has shown that general and master plans tend to be static or assume slow-growing cities. These two plans also tend to be too time-consuming, detailed and costly to develop and are mostly failing to consider the full consequences of economic demand for space. They also tend to ignore how households and the commercial sector alter their demand for land as prices change.

- Structure plans

A more appropriate and dynamic planning tool for developing countries is structure planning. This approach highlights the critical issues and prioritizes infrastructure in investments which are the key issues for shaping city growth. It provides a broad framework for local decision-making and it involves public participation. The structure plan includes some practical actions which are necessary to influence development towards the defined objectives.

- Land use zoning

Land use zoning is effective to control densities and protect the natural and living environments.

The plans discussed above use different forms of zoning and regulations. Zoning dictates to the land owner the purposes he or she can use the land for and what can be built on that land. Zoning regulations are usually passed by local authorities, although in some countries provincial or even central governments retain the power to approve zoning regulations. Zoning regulates the use of land in areas for residential, commercial, industrial, agricultural or other land use. Earlier on, zoning ordinances used a scale of intensity which ranged from single-family residential (least intense) to heavy industrial (most intense). This system of detailed designation has proved impractical and modern zoning systems are more flexible.

Some zoning ordinances apply "bulk" control over land and buildings. They aim at controlling the density of population, production and traffic; as well as providing adequate daylight, air, open space and privacy. Older zoning restrictions included requirements of open space around buildings, placement of building by height limitations, setback regulations (from roads), and limitations on shaped and volume. Floor area ratios (FAR) is a more modern control mechanism based on a ratio between the floor space of the building and the lot size.

Zoning can be a very powerful planning tool as it permits the government to select which land uses should be allowed. However, zoning is very difficult to implement effectively as, contrary to regulated zoning ordinances, land in Asian cities is frequently used for other or

mixed purposes such as residential and commercial use. Mixed-use zoning has been introduced in some large-scale projects for a more comprehensive and flexible approach to zoning, partly to provide a legal process to accommodate the need for using land for mixed purposes. This technique permits significant physical and functional integration of project components. As it is, zoning will work most efficiently as a planning tool when it is complemented with other control mechanisms at the more detailed level such as land subdivision and building regulations.

- Land subdivision regulations

Land subdivision and building regulations are used to plan at the micro level and to secure socially acceptable minimum standards.

Subdivision regulations govern the development of raw land for its zoned purpose in much more detail. The regulations define standards for layout and lot sizes, street improvement and procedures for assigning private land for public purposes. Subdivisions provide the essential characteristics of land uses, street patterns and public utilities. The amount of land which is thereby dedicated for public purposes differs between countries and may represent a substantial portion of the total land area.

While subdivision plans and regulations have proved to be a very efficient tool in European countries as a means to force developers to cover some or all the costs for provision of public infrastructure, they have been less successful in developing countries. Problems encountered include the implementation of the subdivision controls and the vast areas, mostly in the urban fringe, where land is illegally subdivided in order to provide more shelter. These irregular subdivisions with high densities frequently cause health, fire and other hazards.

Another major problem with these regulations is the juridical division between urban and rural areas or between the various types of local authorities. Often land subdivision regulations do not apply to areas designated as rural or which fall in the administrative boundaries of rural local authorities, while most conversion of urban land takes place in these areas. The needs and conditions of development in developing countries require a more flexible set of standards than what has been introduced based on European experience. These standards should consider the rapid changes in the urban fabric, relate more to local conditions and be easier to implement. It would be beneficial to introduce, for example, a permissive system of development control whereby certain development within some clearly specified categories does not necessarily require planning and/or building permission. A permissive system would assume that the builder follow development standards but it has to be combined with a system of spot checks and strict use of penalties. A permissive system would free scarce government staff to focus on priority tasks such as controlling negative impacts from industrial development and other health hazards, and implementing innovative planning and development control measures to improve the traffic situation. It would also be possible to introduce incremental development standards which would vary depending on household affordability.

- Building regulations

Building regulations are another means of regulating land use. Their main objective is to secure socially accepted minimum standards. Although originally mainly concerned with fire protection, structural safety and sanitation; modern codes are very comprehensive. One of the

problems in developing countries have been that adopted building codes often have been based on those from developed/industrialized countries with a different physical, climatological and social environment. The codes have often been inappropriate and increased development costs substantially, making it difficult in particular for low-income groups to afford housing built to legal building standards. Lately, there has been a tendency in many countries to ease building standards by reducing lot sizes and eliminating amenities.

Land development

In a market economy a government's role should not be to provide goods and services. It should be to enable their provision by other actors and to regulate the market to ensure that it is competitive, sustainable and equitable.

As stated earlier one of the most powerful tools that a government has to intervene in land markets is land development. A government has two options for its intervention: it can either develop land itself or it can promote land development through the private sector. Experience has shown that direct government development of land has not been very effective. Long delays due to bureaucratic procedures, poor quality of construction, lack of coordination between different agencies have been some of the reasons for the inefficiency of governments in land development. As discussed earlier delays in providing serviced land increase rather than decrease market distortions.

In a market economy, the government's role should not be to provide goods and services but rather to enable or facilitate other actors, be they commercial or community-based, to be the providers. Government should reserve its interventions to regulating the market to ensure that it is competitive, sustainable and equitable.

- Land pooling/readjustment

Another technique for promoting efficient, sustainable and equitable land development in the urban fringes is land pooling/readjustment. The concept of land readjustment has been used in various countries of the world for at least two hundred years. It has been most successfully used in Japan and Republic of Korea in recent years.

The concept of land readjustment is to assemble small rural land parcels into a large land parcel, provide it with infrastructure in a planned manner and return the reconstituted land to the owners, after deducting the cost of the provision of infrastructure and public spaces by the sale of some of serviced land.

A land readjustment scheme is typically initiated by the municipal or the national Government designating an area which is about to be converted from agricultural to urban land use. A subdivision plan is developed for a unified planning of the area. Provision of infrastructure and services is financed by the sale of some of the plots within the area, often for commercial activities. The original landowners are provided plots within the reshaped area which, although smaller in size, now have access to infrastructure and services.

There are several inherent and complex equity problem in the allocation of plots and the provision of financial compensation. Before the project, the plots may have a different physical shape and economic value. Some plots may be hilly and unsuitable for urban use, while others may be very suitable for agricultural production but expensive for constructing

housing. Even during the period of construction the impact will differ as these typically large projects will begin in one end of the project area and it may take years before the other end is completed and all services provided. Some landowners such as farmers may lose their income opportunities earlier if they are located where the project starts. After the project, there may be differences owing to the allowed land use and the allocation of plots. Residential or commercial plots with high-density land use as well as plots located close to infrastructure hubs, commercial activities and along main roads, will have high land values. The solution for this equity problem may differ among countries using the land readjustment method although research shows that there are many similarities. For instance, the distribution of revenues and costs is often based on the present value, often taking into consideration the suitability of land for urban use.

Land readjustment works best when implemented in small to medium-size areas

There are many advantages of using land readjustment. First, it provides an opportunity for a planned development of the land and infrastructure network and it avoids the problem of the so-called "leap-frog" development where different types of land uses and densities are mixed. Developers in many Asian countries often have a problem because plots in the urban fringe are small, irregularly shaped and lack access to public roads. Furthermore, as many of these plots are not for sale, it is often difficult to find a sufficient number of plots next to each other and, thus, building development becomes scattered.

Second, land readjustment is an attractive method to influence the location and timing of new urban development since it is becoming increasingly difficult to obtain public support for the use of expropriation for land development and infrastructure provision. The method is typically supported and sometimes even initiated by the landowners since they would make considerable profit on the project. Contrary to the obvious alternative methods for city development, land banking and expropriation, it also avoids the costly and unpopular government procedure of acquiring land. Unlike expropriation, land readjustment will return a major part of the land to the landowner. Ideally, a partnership for development should be formed between the public sector and the landowners. It is therefore very important that close links are established during the project.

Third, it provides an opportunity for the provider of infrastructure and services to recover the incurred costs as well as to get access to land for this purpose. As cost recovery is a major obstacle for municipal governments in most Asian countries, this would probably be the most important component.

Fourth, a welcome side effect is that land readjustment requires that the land ownership situation is clarified and an accurate land registration system provided. This should also lead to increased public revenues from property taxation.

Fifth, if administered properly it could provide increased equity in land distribution. Not only among the landowners within the area, but it could also be a means of providing access to land for low-income housing.

The current system of land readjustment does not prevent landowners from speculating, it does not have a mechanism for levying betterment taxes and it requires a large number of skilled negotiators and valuers.

The above notwithstanding, there are a number of problems with the land readjustment technique. First, while they provide an opportunity for landowners to develop their land, the present systems do not force the development of land. In many countries with very high demand for land, such as Japan and the Republic of Korea, it has become increasingly common that landowners use their land as a savings and investment instrument and this has contributed to increases in land values and land speculation. Furthermore, another major incentive for landowners to encourage high land values is that the provision of infrastructure and services if financed by the sale of land. In fact, the use of the land readjustment technique in Japan and the Republic of Korea has virtually stopped when rapid land value increases took place in the 1980s.

Second, as there are no incentives to maintain low prices on land and no other built-in mechanism for inexpensive housing, the method has been criticized for not being effective in reducing the huge shortage of low-income housing in most Asian cities. While it is important to maintain the incentive for landowner participation, it can be argued that the profit margin is unreasonably high and that the role of the public sector as partner should be recognized in sharing the profit. The public sector should therefore aim for more than cost-recovery.

Third, as the concept of the land readjustment technique is based on private-public cooperation and negotiation, it requires large human resources both in terms of numbers and qualifications. In particular, skilled negotiators and valuers must be available. In most Asian countries, there is a shortage of skilled staff in the Government, especially at the municipal government level.

There are several important prerequisites for the successful implementation of land readjustment:

1. It must be supported by the national, regional and municipal governments. It is important that the national Government provides regulations and guidelines to ensure fairness in the system;
2. The land readjustment agency must be given powers to coordinate and to get access to assistance from various government departments;
3. The land registration and cadastral system needs to be efficient;
4. There has to be a sufficient number of skilled and highly dedicated negotiators at the local level as well as objective and well-trained land valuers;
5. As the method is based on public/private cooperation, the majority of the landowners should support the use of the technique. Forceful acquisition of land should be avoided.

Land readjustment projects work best when they are implemented in small to medium-sized areas. Phasing could be used within larger areas. Faster implementation would reduce the disturbance of the landowners and the impact from market fluctuations on land values. Another recommendation would be to use land values rather than size of area.

It is important to recognize that land readjustment is merely a land development method and should be regarded as a complement to other methods. It will never be a panacea to the

staggering shortage of housing and infrastructure in developing countries. The method is especially useful when:

1. scattered and unsuitable subdivisions hinders private sector land development;
 2. older urban structures should be reorganized; and
 3. there is a need for extensive provision of infrastructure and services.
- Guided land development

Guided land development uses the provision of infrastructure as a mechanism to guide urban development. It is done in partnership with landowners who pay for the cost of servicing their land through donation of land for public infrastructure and payment of a betterment levy.

One of the traditional government functions has been to provide urban infrastructure, particularly bulk infrastructure and services such as primary or arterial roads, trunk water and sewerage etc. Governments can use infrastructure investment policies to guide the direction of land development, as well as, to ensure that land development is efficient, environmentally sound and equitable.

As discussed earlier most urban development occurs in the urban fringes where rural land is converted to urban uses. Guided land development (GLD) is a land management technique for guiding the conversion of privately owned land in the urban periphery from rural to urban uses. Guided land development has been proposed for Indonesia but is yet to be implemented. It uses a combination of traditional government role of providing infrastructure and the enforcement of land subdivision regulations. The key advantage of the approach is that it is less costly than outright land acquisition and more equitable than land banking.

The principle behind guided land subdivision is that the government agency entrusted with urban planning or land development proactively selects the direction where it feels urban development should take place and provides infrastructure in those areas. This encourages private land developers to develop land in that area. By not building infrastructure in other areas acts as a disincentive for private development in those areas.

The cost effectiveness of guided land development approach results from the fact that land development is planned, designed and implemented with the landowners of the designated area, who donate land for roads and right of way for infrastructure, and public spaces, as well as, pay a betterment levy to meet the costs of the project. The betterment levy is justified because of the increase in the value of land from the provision of infrastructure and from conversion to urban land use from rural land use.

As landowners are supposed to donate land, as well as, pay betterment levies, the infrastructure development plan is prepared using both topographical and land cadastre maps, ensuring that wherever possible roads and infrastructure follow the existing plot boundaries. To finance the scheme a loan is initially taken out to build the infrastructure, which is paid from betterment levies provided by landowners either on annual installments or in lump sum upon sale of land.

Individual landowners are supposed to subdivide or service their own lands. In case of

subdivision of land adherence to subdivision regulations is strongly imposed in the designated area.

Guided land subdivision while being quite enticing on paper is often fraught with difficulties on the ground. First, as the scheme depends on the consent of the landowners it cannot be applied in areas with fragmented landownership. Too many landowners mean that greater time and effort is needed in building consensus. It is very likely that those landowners who have access to roads will refuse to participate voluntarily. Landowners may want to continue the rural use of land.

Second, collection of betterment levies, particularly on an annual basis may not be acceptable to landowners. Or even if it is acceptable, they may for various reasons, default on the payments. The option of holding a land parcel as collateral against default of payment may not be feasible. Judicial proceedings in civil cases in most developing countries take several years to complete. This would mean that the particular parcel of land will be out of the market until the civil case is settled. Moreover, it may be politically undesirable to repossess lands of small landowners who are most likely to default.

The advantages and disadvantages of guided land development are in fact very similar to land readjustment and land pooling. The only advantage that guided land development has over land pooling/land readjustment is that the government does not need to decide on the amount of land to be returned to the landowners at the end of the project.

Legislative and fiscal tools

Governments can use legislative and fiscal measures to combat land speculation. However, these measures are politically difficult to implement and may in certain cases prove counter-productive.

- Land ceiling acts

One legal measure is limiting land that a single juridical person (individual or corporation) can own. The intent behind such land ceiling acts is to ensure equitable distribution of urban land. However, such acts can fragment urban land ownership to such an extent that land assembly for larger urban development projects becomes difficult. This kind of law can be easily subverted by individuals and by corporations which can transfer land titles to family members or to subsidiary companies.

Moreover, experience has shown that redistribution or resale of expropriated land often takes a long time, effectively taking the land out of the market. Therefore instead of increasing the land supply such laws can in fact exacerbate the shortage.

- Land expropriation and land banking

Direct land acquisition is often used by governments to provide infrastructure and services needed for the well-being of a city. Most countries have laws which permit governments to purchase or expropriate private land in the overall interest of society either at market prices or below market prices. This concept is called the "power of eminent domain". In most Asian countries eminent domain legislation has been inherited from former colonial powers. This legislation often forces landowners to sell their property to the government. In some countries

the legislation also stipulates that the government can buy the land at prices lower than the market value of land. This power, in some instances, has been abused by government agencies, who have expropriated agricultural land around urban peripheries, at prices lower than the market, developed and rezoned it to urban land use and sold it to urban investors at much higher prices.

Land banks are created by buying rural lands around the city. Governments can use land banks to guide urban development, fight land speculation, redistribute land to the poor and to finance infrastructure investments.

Land acquisition in the urban periphery has also been undertaken to create land banks. The principle behind land banks is that the government buys large tracts of land, at market prices, in the urban periphery which have not been brought to use for urban functions. With this land bank the government can not only direct development where it wants, by developing this land for urban uses, it can also combat land speculation by bringing additional developed land on the market and keeping prices low. It can also be used to redistribute land to the poor. Another advantage is that government land development agencies can finance infrastructure expenditure by borrowing from the capital markets, using the land bank as collateral.

Land banks have proven ineffective because of the long time needed to purchase land, provide infrastructure and to sell land to the public.

However, while in principle land banking is a fairly good idea, in practice it may actually restrict the amount of developed land in market. Often the land acquisition procedures are very cumbersome and in some countries it may take as many as 20 years from the time a land owner is notified about the acquisition to the time land is purchased. This time-lag effectively takes that particular land off the market as the land owner can neither develop it nor sell it.

Moreover, the government bureaucracy is often slow in developing and selling the land to the public. Time lags in this phase can also be as much as 5 to 10 years. In fact experience has shown that most land banks have failed to keep land prices low and combat speculation.

- Capital gains tax on sale of land

Market reactions to fiscal measures are often unpredictable and can result in unforeseen impacts. A great deal of care is needed to ensure that they achieve what they were intended to achieve.

A commonly used method of combating speculation is the capital gains tax. The principle is that the net gain from the sale of land should be taxed as any other income. Net gain is defined as the selling price minus the buying price of land and costs incurred in developing the land.

While capital gains tax works well in developed countries its record in developing countries is mixed. High value of capital gains taxes often result in informal transactions of land and may encourage illegal sub-divisions. These taxes often do not work because land registration systems are inefficient and not up to date and the property valuation and taxation systems are corrupt. Landowners often bribe government valuers to lower the assessed value of their lands. In addition sellers often declare lower sale prices to avoid taxation.

One idea, which has been floated but not as yet implemented in any country, is self valuation. Under this idea the property owner declares the market value of the property him or herself. The government, under eminent domain legislation, reserves the right to expropriate that land at the self-declared market value. Thus if the landowner declares a lower than actual market value, the government can expropriate the land and auction it off. Otherwise the landowner pays the tax on the declared value.

The problem with this approach is that it assumes that the government agencies and the legal systems are efficient enough to determine market values of land and to expropriate land quickly. Given past experience this is normally not the case in developing countries.

- Taxation of vacant and excess land-holdings

Another approach is to make owning of vacant land unprofitable by increasing property taxation on vacant land. The intent is to discourage land speculation and encourage capital investment on land to utilize it to its full potential. Such laws can unjustly penalize small investors who buy land for residential purposes or for starting small businesses, but cannot do so because of a lack of capital, which they can only assemble over extended periods. However, measures can be taken to ensure that only large landowners are covered by such laws.

A combination of land ceiling acts and taxes on vacant land-holdings is the excess vacant land-holdings tax. The principle behind these types of taxes is that the government determines how much vacant land an individual can own in the city. Any land holding in excess of this is taxed at a much higher rate. Both the vacant land and excess vacant land taxes suffer from the same implementation problems as the capital gains tax.

Market reactions to fiscal measures are often unpredictable and can result in unforeseen impacts. Consequently great deal of care is needed in designing fiscal measures to ensure that they achieve what they were intended to achieve.

III. Coping mechanisms of the poor: Informal land markets

Land and housing have especial significance for the poor. Often a house is not just a shelter it is also a place for income generation.

Urban settlements of the poor in the region are characterized by home based workshops from which the poor earn their incomes.

When the poor are locked out of the formal land and housing markets they revert to the informal land and housing markets to meet their needs. Slums, squatter settlements and illegal settlements are often discussed in the media as being interchangeable or being the same. However, there are unique characteristics which distinguish each from the other.

Slums

Slums are legal but overcrowded, under-serviced settlements. Squatter settlements are unplanned, often unserviced illegal settlements. Illegal subdivisions are organized and planned squatter settlements.

Slums are legal but substandard settlements, with a lack of adequate services and overcrowding. Slum dwellers could be either renters of the shelter, or the land or they could be owners of the land and dwelling. Slums are normally found in the centres of cities, although it is not uncommon to find slums, where land is rented, in the urban periphery.

Squatter settlements

Squatter settlements are settlements where land has been occupied illegally. They are often found on marginal or environmentally hazardous lands, such as beside railway tracks, along rivers and canals etc. They are also found on government land or land whose ownership is unclear.

Squatter settlements are spontaneous or organic settlements with little or no planning. They often start out by a few families finding a vacant piece of land and establishing a homestead there. If they are not evicted, some other families build their houses there and the settlement expands.

Housing conditions can remain substandard for years if the squatters perceive that there is a threat of eviction. They often minimize the amounts of capital investment in their housing because their land tenure is illegal.

In their early stages squatter settlements are characterized by haphazard settlements patterns, poor quality of housing and an absence of public infrastructure and services such as piped water supply, sewerage, roads and electricity. Over time, people find ways of accessing basic services. In some squatter settlements water is bought through vendors and charges could be as high as ten times the municipal water rates. In other cases squatters have been known to illegally tap into the main water pipe lines to access water. In many squatter settlements community-based organizations have lobbied government agencies to provide public stand-pipes or water tanks in the settlements. Similarly electricity is either accessed legally, through lobbying with government agencies, or is stolen from electric lines or is bought from neighbouring formal dwellings. What is often ignored is sanitation and paved access.

Illegal subdivisions

While squatter settlements are spontaneous and unorganized, illegal subdivisions are planned and organized. These usually occur in cities where the government owns large tracts of vacant land, with low opportunity cost, in the periphery of the city.

Illegal settlements are started by unscrupulous land developers in league with corrupt government officials. Housing conditions are often better than in squatter settlements because the perception of secure tenure is higher.

Unlike squatter settlements which are started by dwellers themselves, illegal subdivisions are started by unscrupulous land developers who are often in league with corrupt elected and appointed government officials, including the police. With the protection of these corrupt officials these developers occupy government land, level it and subdivide it, according to government planning regulations, planning space for commercial, residential zones, schools, hospitals, religious institutions, recreation areas, primary, secondary and tertiary roads etc. In some cases such settlements were planned by planners in government agencies after office

hours to earn extra income.

They sell these plots, at almost nominal prices, without services to low-income households in desperate need for shelter. The only thing they provide is water through tanker trucks. The developers also ensure that the families will not be evicted by using their political connections and through bribing the officials concerned. If the pioneering households find living without services, in the periphery of the city too difficult and leave, their investment is confiscated and the plot resold to others.

As the settlement grows the developers usually form a resident's welfare association which lobbies with government agencies to provide services. Services such as electricity connections are often illegally tapped from existing government infrastructure. The developer often reserves plots with commercial value or corner plots or plots on wider streets for sale once the settlement is well established.

The housing conditions in these settlements are often better than in squatter settlements because the perception of secure tenure is higher. In some ten to fifteen year old settlements surveys have shown presence of lower middle class families who could not afford housing elsewhere.

Another example of illegal subdivision is when landowners subdivide and sell their plots in contravention of government subdivision regulations. Such subdivisions often pay little attention to health and fire safety considerations. As the motive behind their development is maximum profit they often have no provision of public amenities like parks or open spaces. Furthermore, as they are developed by individual landowners, narrow roads contravening planning rules and a lack of coordination of transport access to lands around them can cause traffic congestion.

IV. Bringing the poor into the formal land market

Poverty can be defined as the lack of security and choices. For the poor these two elements are missing in the land and housing markets. They have very little choice as far housing is concerned and consequently, have to live and work in informal and illegal settlements. Moreover, they also do not have secure tenure in these settlements.

Poverty can be defined as the lack of security and choices. The key to sustainable poverty alleviation is to enable the poor to operate in formal markets like other citizens.

The key to sustainable poverty alleviation is not to make the poor dependent on governments or non-governmental organizations but to empower them to increase their security and choices. In other words to enable the poor to operate in formal markets like other citizens.

Experience has shown that bringing the poor into the formal land and housing markets needs a two pronged strategy: increasing the choices available on the supply side and increasing affordability on the demand side.

Increasing supply of land for the poor

Early attempts by governments in developing countries to provide low-income housing focused on the provision of fully serviced public housing units. Urban migrants and squatter

settlements were treated with open hostility. They were generally considered as "dead weight" slowing down the process of development and their illegal settlements were often flattened with the help of bulldozers.

As it became increasingly obvious during the 1960s and 1970s that attempts to curb rural-urban migration would not succeed and government housing programmes were completely incapable of keeping pace with the enormous demand, there was a growing awareness that alternative methods would have to be found. Many experts (John Turner being the foremost) advocated that if low-income groups were provided security of tenure and, depending on the financial resources of the government, some basic infrastructure, residents would with time gradually improve their housing. It was argued that the role of the government in housing should be changed to be an enabler rather than provider. The enabling role has ironically been supported by both liberal and conservative groups, the first mainly because it empowers local community groups and the latter because it reduces the burden on the public purse.

- Sites-and-services

Sites-and-services schemes provide the target group with a plot and basic infrastructure, such as water, roads and sanitation facilities. The beneficiaries either lease or buy the allocated land. Often, they are provided access to a loan with reasonable terms as well as an additional loan for the construction of a house. Although typically not included in the project, it is expected that the plot owner would eventually build a house of reasonable standard. During the 1970s and 1980s, sites-and-services schemes were implemented in nearly 100 countries mostly on the behest of international agencies like the United Nations and the World Bank.

Sites-and-services projects, while being a better option than government built housing, have often failed to meet the housing needs of the urban poor.

It is difficult to give a description of a "typical" sites-and-services scheme as the interpretation of the concept varies substantially. Some project only provide pegged-out lots, unpaved roads and footpaths as well as communal pit latrines and water-taps while others may even include paved roads, a utility wall and a partly finished house.

There are many physical components to be considered within schemes. First, a utility wall may be provided which includes main service connections such as water supply, electricity and sewerage. Other projects may have a sanitary core while another solution is communal utilities with the option to provide individual connections.

Second, the layout of the area depends largely on the planned lot sizes, accessibility to roads and footpaths, and topography. Often the importance of the topography has been neglected. Projects have been built on hillsides and in swampy areas with serious implications. Communal or individual pit latrines also have an impact on the lot sizes and therefore indirectly on the population density. Using individual pit latrines requires physical space for two latrines as one will be in use.

Third, some schemes have included the construction of posts and a roof, features which are both expensive and difficult to build. In other instances some walls or a room have been provided as a temporary solution while the household built their house.

The World Bank introduced two terms as general principles of sites-and-services schemes.

First, the term 'accessibility' was used to indicate that the target group (the medium-income bracket of the low-income group) should gain access to the sites in World Bank schemes. However, because of excessive standards and high costs, the targeted group often decided to sublet or sell the site and move back to an area close to his/her original squatter settlement. Second, because of the magnitude of the problem and the limited resources of government, the term 'replicability' was an integral part of all projects. However, for several reasons very few of these projects managed to break even financially. Three out of four programmes failed to recover the incurred costs and, subsequently, the World Bank's support to sites-and-services schemes and squatter settlements has decreased

Cost-recovery has been difficult partly because of the high expenses which allottees typically have to bear early after moving into the area. They would have to pay for the infrastructure and construction of the house, while, at the same time, they may either have high transportation costs to their old work place or have not been able to find a source of income in the new area. Furthermore, the method has also been expensive for governments as they were typically required to provide land which became expensive, mainly because of land price increases and, to some extent, land speculation.

Many other problems have been encountered with sites-and-services schemes over the years and gradually settlements upgrading has become a more favoured government response to the needs of low-income groups.

- Illegal settlements regularization/upgrading

Although the sites-and-services approach offers many opportunities, it is not a feasible method for providing housing to the majority of urban low-income residents because of the huge shortage in the existing housing stock and high costs. Settlement upgrading is based on investments already made in the existing housing stock and is therefore less costly to implement. Settlement upgrading provides existing settlement dwellers land tenure, as well as, basic infrastructure.

Squatter settlement regularization/ upgrading is a better option as it provides land to the poor near their work-place, does not disrupt the integrity of the community and takes into account the investments the poor have already made in their settlements.

The Kampung Improvement Programme (KIP) in Indonesia probably rates as the foremost settlement upgrading achievement in the world. The objectives of the programme were to provide access roads, footpaths, drainage, sewage solutions and drinking water and social facilities such as schools and health centres for urban low-and medium income groups in Indonesia's popular kampung settlements. KIP/Jakarta, alone, has improved more than 500 kampungs and provided basic services to about 3.8 million people. Indonesia's five-year-plan for 1989-1994 was to be implemented in 500 cities and included projects for urban renewal encompassing settlement upgrading programmes.

KIP is also a good example of the importance of local support for upgrading programmes. When the programme was introduced in 1969 it had a top-down design where officials analyzed communities and imposed their solutions. However, as local resistance increased it was realized that the programme had to be reorganized to involve residents in community-based organizations. Residents became much more enthusiastic and it was found that they were also willing to provide substantial amounts of funds. Today, KIP is an established

method and its effectiveness in the provision of basic infrastructure is well recognized.

Successful squatter settlement regularization/upgrading projects have the following characteristics:

1. Upgrading projects are relatively cost-effective in a situation of high demand for shelter and services.
2. Upgrading projects are most successful if they are simple and down to earth. Basic programmes of service provision were relatively successful, whereas additional components such as income generation and home improvement credit have been less effective. Simple programmes have extended coverage and ensure faster implementation.
3. Components to improve land tenure had to be carefully implemented to enhance the perceived land tenure security, as well as, to recover costs.
4. Community participation was essential for the success of upgrading programmes.
5. Participatory approaches in all stages: concept development, planning of layout, decision making on level of services and implementation were extremely important to the success of projects.

- Land-sharing

Land-sharing has been implemented with success in Thailand and to a lesser degree in the Philippines. The concept behind land sharing is that the landowner and the land occupants (squatters or tenants) reach an agreement whereby the land owner develops the economically most attractive part of the plot and the dwellers build houses on the other part with full or limited land ownership. Land-sharing offers several advantages as governments are finding it increasingly difficult to find land for sites-and-services and other public housing schemes in locations near income-generating activities, and eviction is increasingly becoming an unacceptable method to clear land for development projects. Through land-sharing both parties gain: the landowner can obtain the most desired land and the occupants can continue living in the area, with secured tenure.

Both the landowner and the squatters benefit from land sharing. Squatters get to stay on the land legally while the land owner can sell or develop a portion of the land and avoid long legal battles.

The land occupants base their right to the land on possession. It is common in many rural and traditional societies that occupants obtain a right to the land by living on it and the claim on the land gets stronger the longer the land is occupied. Furthermore, urban development creates land values as a result of investments by the public sector rather than by the landowner. Occupants can, therefore, be considered as having a certain right to these increased land values as well.

There are four basic characteristics of land-sharing projects.

1. **Densification.** The occupants will be rehoused on a smaller area as the land will

partly be developed by the land owner;

2. **Reconstruction.** Densification typically implies that new buildings will replace older structures. It is often necessary to build row-houses or walk-up apartments to allow higher densities;

3. **Participation.** The transformation of the plots will require a comprehensive negotiation process whereby the community will discuss the allocation of plots and the construction modalities with the landowner, often with the help of a mediator. It is necessary to include all dwellers in the project and to be able to reach agreements within the community;

4. **Cross-subsidy.** External subsidies should be avoided as much as possible. The commercial development should generate a sufficient surplus to cover a deficit resulting from the community's inability to pay for much of the cost of land, infrastructure and possibly housing.

The potential for land-sharing appears rather unfavourable, as the law and many politicians support the landowner and many slum dwellers accept the landowner's right to terminate a lease contract and to evict them with no or a small compensation. Partly supported by non-governmental and community-based organizations, slum communities have increasingly become aware of their rights. Community leaders often risk harassment, fines and being arrested. Whereas negotiations between landowners and communities are used more and more often to solve problems, it is still common for landowners to resort to arson in order to clear slum communities. The reasons for landowners participating in a land-sharing project appears to be either as an act of charity and merit-making or as the last way out of a conflict situation between the landowner and the community which is receiving embarrassing public attention. Experience has indicated that the chances of reaching an agreement increases if the community can ask a third party to negotiate. It is also imperative that the community stays united in negotiations with the landowners.

In most land-sharing projects, the land belonged to the public sector and the slum dwellers stayed in the area after land development was completed. It is interesting to note that the type of development (rental or home ownership) depended on other factors than on the amount of land available for the slum community.

Some of the problems which have been encountered with land-sharing projects include:

1. **Availability of land.** Often the land available is too small and/or the population density too high within slum communities. Furthermore, this shortage of land may force the building of walk-up apartments which are generally unpopular among slum dwellers.

2. **Community cohesion.** A land-sharing project requires considerable cooperation efforts among slum dwellers who often have a different background. This is particularly a problem during the allocation of plots.

3. **Complex and time-consuming.** The necessity of community participation and agreement throughout the complex process is very time-consuming. The delay in implementation has typically led to increased costs. Furthermore, there is a problem

with enforcement as there are no clear rules and each individual household has so far had the powers to block all major decisions.

Land-sharing can only take place where slums live under a serious threat of eviction as the community otherwise feels no need for change. Although land-sharing can rarely be used because of the many preconditions which have to be met, it is one of the very few methods through which slum dwellers can gain formal access to land without considerable subsidies.

- Sites without services: incremental development

Incremental development can be described as a sites-and-services scheme without the services. The approach includes mechanisms whereby groups of households are encouraged to organize themselves, accumulate funds and to provide infrastructure gradually. Construction begins when the group has collected a certain percentage of the required funds. The approach has been implemented in the United Republic of Tanzania, Zambia, India and in Pakistan.

Through the incremental development scheme the government seeks to establish a planned and legal squatter settlement. Infrastructure and services are provided incrementally when the residents are able to pay for these.

As with illegal settlements, no infrastructure is provided except perhaps drinking water. The method has the advantage that costs are kept as low as possible thereby allowing access to land for the low-income group. A study of the Pakistan case provided the following conclusions:

The idea arose from the success of squatter settlements and the failure of government sites-and-services schemes. The concept behind the Incremental Development Scheme is very simple. Instead of replicating models like the sites-and-services schemes government should follow the existing successful practices on the ground, maximizing its positive aspects and minimizing its negative aspects. Squatter settlements meet the housing needs of the poor but are built without any planning. Through the incremental development scheme the government seeks to establish a planned and legal squatter settlement in which infrastructure and services can be provided on an incremental basis when the residents have accumulated capital to pay for the infrastructure and services. Thus for example, when a group of residents can accumulate enough capital to pay for piped water, the government agency provides piped water. Once they have piped water they can save for electricity, paved roads, etc.

One of the restrictions imposed on the beneficiaries was that they had to live on their plots and save money in community groups for the provision of infrastructure. Similar to conditions imposed on squatters by illegal land subdividers. Such schemes have the potential of reaching the poorest of the poor as only those in desperate need of shelter will live on land with minimal infrastructure and services. Such schemes work best in environments where governments own large tracts of land in the urban periphery.

Increasing effective demand for land for the poor

While the above techniques discussed ways of providing low-cost land to the poor, this section will discuss ways of increasing the effective demand of the poor. Traditional government approaches have concentrated on subsidizing the poor. However, in most

instances this policy has not worked. The key problem with subsidies is that with scarce resources, most governments have been unable to subsidize all the poor who need housing.

Subsidizing the poor is not sustainable. Subsidies often miss the targeted group and make the poor dependent.

Moreover, subsidies are not sustainable and often do not reach the intended target group. Experience of sites-and-services and built housing has shown that often the middle classes and the rich benefit from subsidies rather than the poor. Furthermore, subsidies in general, make the poor dependent on the subsidizer, be it the government or a non-governmental organization

Effective demand is defined as demand for a good or service which can be paid for. There are two basic elements to increasing the effective demand of the poor: organization and access to finance.

- Community organization

The poor as individuals are seldom able to afford land and housing. Experience has shown that the poor as a group are able to afford not only land but also housing. They are also better able to negotiate with the government or the private sector as a group rather than as individuals, as has been proven in the case of land sharing. There are several examples of poor communities organizing themselves to provide for their own housing.

Organized and articulate communities of the poor can not only afford housing, they can also negotiate with governments and other actors more effectively.

Community-based organizations take several forms from welfare associations, to slum-dwellers federations to coalitions of poor. Communities often organize themselves when they face a common threat or need, such as the threat of eviction or the need for water supply. Often when the threat passes or the need is satisfied, the community organization disbands or becomes moribund.

Non-governmental organizations have played a major role in organizing the poor. They have assisted the poor in building their capacities to work in group environments and to negotiate with government or the private sector. However, some times NGOs, either on purpose or inadvertently, make communities dependent on them for technical and management assistance. Such NGOs do not help the poor. They simply provide justification for their own existence.

- Increasing savings and providing access to finance

As stated earlier community organization has taken place when the poor feel threatened or have to satisfy a common need. The problem is often sustaining community organizations once the threat is removed or the need is satisfied. One way of accomplishing this is through community-based savings-and-credit schemes. Instead of being reactive (in response to a threat or a need) these schemes are proactive and therefore more sustainable. They not only organize communities but also increase the effective demand of the poor by increasing their savings and providing access to credit.

Community-based savings-and-credit schemes preserve organized communities and increase the status of women in the community in addition to providing access to finance.

It should be noted that the poor are not without income. What they lack is capital. This is because they cannot access capital at market rates and have to resort to borrowing from money lenders who often charge them as much as two to ten percent interest per day. Formal lending institutions, such as banks, often require collateral which the poor cannot provide. The poor feel intimidated or unable to deal with banking procedures which require high levels of literacy. Moreover, the amounts that they want to borrow are often so small that banks do not find it profitable to lend them the money. Experience has shown that community-based savings-and-credit schemes assist the poor in increasing their incomes and capital.

Governments can assist this process by creating finance facilities which act as reserve banks for these "mini banks of the poor".

Successful community-based savings and schemes often operate on the Grameen Bank model, where small groups of the poor serve as collateral guarantors for borrowers in their group. Since the scheme is managed by the community the approach to loans and savings is flexible. Savings are collected daily or weekly by volunteers in small amounts suitable to the saver. Loans are often given five to six months after the saver has shown his or her ability to save regularly, mostly for economic activities. Often the group that guarantees the loan decides whether the purpose for which money is being borrowed is economically feasible. The amount of the loan is usually small. A borrower can borrow a bigger amount after the first loan is completely paid off. Interest rates are often higher than what the banks charge but much cheaper than the rates of the money lenders.

Women are normally far more active in such schemes than men and such schemes often lead to increasing their social and economic status in society. In many countries these savings-and-credit schemes have formed federations or loose coalitions and as such control sizable capital.

Some governments have supported this process by creating a finance facility which provides capital to federations of community-based savings-and-credit schemes. The facility acts as a reserve bank for these "mini banks of the poor". It not only provides credit at market rates, it also provides technical advice on management of savings-and-credit schemes and using them as an entry point for other community-based development activities.

V. Land policy formulation and implementation

The process of formulating and implementing land policies is not only politically and technically difficult, it can also be costly. However, the costs of not formulating and implementing them are much higher.

The key to formulating effective policies is understanding the existing realities and processes on the ground and reducing their negative impacts and maximizing their positive impacts.

Objectives of an urban land policy

Participatory approaches to policy formulation and implementation often result in building a

constituency for reform and can serve as an important tool for creating political will.

Urban policies are often prepared on a piece-meal basis in reaction to specific demands from interest groups. This type of adhoc policy formulation often creates more distortions in the urban economy. Governments need to formulate clear objectives for any urban land policy. While specific objectives would vary from country to country the overall objective of any urban land policy should be to ensure that land markets are efficient, equitable and environmentally sound and sustainable.

Process of formulating and implementing urban land policies

Before formulating and implementing urban land policies the following questions need to be answered. These can be lumped into two categories: understanding the workings of the urban land markets, evaluation of policy tools.

- Understanding the workings of the urban land markets

The key to formulating effective policies is to first understand the existing realities and processes on the ground and then to determine ways and means of reducing the negative impacts of these processes and maximizing their positive impacts. The questions that need to be asked in this regard are:

1. What are the inefficiencies, in the urban land markets?
2. What are the impacts of the current urban land markets on the environment?
3. What distortions and inequities exist in the urban land market?
4. What are the factors causing the distortions?
5. What is the cost of the distortions to the urban economy?
6. Who is benefiting from the distortions and inequities?
7. Who is suffering from them?
8. How much political power does each of these groups have to resist or promote reform?

These questions can be addressed through a detailed land market analysis. Special care should be given to who undertakes the analysis. Rather than a government agency, it would be preferable that an independent institution, such as a research centre or a consultancy firm be entrusted with the task. The terms of reference should be clear and comprehensive so that the institution undertaking the study understands exactly what is expected of it.

It is important that such an analysis is not only technically sound but it also needs to take the politics of land into account. The analysis should then be subjected to consultations both through public hearings or urban forums and through informal consultations with the various actors in the land market. This process would complement the analysis and enhance the overall understanding of the urban land market. Care should be taken to make the process of

consultation and hearings as inclusive as possible. Such a process often results in the actors themselves suggesting solutions to the problems identified in the land market analysis.

- Evaluation of policy tools

Once the issues and actors have been identified the following questions need to be asked:

1. Which policy tools most effectively address the inefficiencies, inequities and unsustainabilities identified by the land market analysis?
2. Which level of government should implement these tools?
3. What extent of technical and institutional capacity is required, at what level of government, to implement them?
4. Does such capacity already exist? If not, what measures need to be taken to build the capacity? How much time, human resources and monetary resources, would be needed to build these capacities?
5. What legislation is required, at what level (national, sub-national or local), to implement these tools?
6. Is there political will to pass the legislation and implement the policies? If not, how can the political will be created?
7. What would be the time-frame for implementing the policy?
8. What criteria or parameters and mechanisms would be used to measure success or failure of the policy?

A participatory approach, similar to the one used in understanding the urban land market, should be used in policy formulation and implementation. Participatory approaches often result in building a constituency for reform and can serve as an important tool for creating political will. While participatory processes are more effective than one-sided government policy initiatives, they do consume more time and can at times be frustrating to both elected and appointed officials who are more used to unilateral actions. However, their benefits far outweigh their costs.

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