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### *Informal Land Markets--Perspectives for Policy*

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## **Informal Land Markets—Perspectives for Policy\***

**Bish Sanyal**

To propose a policy perspective, on any issue, one must begin with a historical awareness of how such issues have been addressed in the past. This is particularly important in prescribing policies for urban informal real estate markets because the characteristics of such markets are still not fully understood, even after fifty years of policy interventions to enhance their effectiveness. Lacking a clear definition of how informal markets operate and connect to the larger urban economy, past efforts to influence the functioning of such markets have been based primarily on “Learning by Doing,” the title of the World Bank’s first serious study on the topic (Cohen *et al*, 1983). Indeed, much has been learned since that World Bank’s publication, thanks to the research undertaken by many scholars, including the authors of the chapters in this volume<sup>1</sup>. It is beyond the scope of my concluding remarks to summarize all such insights. Hence, what follows are a few key lessons learned by academics and practitioners—lessons that illuminate the critical issues raised by the authors of this volume.

These comments are in three parts. The first part provides a brief synopsis of how policy-makers viewed informal settlements at the time of the World Bank’s study. This historical view is necessary to illustrate how the understanding of such settlements has evolved to the point where they are now referred to as “informal real estate markets.” The second part is a brief analysis of three key policy interventions, among a much larger set of policies, designed to improve the functioning of informal real estate markets. The purpose is

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to learn from such interventions whether policy-makers and their advisors need to revise their assumptions about the key actors (notably the poor) who transact in informal real estate markets as well as to learn what explains varying policy impacts and the kind of organizational constraints that affect policy implementation. The third part concludes by proposing three research questions that need to be addressed to better intervene in informal real estate markets. These comments draw on the chapters in this volume that provide empirical evidence from Brazil, India, and China—three relatively large developing nations that nevertheless demonstrate significantly different spatial patterns and political-economic systems. Needless to say, such varied examples do not lend themselves to broadly generalizable comments about urban informal real estate markets in all developing nations; what they do provide are lessons about how important it is to understand the specific institutional contexts within which public policies are formulated.

### **Who Transacts in Urban Real Estate Markets: The Conventional View**

At the time the World Bank's report was published, the dominant view was that the urban poor who lived in informal settlements were rational actors who created such settlements as a rational response to both market and state failures to supply housing for their needs<sup>2</sup>. This notion—that the rational poor were innovating cheap and flexible solutions to meet their basic needs—was in sharp contrast to an earlier view—that the urban poor were “peasants in the cities,” new immigrants, mostly unemployed, who lacked the modern aspirations of working-class families (Robert, 1973). John Turner's research (1976) was very influential in altering the negative views of the urban poor and of informal settlements. He argued that neither the urban poor nor the settlements where they lived were problems. Rather, he posited that the poor were innovating solutions for their housing needs, and hence must be supported by governments—which until then had produced “so

little housing with so many resources, while the poor had produced so much with so little” (Turner, 1979). This new view also blamed the formal housing market for not responding to the needs of the poor due to its dependence on one key factor, namely, the rate of return on capital investment. This profit motive thus discouraged construction of houses that the poor could afford to buy. In general, the housing standards followed by both the government and the formal private market were too high, Turner argued; that is why the poor had created their own standards to build incrementally and consolidate housing that realistically fit their meager budgets and provided relatively safe housing.

This was a radical departure from conventional thinking about who resided in informal settlements as well as why and whether these areas were likely to further degenerate due to increased density, crime, and steady degradation of the living environment over which government had very little control. In the conventional view, the poor and the unauthorized settlements where they lived were a negation, not an affirmation, of the rationality necessary for modernization of the city and the nation. Some considered the poor who purchased plots in informal areas as fools who were swindled into verbal contracts by a few greedy, illegal land subdividers who worked closely with “political thugs” to occupy land illegally and then sell it informally at relatively high prices considering the low quality of the land and lack of legal titles. The term “informal real estate markets” was not used by anyone then; the settlements were referred to as “blighted areas” as in the otherwise modern city. Many considered such blighted areas as illegal territories breeding social problems and threatening the “public interest” (Woodbury, 1953). Consequently, large-scale clearing of such areas and discouraging rural-urban migration were prevalent policies before Turner radically recast the scenario.

A key component of this radical new view was that transactions that appeared, at first glance, to be illegal or informal were, in fact, guided by rules and symbolism borrowed from formal transactions. As Perlman explains in Chapter 1, such transactions opened up access to land ownership by the poor, but, as she cautions, they are not cost-free, either economically or politically, and are managed by resident community groups. Perlman's analysis is more political than Turner's because in Turner's view (which shaped the World Bank's policies), "the community" was portrayed as civil society, uninfluenced by either the market or the state. In Turner's description, the problem of collective action does not exist. He recommended minimal state intervention, urging that slum clearance be stopped and that governments provide infrastructures and services incrementally while the poor consolidate their housing, also incrementally. The stress on incremental building, in contrast to fully built high-standard housing, was a pragmatic strategy for both the government and the poor since neither had the resources necessary for high-standard building construction. Yet, some were concerned that the poor periodically had to borrow money for projects because of their fluctuating and unpredictable incomes, as well as that "loan sharks" operating in these informal settlements took advantage of the poor (Adams and Fitchett, 1992). Hence, when the World Bank initiated the upgrading of informal settlements, it offered some project funding for loans to the poor at concessionary interest rates—ones lower than the rates charged by informal money lenders yet high enough to create a fiscally sustainable mechanism for gradually expanding the number of loan beneficiaries (Kean and Jimenez, 1983). By then, the Grameen Bank in Bangladesh had demonstrated convincingly that the poor do repay loans when they are managed and monitored well by organizations, such as Grameen, which operate differently from formal banks, both private and public (Yunus, 1999). Again, the emphasis was on community-based organizations, led by nongovernmental

groups that were assumed to be neither interested in profit, unlike market agents, nor in social and political control, as was the ultimate intention of the state. This celebration of “the community” over the market and the state did not totally dismiss the idea that the poor were market-savvy and politically astute; however, it did not explicitly emphasize these elements either, even though (as the authors to this volume—Chattaraj and Mukhija, for example—describe) market and political opportunities deeply affect the motivations of residents of such settlements.

### **Learning From Three Policies**

Since the World Bank report (1975), governments in Asia, Africa, and Latin America have implemented a range of policies to integrate informal settlements—spatially, economically, and politically—in the overall management of cities (Angel and Mayo, 1993). The exact form of policy interventions—and, more important, the real motivations underlying them—varies widely. For example, architects and urban designers continue to rely upon design to improve the physical qualities of settlement areas where the poor live (Seelig, 1978). True, many discredited design for a while as ineffective (Roweis, 1981), but lately it has returned as one form of intervention along with others to upgrade informal areas, as Gouvernor describes in Chapter 9 of this volume. Master planning of the kind that produces beautiful maps yet ignores the reality of informal settlements is still common, however—even though its power to convince policy-makers has declined significantly (UNHCR, 2010).

*In-situ* upgrading, pursued first by the World Bank in Dakar, Senegal, in 1972 remains a viable strategy. Even though upgrading has not been replicated widely for various reasons (Gulyani and Connors, 2002), its attractiveness as an option has strengthened with increasing resistance to relocation from inhabitants of informal settlements. The World Bank’s

recommendation to provide serviced plots (site and service schemes) as a complementary strategy to upgrading, however, lost popularity by the early 1980s because as the World Bank itself argued, site and service schemes (S/S) required large subsidies and hence were not sustainable (Cohen *et al*, 1983). Instead, the World Bank recommended that policy-makers focus on making the entire urban economy function better as interconnected housing “submarkets,” with good urban management practices (UN-Habitat, 2005). The new focus moved away from specific projects toward better urban management practices overall.

This change of emphasis increased support for large-scale land regularization and granting of private property titles to households. Initially, such policies did not appear justified in market terminology; however, as Turner and others (Burns and Grebler, 1979) argued, regularization of informal areas and tenure security were necessary to create communities in which the poor could incrementally invest in housing consolidation. No one at that time advocated tenuring as a way to create well-functioning land markets, however. On the contrary, legalization advocates argued then that it would not lead to the poor’s selling their properties for higher prices, thereby cashing in on the subsidies they had received at virtually no cost through infrastructure provision.

As is well known, in the 1980s the policy shifted away from *in-situ* upgrading and provision of serviced plots (S/S) towards “urban management” led to a more holistic approach. Decision-makers moved from piecemeal projects towards such overarching public policies as property tax reform, privatization of public utilities, and other forms of private/public partnerships to create better functioning markets for land, housing, commercial spaces and so on (Ayres, 1984). Slum rehabilitation and slum redevelopment—two policies referred to by Mukhija in Chapter 8—emerged at the tail end of the well-intentioned but difficult-to-implement reforms that “urban management” advocates

proposed. As public policies, both slum rehabilitation and redevelopment acknowledged, explicitly, that market forces influenced the functioning of informal settlements. Nevertheless, this approach similarly relied on the notion of “community” in devising solutions that could be politically acceptable to the poor. The World Bank has documented this turn in public policies in 1953. Nonetheless, it is worthwhile, for the purpose of this review, to draw attention to one factor that greatly influenced public policies—particularly in democratic societies—namely, the political mobilization of the urban poor, whose numbers continue to increase, and whose resistance to conventional public policies have been channeled quite effectively by many nongovernmental organizations (NGOs) worldwide. In other words, as one thinks about the changing nature of informal settlements, one might as well think about the changing nature of “ideas in good currency,” to borrow Donald Schon’s phrase (1987). Through the last forty years, it is not only policy advisors and planners, who have changed their approach to urban informal settlements, but also political pressure from below has emerged to influence policy. More and more urban poor have become astute in working with both market agents and political actors in getting better deals for themselves (Mukhija, 2003). This scenario provides a backdrop to discuss three popular policies that highlight “the surprises” that have emerged from efforts to implement these policies.

*(i) Why Isn’t In-Situ Upgrading Widely Replicated?*

While multiple scholars and the World Bank have assessed *in-situ* upgrading projects no consensus exists as to why such a relatively low-cost option could not be broadly replicated in any city (Gulyani and Connors, 2002). True, piecemeal efforts continue, here and there. However, such efforts have not proved as attractive to public authorities as, say, slum redevelopment schemes—particularly, if public authorities can use such plans to generate new revenue. Privatization of public utilities and the private provision of public

infrastructure—two trends that emerged in the 1980s—also diverted attention away from slum upgrading as an economically attractive strategy (Sanyal, 1986). And, as the pace of upgrading has slowed, areas that had been upgraded initially did not flourish as expected. On the contrary, many upgraded areas deteriorated steadily without adequate maintenance (Werlin, 1999). This is not to say that all housing improvements in upgraded areas totally stopped; they continued in a haphazard way, sometimes endangering the lives of area residents who, surprisingly, asked for government intervention to halt the steady deterioration (Sanyal and Fawaz, 2007).

What happened to the community resource management—a practice so forcefully advocated by Elinor Ostrom (2000) as an alternative to both state and market intervention? One answer lies in the fact that community groups do exist, as documented by the authors of this volume, but they do not operate independently, beyond the reach of politically and economically powerful actors. As a result, while a few communities occasionally manage to get some public resources for improving the infrastructure in their areas, rarely is work done at the pace necessary to meet the regular maintenance needs of such increasingly dense population areas.

What other lessons does the upgrading experience offer? For one, without a growing urban economy and better employment opportunities, upgrading by itself cannot create livable communities for the urban poor. At one level, this is obvious; more important, understanding the limits of upgrading tempers the romanticization of “informal entrepreneurial economies,” within low-income settlements. Second, cost-recovery for upgrading has been very difficult to obtain—even though the Grameen Bank has demonstrated clearly that poor households do save and repay loans. The clue to that puzzle is the organizational elements of how building loans are distributed and why payments for

monthly services are or are not collected (Sanyal, 1987). To replicate the Grameen model for loan delivery and recollection is extremely hard—if not impossible—in the provision of public infrastructure (Watson, 2007). Third, when the World Bank initiated upgrading, institutions emerged that bypassed local governments in an effort to demonstrate that a new approach to housing the urban poor required new organizations and strategies—ones not tied to the old discredited ways pursued by city councils. These newly created institutions did not demonstrate, however, that they were sustainable. When the upgrading projects ended, these “innovative institutions” were folded into old ones, such as city councils or other local agencies which received financial support from higher authorities (Morss, 1984).

*(ii) Private Property Rights and Housing Supply*

Hernando de Soto (2000) was not the first person to advocate that residents of informal settlements areas be offered private property rights. Starting with Turner and spanning both sides of the entire ideological spectrum, many before de Soto had proposed that informal areas be formalized and land titles be provided to residents (Moser and Peake, 1987). The argument was that this approach would benefit not only individual homeowners in newly formalized areas but also the city as a whole. Among those on the Left, Andre Gunder Frank (1969) forcefully supported this policy even though he and others were skeptical whether any “capitalist state” would ever provide blanket legalization of all informal properties (Burgess, 1992). They argued that, at best, select individuals and areas, not all of the urban poor, would likely be co-opted through selective schemes that would result in breaking the social solidarity among the urban poor. On the Right, initial opposition to granting tenure to illegal occupants of land also emerged. These opponents were concerned that this sort of general amnesty would send a wrong social signal, ultimately encouraging more rural-urban migration and creating a widespread expectation among new

migrants that they too would eventually become property owners even if they acquired land through informal or extra-legal means (Richardson, 1987).

De Soto built his advocacy for private property rights on the notion of “dead capital,” which, under different circumstances, could be invested to reinvigorate the urban economy. Notably, de Soto did not advocate a multifaceted and comprehensive package of policies, combining tenuring, provision of infrastructure, and building loans, all at once—the kind of approach the World Bank had espoused earlier. De Soto focused strategically in advocating only private property rights that, he argued, would create a chain reaction of formal borrowing and investment by property owners. This would increase municipal revenue from property taxes and generally create good citizens who would strengthen both capitalism and democracy (de Soto, 2000).

Many assumptions underlie de Soto’s recommendation. The first and foremost is the belief that well-delineated private property rights would bring “dead capital” to life, encouraging more investment in housing consolidation and other economic activities that the poor could pay for by borrowing against housing equity. Such new investments would open up social and economic improvements of all kinds—ranging from better nutrition to more schooling for the immediate family members of new homeowners. The pace of housing consolidation would also increase, and the concomitant rise in housing values would lead to an increase in municipal revenues in the form of property taxes, which could then be channeled to improve public infrastructure. This, in turn, would further increase housing values, generating more wealth and “live capital” for a new round of investment.

De Soto’s argument was appealing not simply because of its optimistic outlook; it was also presented as a policy that could be implemented quickly and at a relatively low cost to public authorities. To de Soto, implementation of his recommendation merely needed the

political will to grant private ownership rights; the rest of the process would follow, led by newly organized market forces as well as newly empowered citizens—much as democracy and capitalism reinforced each other in the development of Western nations.

As Galiani and Schargrotsky document in Chapter 7, the granting of private property rights can have considerable positive impact even without the all-encompassing good effects that de Soto predicted. Galiani and Schargrotsky base their findings on the comparison of only two cases in Buenos Aires, Argentina, and hence their conclusions are more indicative than definitive. Their assertion—that granting private property rights does not lead to more commercial lending by formal banks—is interesting and deserves further research because de Soto predicted a different scenario. But, all is not lost. As Galiani and Schargrotsky demonstrate, other benefits to having private property rights come to light, including an overall positive change in the attitude of property owners towards other modernization objectives, such as lower fertility rates, better schooling, and even less teenage pregnancy!

Like Albert Hirschman (1971), who warned that “all good things do not go together,” Galiani and Schargrotsky’s conclusion needs more exploration in other places. Granting private property rights *may* lead to housing improvements, but as Hirschman (1984) demonstrated, many occupants of informal settlements erected well-built units because they believed that government agencies would hesitate to destroy good houses even if built illegally. Regarding home equity loans, Galiani and Schargrotsky’s evidence supports the understanding that, in general, private property owners in newly formalized areas do not seek mortgages; in fact, they are very protective of their newly established ownership rights because they have typically experienced a long period of anxiety about whether they could

hold on to their home. In other words, the time may not be right for the mortgage market to flourish.

On the lending side, commercial banks are not eager to lend small amounts to a large number of borrowers even if they have private property rights (Jumani, 1991). This is one of many organizational constraints that impeded the large-scale implementation of government efforts to grant private property rights to previous informal owners. One common obstacle is that precise demarcation of property boundaries and establishing of clear lines of ownership is not easy in informal settlements. Usually, multiple and conflicting claims emerge as soon as communities are not notified of formalization (Meinzen-Dick and Mwangi, 2009). Resolving multiple claims requires extensive record keeping, record checking, and resolution of legal disputes, which can be very costly, labor-intensive, and politically contentious. That is why NGOs—particularly those based in the newly formalized areas—can be helpful as intermediaries between “the state” and “the people.” However, they too add yet another layer of paperwork to the transaction cost. And, acknowledging the role of political parties in this already complicated situation helps explain why simply providing infrastructure to previously unauthorized areas can be easier than sorting through multiple and conflicting claims of home ownership. The process differs, of course, depending on whether it is private or public land that is to be subdivided into privately owned parcels. As Silva describes in Chapter 2, converting of public land to private ownership may require a very different process—less expensive for the government—than government purchase of private lands (the method used in the Buenos Aires case studied by Galiani and Schargrodsky). Which process would be easier to implement is, of course, not dependent only on who owned the land before. There are many other issues: Who occupied the land in the past? What was the spatial pattern of land division internal to the area? Who were

“owners” and how many were renters? Who has to be resettled to make room for the provision of infrastructure? Who will decide the level of compensation for relocation? The list of questions to be answered by public planners on the ground can be daunting, and as common wisdom cautions: The devil is in the details. Such issues must be dealt with judiciously, particularly in an intense political climate.

*(iii) Slum Redevelopment: A New Timely Approach?*

As Mukhija discussed in Chapter 8, slum redevelopment has emerged as an alternative strategy in Mumbai, India—an economically growing city within an economically growing state and nation. The rate of economic growth matters hugely in public discussions about whether to pursue slum redevelopment. In the past, when economic growth was slow and sluggish, the conventional wisdom among planners was that a certain level of infrastructural improvement was necessary to spur growth; but as economic growth increased by leaps and bounds—despite inadequate infrastructure—public policy calculations about how to house the urban poor changed. As the land values of previously informal settlements or slums increased steadily and sharply, these areas began to draw attention from policy makers, private developers, and NGOs for somewhat different but also overlapping reasons. Both Mukhija (Chapter 8) and Chattaraj (Chapter 3) describe the process vividly. The policy implications of such unprecedented growth are important to grasp in any discussion of housing supply for still poor urban households.

First, economic growth and increasing land values are creating new opportunities for urban authorities; they have great interest in how to capture some of the benefits of higher land values through policies such as land readjustment, increase in floor-area ratios, transfer of development rights, and so on. Mukhija’s assessment is optimistic: He envisions a win-win situation for all—the inhabitants of newly redeveloped areas, the private developers, and

the public authorities. That is why he prefers the relatively new redevelopment approach over conventional upgrading schemes.

Is slum redevelopment the “silver bullet” that planners have been searching for? Since old ways of housing the poor have been discredited as not market-savvy, requiring large subsidies, demanding government involvement at every step of the process, and ensuring more opportunities for bureaucratic rent seeking than better housing, slum redevelopment, at first glance, looks promising. Yet, so far results are mixed at best. As Balakrishnan (Chapter 4) points out, the management of land markets, even in peri-urban areas, is not as straightforward as portrayed by land readjustment advocates. In Bangalore—an India city not so economically vibrant as Mumbai but still growing at a rate higher than the national average—the poor are not generally benefiting from the upsurge in land value, in part because public institutions, which ought to create mechanisms for distributing the benefits of high land values do not function the way they should in protecting the interests of the poor. Balakrishnan compares her findings in Bangalore to Ahmedabad, India—a relatively prosperous city that adopted land readjustment policies before Bangalore—and suggests that Ahmedabad’s relative success cannot be replicated in Bangalore because of political and institutional constraints.

Yet, the Ahmedabad case offers much to learn about the efficacy of land readjustment policies. In contrast to Bangalore, the implementation of readjustment policies in Ahmedabad has been relatively easier in the peri-urban areas than in the old city, which is highly congested and multiethnic (Adhvaryu, 2011). Also, the construction of the ring road around the city of Ahmedabad relied on the basic principle of land readjustment without much resistance from previous landowners, who were compensated at prices mutually negotiated over a reasonable period of time (Ballany and Patel, 2009). Why this could be

achieved in Ahmedabad but not in Bangalore is an interesting question, but it does not directly address the distributional impact of land readjustment policies. Who among the poor benefits from such an approach? What happens to renters, as Silva (Chapter 2) asks? Most redevelopment efforts lead to higher rents. To what extent do such ill effects, which cause gentrification, be moderated with better compensatory policies for resettlement?

Another key question is whether the discussion of such redistribution issues is ideologically less polarized when the “collective pie” to be shared is larger, and private developers are eager to implement projects quickly? This is a relatively new phenomenon in a few Indian cities as big developers, sometimes externally funded, compete with local housing groups and NGOs also interested in redeveloping old settlements (Mukhija, 2003). NGOs do have a comparative advantage in this process because they have better, more finely grained information than developers or government agencies regarding local households, their financial expenditures and expectations, and their willingness and ability to pay for redevelopment. No wonder then that some NGOs want to serve as brokers between the developers, government agencies, and slum dwellers (Sanyal and Mukhija, 2001). But that role can become contentious, too, once NGOs begin to mediate reallocation decisions. Under certain circumstances, private developers may prefer to pay off residents directly with attractive monetary offers rather than becoming bogged down by complicated concerns about which residents have to be relocated, where, for how long and so on. A booming land market creates a very different dynamic among the key players in slum redevelopment. Its ultimate impact on poor households is conditioned not wholly but to a significant extent by the level of political mobilization of the poor as a group, which can negotiate a better deal for itself. Chattaraj (Chapter 3) argues that any such process is intensely political and rightly cautions against overemphasis on legal processes such as land regularization, as a technical

way to facilitate redevelopment. Even after many years of research on the political economies of urban development, the question of how to engage with and intervene in such a political process to benefit the urban poor remains unanswered.

### **Three Questions for Future Research**

Even though much has been learned over the past forty years regarding informal real estate markets, there is a need for continuous learning to improve the functioning of such markets—particularly to increase the access of the urban poor to decent housing at affordable prices. It is widely known by now that formal and informal real estate markets are integrated in more ways than one; and as Gouvernor (Chapter 9) proposes, more integration—if pursued with concern for the poor—can improve the overall efficiency of urban land markets. With that goal in mind, I propose three sets of research questions that deserve attention.

#### *(i) The Urban Poor's Housing Preference*

There is still much ambiguity about how the urban poor make decisions regarding housing consumption. Unlike in industrialized nations where household expenditure and savings patterns have been studied quite carefully (Pollak, 2003), in newly industrializing nations there is still no definitive study that explains well the rationality underlying household expenditure (Banerjee and Duflo, 2011). This is not to say that policy-makers know nothing about the poor's preferences; much is known about how employment and income generation—not housing—is of topmost priority for the poor (Rodgers, 1989). Rural peasants migrate to cities looking for jobs, not housing; and even after they gain a usually precarious foothold in the urban economy, poor households move not to consume more housing but to seek out more predictable and better paying employment. True, all people need to live somewhere, even while they are searching for economic opportunities,

but what the poor might be willing to pay to improve their housing is still not understood very well. Over the years, urban planners have learned how important it is for the poor to live in close proximity to income earning opportunities; but there is still much uncertainty about how a poor household is likely to spend the “marginal dollar” if it is fortunate to earn more. In Chapter 7, Galiani and Schargrodsky do not address this question. They assume that Becker’s analysis of Western household expenditure can be universalized. Yet, their data suggests that the urban poor do not borrow against housing equity; neither do they rent more space even after formalization of their property status. Do the urban poor save more once their property ownership has been formalized? Or, do they invest in continuously consolidating their property after legalization? Many issues, not all well understood, affect how urban poor households assess risk, social status, and what they consider necessary for meaningful lives. Not all such expenditures fit neatly into the categories of Becker’s (1965) rational model of household behavior<sup>3</sup>.

How the urban poor perceive housing—whether as commodity, a form of investment, a social and psychological marker of stability and rootedness, or all of these and more—needs better understanding. To put it in another way: The analysis of the informal real estate market needs to be embedded in a broader view of how the urban poor think, what they prefer to pay for, why, and how such choices are shaped by constraints as well as opportunities in cities experiencing differential rates of economic growth.

*(ii) The Impact of Formalization*

Even though there seems to be wide support for formalization, its varying impacts, as documented by the authors in this volume, needs better explanation. Do all formalization efforts lead to increased rents and some form of “gentrification”? Which sequence of steps in the formalization process—legalization followed by provision of infrastructure or the

other way around—has what effect on real estate markets? More importantly, since informal settlements are so intensely political in nature, as Perlman and Chattaraj (Chapters 1 and 2) point out, what is the best way to initiate a formalization process that is bound to upset the status quo of power relationships?

There are so many questions that need to be answered to fine-tune which package of policies—legalization, increasing floor-area ratios, providing infrastructure, transferring development rights, zoning, or building regulations—are likely to have what kind of impact, where, and on which residents of currently informal settlements areas. As Silva (Chapter 2) notes, a central issue is who owns the land before formalization and redevelopment. Reimbursing private owners, as was the case in Buenos Aires (described by Galiani and Schargrotsky in Chapter 7), is not simple: Deciding on market prices for urban land and mustering the resources for monetary compensation can be particularly difficult for cities with very limited resources. In this regard, it may be worthwhile to remember the many problems faced by previous land banking schemes (Angel, 2000). True, the economic situation is different in growing economies such as India or Brazil, and that is why large-scale land readjustment schemes may not require land banking by public agencies. Still, land procurement for either formalization or redevelopment projects is not an easy task. How land is acquired directly impacts redevelopment costs, which in turn affects who has to pay how much for housing in redeveloped areas. There are multiple causalities and interconnections that need to be understood better if state, market, and civil society groups are to join hands in formalizing informal real estate markets in ways that ensures the burden of uncertainty is not passed on to those whose lives are most vulnerable.

*(iii) Who Should Be Doing What and Why?*

This is the question Turner (1967) raised fifty years ago when he argued against slum clearance and public construction of a few high-standard housing units, which the poor never received. Turner's argument *then* is important to remember *now* as China expands housing supplies in a way that was totally discredited, not only by Turner, but also by the World Bank when it first intervened in housing delivery for the urban poor in developing countries. The government should not be in the business of housing construction, the World Bank advised. Instead, the poor themselves would incrementally build their homes if only governments did not demolish informal settlements but rather rethought what are considered acceptable standards and simply provided infrastructure to the informal settlements—incrementally, and with labor contributed by the communities to reduce costs of providing infrastructure. As mentioned earlier, the World Bank changed its recommendations a decade later, suggesting that governments should be even less involved, directly, in supplying housing. Governments' role was to facilitate the functioning of markets—capital, land, and labor; as these markets function better, they will supply housing without subsidies of the kind governments cannot afford.

As Acocka, Chattaraj, and Wachter (Chapter 6) document, China did not follow the World Bank model. In China, land is nationalized, and local governments are deeply involved in building, allocating, and maintaining housing. In comparison to India, China has performed better in housing its urban poor, primarily because of the active involvement of local governments, which have been entrepreneurial in structuring attractive “deals” with private developers as well as public agencies to provide affordable housing of a decent quality (Junhua *et al*, 2001).

Why is China able to supply such housing while other comparable countries, such as India, lag behind? It is not that the Indian government has not been concerned about

housing the urban poor: There have been many efforts (mostly, at the national level) to devise policies and programs and create specialized institutions such as National Housing Bank to influence housing construction (Mckinsey, 2010). Such efforts intensified only a few years ago with a fairly well-funded program to create “slum-free cities” (MHUPA, 2011). This program advocated the formalization of informal areas and offered large incentives to encourage state governments to propose schemes for legalization and infrastructure delivery in consultation with local governments, low-income communities, and nongovernmental agencies. On July 19, 2014, the national government took a step further to facilitate housing mortgages; the Indian government will now provide incentives to prospective homeowners by altering the tax codes to facilitate borrowing for housing.

Will such policies speed up housing supply for the urban poor? Rigorous assessments of past housing policies in India are rare; but popular perceptions—which are vocally articulated in India’s democratic tradition—have been mostly pessimistic (Kundu, 1990). In the preface to a recent book on Indian cities, entitled “*Transforming Indian Cities: Challenges and Opportunities*” (Ahluwalia, 2014), the former Indian Prime Minister Dr. Manmohan Singh proposed that India’s Constitution needs to be modified to empower local governments to take on the kind of entrepreneurial role exemplified by Chinese cities. The author herself applauds land readjustment schemes, as implemented in Ahmedabad by the city development authority rather than the municipal government or an urban planning agency (these played relatively minor roles). Ahmedabad development authority offered attractive deals to private developers to work together in providing housing, 20 percent of which was earmarked for low-income households. These households were to be cross-subsidized by charging other households slightly more than “market prices” for their houses. In a study by Sanyal and Deushkar (2012), we observed that the land prices paid by relatively

well-off families were actually far lower than the real market prices, *and* of the 20 percent plots to be allocated for the poor households very few had been allocated by the time of the study.

Who is to do what about increasing the supply of housing for the urban poor? If informal settlements are to be transferred into formal real estate markets in such a way that the poor's access to housing is increased, not decreased, local governments have to play a leading role. City development authorities can be key actors, but such authorities are unlikely to respond to the needs of the poorest. This is not a new insight but one that needs to be studied rigorously to determine why and how some local governments perform better than others in working with other institutions. In democratic societies such as India or Brazil, where formal and informal political processes are deeply intertwined, how do progressive, pro-poor policies emerge? Which policies are easier to implement where, and in which sequence so as to minimize political opposition from entrenched interests? These are all strategic questions that require more research.

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<sup>1</sup> For example, see Rodwin (1987), Payne (2002), Cheema (1987).

<sup>2</sup> The World Bank's first report on cities in developing countries was published in July 1975. Proposed by G. Beier, A. Churchill, M. Cohen, and B. Revard, this report was titled "The Task Ahead For The Cities of Developing Countries" (World Bank, 1975).

<sup>3</sup> New studies that draw on behavioral economics are promising in this regard. For example, see Camerer et al (2004).