# PUBLIC/PRIVATE PARTNERSHIPS IN ENABLING SHELTER STRATEGIES

UNITED NATIONS CENTRE FOR HUMAN SETTLEMENTS (Habitat)

# Public/Private Partnerships in Enabling Shelter Strategies

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## List of Acronyms

| | |
|---|---|
| ACT | Affordability and Choice Today programme, Canada |
| CHRA | Canadian Housing and Renewal Association |
| CSS | Catholic Social Services |
| BCH | Central Mortgage Bank |
| CBO | Community-based organization |
| FUPROVI | Fundación para Promoción de la Vivienda, Costa Rica |
| GSS | Global Strategy for Shelter to the Year 2000 |
| HIC | Habitat International Coalition |
| HMFC | Home Mortgage Finance Corporation |
| HDFC | Housing Development Finance Corporation |
| HFDC | Housing Finance Development Corporation, India |
| HUDCO | Housing and Urban Development Corporation |
| HUDCs | Housing and urban development corporations, Turkey |
| IDF | Infrastructural Development Fund, Nigeria |
| IPADEL | Institute for Popular Democracy, Peru |
| JVP | Joint Venture Program, the Philippines |
| FONDETER | Land Development Fund, Colombia |
| FUNAPS | Municipal Fund for Low-Income House Construction, Brazil |
| NCHF | National Cooperative Housing Federation, India |
| CONAMUP | National Coordinating Body of Mexican Popular Movements |
| CONAVIP | National Council of Popular Housing Organizations, Colombia |
| FONVI | National Fund for Housing, Bolivia |
| FONHAPO | National Fund for Popular Housing |
| NHMFC | National Home Mortgage Finance Corporation, the Philippines |
| NHA | National Housing Authority |
| NHB | National Housing Bank, India |
| NSP | National Shelter Program |
| NGO | Non-governmental organization |
| OPP | Orangi Pilot Project, Pakistan |
| SEWA | Self-Employed Women's Association, India |
| SPARC | Society for the Promotion of Area Resource Centres |
| SETU | Société d'Equipement du Terrain Urbain, Côte d'Ivoire |
| SHARP | State Housing Assistance Rental Program |
| UNCHS | United Nations Centre for Human Settlements (Habitat) |
| UNCED | United Nations Conference on Environment and Development |
| UNDP | United Nations Development Programme |
| PERUMNAS | Urban Development Corporation, Indonesia |
| ULCRA | Urban Land (Ceiling and Regulation) Act, India |
| VRO | Village Reconstruction Organization, India |
| ZOTO | Zone One Tondo Organization, the Philippines |
| ASOBUR | the Bolivian Association of Institutions Involved in Urban Affairs |
| BANHVI | the Costa Rican Mortgage Bank for Housing |

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# Public/Private Partnerships in Enabling Shelter Strategies

## Foreword

In developing countries, on-going population growth and increasing urbanization are creating major development problems in relation to the provision of urban services and housing, particularly for low-income groups. For a majority of cities this crisis is causing a rapid deterioration in living conditions for the masses of residents and the situation is fast reaching unmanageable proportions from the point of view of responsible public-sector agencies. The changing role of the public sector from provider to that of facilitator in the shelter-provision process, and the promotion of the enabling concept has, however, in recent years, initiated the exploration and utilization of new approaches in this field whereby financial, institutional, human and physical resources are being mobilized in an integrated manner. The contribution of the recommendations of the Global Strategy for Shelter to the Year 2000 (GSS) has been significant to this positive trend.

The GSS places great emphasis on operational partnership arrangements among the various actors in the shelter-provision and -improvement process, and governments at all levels, the commercial private sector, and non-governmental and community-based organizations, each have their roles to play in the overall development of shelter. The key to effective management lies in the integration of these roles in a manner that is mutually supportive. These partnerships have great potential for mobilizing under-utilized capacities in the shelter sector and constitute an important factor for the implementation of the GSS.

In a number of developed- and developing-country cities there are several successful examples of such partnerships. The focus of this study is an evaluation of the role and contribution of these arrangements in the entire shelter sector. To provide specific information on different modalities, three case studies have been prepared, and they examine partnership arrangements at the project level in an industrialized country (Canada), between local government and housing cooperatives (Turkey) and between central and local government and the commercial private sector (the Philippines). The outputs of these case studies, along with other findings of the global research conducted in this field, confirm the large spectrum of opportunities which exists for the utilization and application of partnerships in the shelter sector.

Establishing partnerships in the shelter sector should not, however, be considered as a panacea for the shelter problems facing the urban poor. In the appropriate circumstances, partnership arrangements can provide an effective mechanism for improving shelter options for low-income groups. In the future, the potential for improving the scale and reach of partnership arrangements is rich, and the challenge for agencies responsible for shelter issues at all levels is to ensure the creation of an environment within which such arrangements can flourish. At present, the subject of partnerships in the shelter sector rarely appears on research agenda of national and international organizations active in this field. It is hoped that this study will act as a catalyst for future research on different forms of partnerships in different contexts, and ensure that they are monitored effectively, so that their contribution can be assessed; the lessons of these experiences recorded, fed back and reflected in shelter policies.

We gratefully acknowledge the contributions of the following to UNCHS (Habitat)'s work in the preparation of this publication: Dr. Michael Edwards for the global research and evaluation of the country case studies, and Mr. Angelo Leynes, Dr. Richard Peddie and Mr. Bulent Tokman for the preparation of

the case-study reports on the specific experiences in the Philippines, Canada and Turkey respectively.

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# Public/Private Partnerships in Enabling Shelter Strategies

## Executive summary

1. The Global Strategy for Shelter to the Year 2000 (GSS) is now the formal United Nations position on shelter issues, and by common consent represents the best framework for addressing the shelter problems of the urban and rural poor. The "enabling approach" to shelter exemplified by the GSS implies a radically different role for government, withdrawing from the direct provision of housing to facilitate the efforts of others via a more appropriate regulatory and financial environment. A major element in this approach is partnership - the need to link public, commercial/private and "third" sectors in new ways so that full advantage can be taken of the strengths and capabilities of each of them. The goal of partnership in shelter is to make the different but equally valuable roles of the three sectors complementary and mutually-supportive. In this sense, effective partnership is the key to the enabling approach to shelter.

2. As a result of recent research, a great deal is known about the capacity of people and their organizations to create and improve their own shelter, but much less is known about the links between the third sector, government and commercial private interests which underpin success on a larger scale. It is these links, or partnerships, that form the focus of this report, the first to analyse in detail a range of partnerships across a broad spectrum of countries and in different aspects of the shelter process. On the basis of three detailed case studies commissioned for this report (Canada, Turkey and the Philippines) and hundreds more taken from the literature, a number of preliminary conclusions are drawn concerning the factors underlying effective partnership, and the potential of different kinds of partnership in the implementation of enabling shelter strategies.

3. Chapter II examines the theory of public/private partnership, focusing on the presumed "comparative advantages" of public, commercial private and third sectors, and outlining the arguments in favour of stronger links. Partnerships provide a mechanism for resolving the "needs/demand gap" in shelter provision between what people can afford and what the market can provide. Partnerships also enable different sectors to gain access to each other's skills and resources, and provide a mechanism for sharing risks and maximizing returns on investment. Most importantly, partnerships enable each sector to play to its comparative advantage in a coordinated way.

4. In chapter III, the experience of public/private partnerships in the industrialized countries is reviewed in order to highlight lessons which may be of relevance to shelter activity in developing countries. There are some obvious differences in context which restrict the relevance of this experience: in the cities of developing countries, levels of income are much lower and less regular, governments are much weaker (and unable to support significant subsidies), and the commercial private sector is poorly developed. Nevertheless, partnerships in North America and Western Europe do offer some useful lessons. The most important of these are the need for strong and competent municipal and national government, the importance of clear and shared objectives among the partners, the value of popular participation and strong third-sector organizations, the need to guarantee stable cash flows (for commercial interests), and the wider impact of programme rather than project-based partnerships.

5. Chapter IV reviews the experience of public/private partnerships in developing countries according to the focus of the partnership, looking first at shelter inputs (land, finance, materials and skills)

and then at shelter outputs (construction, dwellings, services and employment). In the land market, public/private partnerships are rare, though land-sharing/land adjustment, and public intervention to support third-sector organizations, have considerable potential. The potential for partnerships involving commercial private interests is limited by the gains that can be made in the land market from higher-income residential and commercial development, relative to the returns which can be generated from low-income housing.

6. Public/private partnerships in the supply of housing finance have demonstrated that viable systems can be developed on a small scale, but often these systems are not affordable to the urban poor. Various partnerships have been tried: extending formal financial services to the informal sector; integrating groups of low-income borrowers into formal financial systems; and using public funds and institutions to increase the accessibility of housing finance to the poor. Because of the difficulties of generating adequate returns from credit to lower-income households, there is more potential in partnerships between third-sector organizations and government, than in links with the commercial private sector, though with government guarantees the latter can also be effective.

7. A similar situation emerges from the evidence on public/private partnerships in the production of low-income housing. Here, partnerships involving the commercial private sector are increasing, but (as in the case of the Philippines "Joint Venture Program" which is analysed in detail) they are rarely able to produce housing which is affordable to the poorest 30 per cent of the income distribution. Even in the case of cooperative housing production in Turkey (another of the examples reviewed in the report), afford ability became a serious problem because of the need to repay funds borrowed from private and external sources. The key to partnership in the production of low-income housing remains the development of an enabling environment which can support the third sector (people and their organizations) to do what they can do best, but do it more effectively. This puts partnership between government and the third sector centre-stage.

8. There are clear advantages to public/private partnership in the provision of basic services and infrastructure. While community involvement can reduce costs, increase cost recovery and promote sustainability, it is impossible for the poor to develop all the services they need by themselves. The capital costs of installing major infrastructure are too high. Experience shows that private suppliers (usually in the informal sector rather than commercial private interests) can enjoy significant cost and efficiency advantages over centralized provision. However, if coverage, accessibility and quality are to be maintained at acceptable levels, private suppliers must be supervised by government and operate within a framework which is controlled by the State. This implies a high degree of linkage among the three sectors.

9. In chapter V, the report reviews the experience of public/private partnership in lower-income countries according to the modality of the partnership. Partnerships between the public and the third sectors are considered first, and are seen to be critical for many reasons. Most importantly, they can facilitate the supply of housing inputs to the urban poor, especially land. In addition, successful partnerships require mediation between the different partners, and third-sector organizations are ideally placed to fulfil this role. Thirdly, governments need NGOs and community-based organizations (CBOs) to be involved in the development of shelter policy if it is to be relevant and effective, but the third sector requires support from government if it is to flourish. Partnership is therefore essential to both.

10. Partnerships which involve the commercial private sector in cooperation with either government or third-sector organizations are increasingly numerous, but overall are of minor significance to the urban poor. The size of the "needs/demand gap" in the cities of developing countries, and the absence of the conditions required. to generate an adequate profit, makes it very difficult for partnerships between commercial. private interests and the other sectors to be viable on a significant scale. The most

common partnerships are those which involve a mix of all three sectors, with government and third-sector organizations in the leading role. Usually, people and their organizations take the lead in the active components of the shelter process (land development, construction and improvement), while the public-sector partner facilitates access to land and finance, security of tenure, and basic services. Commercial private interests may be involved when adequate returns can be guaranteed (in the city centre, for example) or when private companies adopt a more philanthropic attitude.

11. Chapter VI reviews the common factors which seem to underlie successful partnerships, and also explores the weaknesses which undermine cooperation and limit the impact of partnership. Although generalization is dangerous, the following factors are seen to reappear in effective partnerships despite wide variations in context: strong municipal and national government is essential to oversee partnerships and prevent excesses; competent third-sector organizations are required to mediate between the interests of different partners; popular participation is essential to ensure accountability; integrated partnerships (which address different aspects of shelter simultaneously) are often more effective than partnerships which focus on land, finance or other components in isolation; it is vital that each partner receives concrete benefits; macro-level economic, political and cultural conditions are crucial in determining the effectiveness of partnerships; programme-based partnerships, which aim to change policies, attitudes or flows of resources across a city or sector, are more cost-effective than heavily-administered project-based partnerships, which limit their impact to a single settlement; the commercial private sector is best limited to operational decision-making in the production of shelter, rather than decision-making over shelter policy and urban planning.

12. On the debit side, very few public/private partnerships in either industrialized or developing countries have managed to achieve results on a significant scale. Replicability and sustainability have been limited, and the administrative costs of partnership are often too high to be sustained by resource-poor governments. Politicization often undermines the success of partnerships, but by far the most serious problem is afford ability. Very few of the partnerships reviewed in this report have been able to guarantee access to land, housing, finance or services among the urban poorest, and most (at least those involving the commercial private sector) focus on lower-middle income groups. These partnerships may have a valuable "knock-on" effect on lower-income housing by reducing pressures for "downward filtering" in the housing market overall, but their direct significance for the urban poor has been limited.

13. Chapter VII presents the conclusions of the report and makes a series of preliminary recommendations. What is needed, and this is an uncontroversial point, is anew and better synthesis of State, market and people which enables the three sectors to relate to each other in a mutually supportive way. This is the objective of partnership. However, the nature of partnership and the balance between the three sectors varies widely according to context and objectives. Some forms of partnership are more suited to particular objectives, income groups or contexts, but all are unique. There are no "magic formulae" which enable successful public/private partnerships to be replicated or scaled-up.

14. However, it is true that partnerships between government and the third sector (people and their organizations) provide the key to the enabling approach to shelter among the urban poor. Public/third-sector partnerships are vital in three areas: shelter inputs, services, and mediation. Partnership provides a mechanism for enabling low-income families to address aspects of the shelter process which they cannot solve by themselves. In terms of returns 10 investment, these partnerships are likely to yield higher benefits than incentives to the commercial private sector, and it is here that governments and donor agencies should focus their attention.

15. Although there are some examples of successful commercial private-sector involvement in partnerships at low levels of income, these examples are rare. This is a consequence of the needs/demand gap among the urban poor and the difficulty of generating adequate returns to commercial

private investment while preserving the necessary levels of affordability and quality. Governments and donor agencies can provide incentives to commercial interests, or they can apply coercion, but neither is sustainable on a significant scale. Therefore, it is important to be realistic about the prospects of public/commercial private partnerships, and not to see partnership as a proxy for extending "free markets" in low-income shelter. Indeed, evidence shows that if partnership is seen only as a way of increasing commercial private-sector involvement in low-income housing then it is likely to lead to a reduction in the shelter options of the urban poor. Without strong links with government and third-sector organizations poor people are likely to lose out to more powerful interests in housing markets which are liberalized under conditions of large-scale inequality, poverty and imperfect competition. This is the real value and meaning of public/private partnership.

16. Attention must therefore be focused on strengthening government and third-sector organizations (particularly at the municipal level) so that they are better able to play their role as partners. In addition, public/private partnership is a subject in which ideology sometimes threatens to outweigh the evidence. Better monitoring of partnerships in different contexts is essential so that the lessons of experience can be incorporated into shelter policy and practice.

17. In summary, public/private partnership is not a panacea for the shelter problems which face the urban poor. In the right circumstances, it can provide an effective mechanism for improving the shelter options of low-income groups, but thus far partnerships have been limited in scale and reach. Nevertheless, their potential is huge, and the task for the international community is to ensure the right environment within which partnerships can flourish. Governments, with support from international donors, must ensure the flow of shelter inputs and generate the legal and regulatory framework required to mobilize the resources and energies of the poor in developing their own housing. It is in this sense that public/private partnerships represent the key to the Global Strategy for Shelter to the Year 2000.

# Public/Private Partnerships in Enabling Shelter Strategies

## Chapter I. Introduction and background

Over the last 30 years, policy and practice in the field of human settlements has undergone a radical transformation, though the scale of urban poverty remains undiminished. Richard Stren (1990) identifies three major phases in the evolution of shelter policy, culminating in the "enabling approach" based on partnership, which forms the subject matter of this report. The first of these phases consisted of large-scale public-sector investment in housing production, concentrating on the construction by government agencies of standardized dwelling units for the poor. By the mid-1970s, however, this phase had given way to "aided self-help" - the period, of official support for upgrading, sites-and-services, and (to a lesser extent) inner-city rehabilitation. While such policies constituted a welcome break from direct involvement by government in the construction of "low-cost" housing, "aided self-help" proved to be an inadequate and largely ineffective response to the shelter needs of the urban poor. Upgrading schemes and sites-and-services projects involved large government subsidies (sometimes of 65 per cent or more: Keare and Parris, 1982) which made them unsustainable and limited in scale and reach. Even with such subsidies they often proved to be inaccessible to the poorest households (Bamberger, 1982). Overall, the heavily-administered shelter projects of the 1970s proved to be an inefficient use of scarce government resources, and attention began to turn towards policies which could make more cost-effective use of the skills and energies of poor people themselves - the people who had been developing their own housing regardless, or perhaps in spite of, the efforts of the State and of donor agencies during preceding decades.

At the beginning of the 1980s, a small number of innovative shelter programmes (which included slum-upgrading in Bangkok and in India) broke away from the "project approach" to focus on developing a more appropriate framework within which poor people (especially women, whose vital contribution had previously been overlooked or neglected) could create more of their own housing, and do it more effectively. Multilateral and bilateral aid agencies became convinced that it was more important to strengthen institutions in the fields of municipal government and housing finance than to invest in specific shelter projects, and to direct scarce resources to areas (such as infrastructure) which the poor could not finance for themselves. These ideas gained increasing acceptance throughout the 1980s, finding expression in the term "enabling approach" subsequently introduced by the United Nations Centre for Human Settlements (Habitat)'s "New Agenda for Human Settlements" developed in

connection with the 1987 International. Year of Shelter for the Homeless, and formalized in the Global Strategy for Shelter to the Year 2000 (ass) that was adopted a year later by the General Assembly of the United Nations. The GSS has now been accepted as the official United Nations position on shelter issues, and has found wide support among governments, official aid agencies and non-governmental organizations (NGOs) around the world. Early evaluations of the implementation of the GSS have shown that an encouraging start has been made, while highlighting the huge amount of work that remains to be carried out if the principles enshrined in the Strategy are to become a reality (UNCHS, 1991). Further force has been given to the "enabling approach" by Agenda 21, the charter for global sustainable development agreed at the United Nations Conference on Environment and Development ( UNCED) in 1992. Chapter VII of Agenda 21 (on Sustainable Human Settlements Development) explicitly reinforces the principles contained in the GSS. Both the Global Strategy for Shelter and Agenda 21 are part of a broader movement of ideas which has re-defined "development" in terms of liberalization

in the economic sphere, democratization in the political sphere, and popular participation throughout the development process.

According to the GSS, the fundamental policy change required is:

*"the adoption of an enabling approach whereby the full potential and resources of all the actors in the shelter production and improvement process are mobilized; but the final decision on how to house themselves is left to the people concerned. Ultimately, an enabling concept implies that the people concerned will be given the opportunity to improve their housing conditions according to the needs and priorities that they themselves will define" (GSS, p. 8).*

The "enabling concept" implies a radically different role for government, withdrawing from the direct provision of housing to facilitate the efforts of others via a more appropriate regulatory and financial environment. It does not imply a reduction in government responsibility in the shelter sector, but rather encourages an integrated approach to the use of financial, institutional, human and physical resources in both public and private sectors. A major element in the GSS is its stress on new partnerships between different actors in the shelter process - governments, the commercial private sector, NGOs and community-based organizations, and poor people themselves. Different levels of government and different components of the "private "sector" have different, distinctive but valuable roles to play, and the goal must be to make these roles complementary and mutually-supportive. This requires the development of positive and creative partnerships between the different actors so that full advantage can be taken of the strengths and capabilities of each of them (see chapter II). In this sense, it is no exaggeration to say that partnership is the key to the enabling approach to shelter.

As a result of recent research, a great deal is known about the capacity of people and their organizations to create and improve their own shelter, but much less "about the links (among NGOs, different levels of government and the commercial private sector) which underpin success on a larger scale" (UNCHS, 1992c, p. 15). It has become clear that stronger links between micro- and macro-level action are required to underpin large-scale, sustainable human settlements development, because people and their organizations acting alone cannot solve the shelter problems that face them. As discussed in chapter II, there are many components of the shelter process that other actors (government and the commercial private sector) can and should undertake because only they can do so, or because they can do so more effectively. Popular action can be ineffective or undermined unless it takes place within a wider framework which supports people and their organizations with the right inputs, laws and regulations.

It is these links, or partnerships, that form the focus of this report. Although the issue of partnership is central to the implementation of the GSS, comparatively little research has been carried out into these links in developing countries. Three detailed case studies (in Canada, the Philippines and Turkey) were carried out specifically for this report, and a full literature review was undertaken covering hundreds of individual project and NGO reports. Because few of these reports look explicitly at the issue of partnership, the conclusions of this report are necessarily preliminary.

In Turkey, public/private partnerships have focused on cooperative housing and on fostering a more creative role for municipal government in the shelter process. As a result of partnerships between the Central Government, municipal authorities and cooperative housing associations, the share of cooperatives in the total housing supply in Turkey has risen from 18. 1 per cent in 1985 to 25. 3 per cent in 1990 (Tokman, 1992, p. 5). The first major partnerships in Turkey took place as far back as 1948 with the Yenimahalle Housing Project in Ankara. In this case, the Municipality provided land, services, design guidelines and subsidized building materials; Central Government provided credit; and individual households constructed their own dwellings (Tokman, 1992, p. 7). In 1979, the Ankara Municipality established a much more ambitious partnership with the Union of Batikent Housing Co-operatives, which

forms the focus of the case study carried out for this report. Here, the cooperatives finance (from their members) the acquisition of land, services and building. materials, and manage the actual construction of the dwellings; the Ankara Municipality acquires and allocates land to the cooperatives, constructs the physical infrastructure and advises on overall design; and the Central Government channels additional financial resources to the whole process to ensure that dwellings are affordable to the target group, that adequate services are provided, and the project as a whole is sustainable (Tokman, 1992, p. 13). Between 1979 and 1990 the Batikent experience was followed by similar partnerships in 27 other municipalities, with a goal of providing 120,000 dwellings for "lower-income" families (Tokman, 1992, p. 8). In addition, the Turkish Government has established a number of "housing and urban development corporations" (HUDCs) within the Cukurova Metropolitan Region which mirror the functions of the cooperative unions.

In the Philippines, public/private partnerships have developed in a different way, focusing on drawing the commercial private sector into collaborative arrangements with the Government under a National Shelter Program (NSP) and Housing and Urban Development Co-ordinating Council formed in 1986 (Leynes, 1992, p. 5). Under the NSP, the functions of different State institutions have been clarified and rationalized as a basis for more effective partnerships with both the commercial private sector and with people and their organizations. The National Housing Authority concentrates on upgrading, sites-and-services, relocation and low-cost core housing; the National Home Mortgage Finance Corporation is responsible for developing the formal mortgage market; the Home Insurance and Guaranty Corporation assists private developers to gain access to housing finance, and encourages private funds to be used for shelter; and the Housing and Land Use Regulatory Board becomes the sole regulatory body for housing and land development. It is charged with encouraging greater private-sector participation in "low-cost" housing through the liberalization of development standards, the simplification of regulations, and the decentralization of approvals for permits and licences. Within this new and more coordinated framework, the Philippines Government has experimented with a series of joint ventures which form the subject of the case study undertaken for this report. Most of these joint ventures take the form of partnerships between the National Housing Authority and private commercial developers, though there is considerable variation in the roles and responsibilities of each partner under different arrangements (see chapter IV). The basic purpose of all these partnerships, however, is the same:

*"to harness and promote private participation in housing ventures in terms of capital expenditures, land, expertise, financing and other facilities for the sustained growth of the housing industry ... and to encourage joint ventures with the formal and informal private sector, particularly with landowners ... and adopt measures which shall attract their participation" (Leynes, 1992, p. 17).*

In this way, government funds are used to draw in resources from other sectors, so that the overall impact of shelter investment is increased. The NHA uses its own funds to acquire land, undertake development and/or housing construction, and market the units produced, while the partner provides land, finance, design skills and actual construction, in varying proportions. The assumption in such joint ventures is that production levels will be increased as a consequence of the combination of the skills and resources of the two partners (Leynes, 1992, p. 17).

While (as discussed in chapter III) there are severe problems in deriving lessons from industrialized-country experience which may be of relevance to partnerships in developing countries, there are some useful comparisons to be made. Because of this, the third country case study carried out for this report comes from Canada. Since the end of the Second World War, Canada has developed a broad-based system of support for "social housing" based on public/private partnerships of various kinds, particularly in Ontario (Peddie, 1993). One significant aspect of this policy has been the development of "municipal and community-based delivery systems specializing in the production of affordable rental

housing" (Peddie, 1993, p. 2), with provincial governments taking over the lead from the Federal authorities during the 1980s. State assistance to private (non-profit) housing producers ranges from help with the planning system, through loans and grants, to long-term land and building leases and even incentives to private landlords. The commercial private sector has become involved in "social housing" despite the risks this entails, because it represents a "source of stable financing with good profitability" (Peddie, 1993, p. 3).

In both industrialized and developing countries, the range of partnerships is very wide. With its concentration on the formal private sector, the Philippines Joint Venture Program is an unusual example of public/private-sector partnership in shelter. Most of the other case studies used in this report focus on linkages between government, NGOs, community-based organizations (CBOs) and their members (albeit sometimes with small-scale participation by the commercial private sector) though there are examples (especially in the field of service provision) where private-sector roles are more important. The report begins (chapter II) with a brief survey of the theory of public/private partnership in housing, outlining the definition and "comparative advantages" of different actors and looking at how, ideally, they complement each-other. In chapter ill, the report considers the experience of public/private partnerships in the industrialized world, focusing on North America and Western Europe. The aim here is not to present a detailed survey of experience, but to draw out lessons which have some relevance for lower-income countries, either because they illustrate the conditions which underlay successful partnerships, or because they demonstrate some of the barriers and difficulties involved. Despite huge differences in context and resource levels, these experiences do have something valuable to teach about the potential of partnership in other settings.

The focus of the rest of this report is firmly on housing and urban development in lower-income countries, and particularly on the conditions of the poorest groups in the largest urban centres. Chapter IV provides a detailed survey of innovative partnerships in different aspects of the shelter process. The report looks first at partnerships in the provision of shelter inputs (land, finance, building materials and training), and then at partnerships in the production of outputs (housing and land development, infrastructure and services, employment and income-generation). In chapter V, the focus shifts to the "modality" of public/private partnership, with the experience and potential of links being reviewed between the public and "third" sectors, public and commercial private sectors, commercial private and third sectors, and partnerships between all three. Some preliminary conclusions are drawn concerning the impact and appropriateness of these, different modalities for partnership in particular circumstances. Chapter VI then summarizes the lessons that can be drawn from the experiences reviewed in the report, looking first at common elements underlying successful public/private partnerships, and then analysing the factors which seem to act as barriers to success, or which represent significant weaknesses. In chapter VII, the major conclusions of the report are drawn together, and an attempt is made to highlight the most effective foci and modalities for partnership, and how they might be strengthened. Although the report does try to draw out common themes, it must be stressed that generalization in this area is dangerous and must be undertaken with care. As the Global Strategy for Shelter itself emphasises, context plays a key role in defining the options available for low-income housing development, and in shaping the kind of partnerships which are feasible and effective. The search for "replicable solutions" is bound to be a fruitless one, though as this report demonstrates, there are some common threads in successful partnerships which can be used to achieve success on a larger scale.

Finally, a brief word about "partnership" itself. In this report, "partnership" is taken to mean more than a simple link or interaction between two or more actors in the shelter process. Partnership implies:

- A process of working together in a mutually-interdependent fashion, often with shared responsibilities. As will be seen, the most successful partnerships are those in which each partner derives something beneficial, and gains access to something that it does not have from the other

partner or partners in the relationship;

- A common agenda and goal, even if the interests, benefits and powers of the partners differ. As Gibson (1992, p. 391) puts it, different partners "can discover what they have in common, and develop the trust and confidence required to face and handle conflicts and disagreements";
- A relationship in which accountability and transparency are crucial.

Thus, although the scale and form of each partner's responsibilities may vary (and there is certainly no need for all successful partnerships to be "equal" in terms of investment or effort), all the partnerships reviewed in this report do imply a deliberate effort on the part of the actors involved to contribute something distinctive towards a common goal - adequate shelter for all. Partnership does not mean simply increasing the involvement of commercial private interests in shelter, though of course many partnerships do include this sector.

## Chapter II. The theory of public/private partnership

In any discussion of partnerships in shelter it is vital to specify in advance the precise meaning of the terms "public sector" and "private sector." In the literature these terms are used in widely differing senses, and this may result in considerable confusion. Throughout this report, therefore, the following terminology and definitions are employed:

- The public sector refers to the institutions and responsibilities of government at local (municipal), regional and national (central) levels. Where necessary these levels are distinguished in the text that follows - hence "municipal government", "central government."

- The commercial private sector refers to institutions, firms and individuals active in different aspects of the shelter process but always organized to generate a profit on the investment of their resources. The commercial private sector includes actors of widely varying size and scale, from large developers and housing-finance institutions, to developers operating on a very small scale in building a few houses or providing services to a small number of households.

- The third sector refers to organizations of people which have as their objective the promotion of the good of their members ("community-based organizations", or CBOs), and to institutions which support and mediate on behalf of these organizations ("non-governmental organizations", or NGOs). The third sector includes housing cooperatives, community organizations, collectives, women's groups and common-interest associations. Individual men and women, and the households they make up, are, of course, the key actors in low-income housing development in most cities in developing countries, building between 50 per cent and 75 per cent of all new dwellings (Turner, 1988, p. 8). They are also included in the third sector, though most poor people do view their properties in terms of exchange-value (potential profit) as well as use-value.

It is important to make and retain these distinctions in the analysis that follows, because each of these three sectors has different characteristics which determine the role in the shelter process that is appropriate for them. These "comparative advantages" are explored below. However, they are not as distinct in reality as these definitions suggest. As Turner (1988) points out, "market, state and people (which correspond to commercial private, public and third sectors as defined above) are separate but interlocking systems." They exist along a continuum rather than as completely separate entities and often blend into each other. Hence, some third-sector organizations also make a profit (even if it is usually ploughed back into their operations, or distributed among their members), while some firms in the commercial private sector include social objectives in their work. Experiments with "socially-responsible capitalism" are increasingly common in industrialized countries, and are leading to afresh and radical re-thinking of traditional conceptions of "public" and "private." Some commentators go so far as to say that the focus of the partnership debate should be on transforming both public and private-sector institutions as currently organized, to produce anew and more creative synthesis capable of harnessing the energies of both to the greater benefit of people - a greatly expanded third sector in fact. Nevertheless, the underlying organizing principles of these three sectors are sufficiently different for them to be treated a$ separate in this analysis.

Hence, the term "public/private partnerships" covers a wide gamut of arrangements in which the three sectors cooperate with each other in a balance which changes according to context. Wherever possible, this report refers to the specific partnership that is relevant in each particular case, i.e., "public-sector/commercial. private sector", "third-sector/public-sector", and so on. This is important because, as the report makes clear, the feasibility and impact of different forms of partnership varies enormously.

## Chapter II. The theory of public/private partnership

### A. Comparative advantage

Because the public, commercial private and third sectors have different organizing principles, they also exhibit different strengths (or "comparative advantages") which determine the roles that are appropriate for them in the shelter process. Research and experience enables the following conclusions to be drawn about the comparative advantages of these three sectors.

The public sector tends to be bureaucratic and hierarchical, occupied as it must be with enforcement (of law and order), collection (of taxes and other revenue), and regulation (the maintenance of minimum standards). Public-sector agencies are not good at producing low-cost shelter, since they lack the flexibility and ability to innovate and to respond quickly and on a small scale to new opportunities and circumstances. This was the hard lesson learned from efforts by the State to build large quantities of "low-cost" housing during the 1960s. However, the public sector plays an essential role in setting the overall legal and regulatory framework within which other actors can play their part more effectively. As the recognized national and sub-national authority, government is the only agency capable of creating an "enabling environment" for shelter. It also plays a crucial role in protecting its constituents from exploitation; in investing in areas (such as land, housing finance and basic services) which are insufficiently profitable to induce participation by the commercial private sector, and too large and capital-intensive for the third sector to handle alone; and in creating the macro-economic and political conditions (such as economic growth, and democratic participation) required for successful action in human settlements. As a recent report for UNCHS (Habitat) (1990b, p. 49) puts it:

*"The fundamental policy role for governments is to identify, within acceptable political parameters, where the management of human settlements will be enhanced by decentralizing, devolving or subcontracting any particular component of their current responsibility to any particular level."*

At a more specific level, these comparative advantages imply that the public sector should concentrate on the following roles in the shelter process:

- Ensuring an adequate supply of land for low-income housing via reducing land-use standards, simplifying procedures for obtaining secure tenure, ensuring that laws do not reward speculation, utilizing its own land holdings efficiently, and establishing land development agencies with sufficient authority and accountability;

- Coordinating the provision of infrastructure and services, seeking the maximum degree of cost recovery compatible with the preservation of access among the very poor, ensuring that networks are developed on a rational basis throughout the city, and regulating standards of quality and maintenance;

- Establishing a sound financial environment to encourage private investment in shelter, maintaining market interest rates to avoid undue subsidies, and ensuring access to sufficient housing finance for low-income groups on terms they can afford;

- Liberalizing standards to permit the use of a wider range of building materials, avoiding

standardized and industrialized technologies and materials, and promoting small enterprises in the shelter field.

The commercial private sector operates on the basis of adequate returns to investment. This has limited its involvement in low-income shelter in the cities of developing countries because the commercial private sector has normally been unable to provide housing at a profit, at a price the poor can afford (the so-called "needs-demand gap" which is discussed in more detail below). This obvious fact needs to be borne in mind throughout the discussion that follows, since it is best to approach the issue of partnership in a spirit of. realism, particularly in terms of the potential role of the commercial private sector in low-income shelter. However, at higher levels of income, the commercial private sector is and always has been the main provider of housing, and has a real comparative advantage in doing so. The primacy of the profit motive helps to ensure that resources are used in the most efficient. way, and that input/output ratios are maintained at the right level. In markets which operate fairly freely, consumer preferences can act to stimulate competition among producers and ensure that the most efficient producers are rewarded. In Turkey, for example, over 71 per cent of all housing produced in 1990 was built by the private sector ("individuals and enterprises"; Tokman, 1992, p. 3). The "private formal sector" in the Philippines is expected to account for 55 per cent of total urban housing need in the current year (Leynes, 1992, p. 8), though the teach of this sector is restricted to middle-income groups. However, private interests do need to be regulated by the public interest (since the private sector is non-accountable politically), and this means that there will be a large area of decision-making (with regard to minimum standards, zoning and so on) which will need to be retained by government (Colman, 1989).

The comparative advantages of the commercial private sector in shelter can therefore be summarized as follows:

- Production and marketing of land and housing units for those who can afford them (usually down to lower-middle-income households);
- Provision of infrastructure at full cost recovery in middle- and higher-income settlements, and (if conditions are right) involvement in the provision of some services (such as water and electricity) to lower-income areas;
- Creation of a private housing-finance market via the mobilization of. domestic savings, including secondary mortgages for middle- and higher-income consumers;
- Production of standardized building materials for use in housing construction;
- Development of an efficient and competitive private construction industry using industrial methods.

The third sector (and particularly individual men and women among the urban poor) are and always has been by far the most important and efficient producer of its own housing. Given low and unstable incomes and the high costs imposed by industrialized construction for profit, the only way of ensuring an adequate supply of dwellings for the poor is to guarantee their "freedom to build" (Turner and Fichter, 1972). People are highly skilled at making the most of limited opportunities, at building incrementally, at innovating and at reacting quickly and flexibly to a rapidly changing environment. However, they can only do these things if the wider environment in which they operate supports them. People and their organizations have no comparative advantage in large-scale service-provision or in planning and coordination beyond their immediate neighbourhood. Legal and regulatory frameworks are largely outside their control and they cannot, from their own resources, generate" sufficient finance or secure sufficient land on the open market to ensure adequate shelter for all. This is largely a matter of recognizing what people can, and cannot, do for themselves.

Community-based organizations (CBOs) and non-governmental organizations (NGOs) both fall into the third sector, but have different strengths and weaknesses. CBOs (such as housing cooperatives) are good at producing shelter and in providing direct services to their members, and in community mobilization. NGOs, on the other hand, rarely have a comparative advantage over the poor in producing shelter, but playa vital role when it comes to facilitating (the supply of inputs, for example), mediating (between people and the State, especially at the municipal level), and communicating grassroots experience to achieve greater leverage over official policies. The roots of CBO/NGO comparative advantage lie in the quality of the relationships they can foster with their members and target group, but they are not good at allocating resources on a large-scale (Fowler, 1990).

In summary, the most effective roles for the third sector in the shelter process lie in:

- Producing shelter at the lowest cost possible, tailored to the individual requirements and circumstances of people of varying income levels and family circumstances. In particular, the contribution and creative potential of women must be recognized and supported;
- Developing certain kinds of infrastructure (particularly sanitation and refuse-disposal) on a collective basis;
- Mobilizing people for collective action;
- Mediating between people, government and the commercial private sector; representing the interests of the community in negotiations; achieving leverage over official policy so that government decisions are informed by grassroots opinion.

## Chapter II. The theory of public/private partnership

### B. The theory of public/private partnership

At its simplest, partnership is a mechanism for ensuring that the comparative advantages of different actors in the shelter process are exploited in a mutually-supportive way, i.e., that the strengths and weaknesses of the public, commercial private and third sectors are harmonized so that maximum use is made of the strengths, while minimizing the potential for inefficiency caused by the weaknesses. Given the constraints of the real world (especially in the poorly resourced and rapidly growing cities of developing countries), these comparative advantages can never be combined in an "ideal" fashion, but the goal should still be to integrate the three sectors into the most productive partnerships possible according to circumstance. As Gibson (1992, p. 389) puts it, "the neighbourhood is the proving ground where the three ingredients of a healthy society can best be brought together - community, government and business."

At a more conceptual level, political and economic theory provides a range of convincing arguments to support the thesis that partnership is a critical element in successful "enabling" shelter strategies. In her analysis, Politics of Privatization, Kate Ascher (1987) argues that there are five sets of circumstances in which public provision is better than private:

- Where flexible, sequential decision-making is needed to cope with uncertainties in the environment;
- Where only a small number of competitors exist, so that there is a likelihood of opportunistic or predatory pricing;
- Where a divergence of expectations is likely to occur between the internal purchaser and the external (i.e., private) seller;
- Where operational and technical information gained from experience is likely to give one external supplier a strategic advantage over others, thereby reducing competition;
- Where a quasi-moral involvement between those supplying and those organizing the service is necessary to ensure adequate provision.

These arguments are reinforced by a similar analysis from Roth (1987), who describes five situations in which private markets cannot be relied on to provide the most efficient pattern of services:

- Where natural monopolies exist;
- Where increasing production is associated wit declining costs;
- Where substantial externalities exist;
- Where it is difficult to charge for a service or exclude those who cannot pay;
- Where the service involves the provision of merit goods, which the commercial private sector

may not produce in sufficient quantity (e.g., health, education, and in some circumstances, land and housing).

Underlying these arguments are a series of hypotheses about public/private-sector roles which emanate from both sides of the ideological spectrum. Many commentators argue that the public provision of services is inherently less efficient due to monopoly control and a lack of pecuniary incentives to efficiency (public agencies. lacking exposure to the pressures to reduce costs which face private-sector rums in competition with each-other: Ascher, 1987, p. 248). Because of political considerations and the tendency to patronage, the public sector will inevitably oversupply services at levels beyond needs and demand (though it is difficult to support this particular argument in developing-country cities!). Markets, on the other hand, "ensure allocative efficiency, provided that external effects and distributional consequences are unimportant" (Cook and Kirkpatrick, 1988, p. 13). According to the World Bank's *Policy Paper on Urban Economic Development* (1991, p. 5), past government efforts in shelter have often increased the cost of private solutions through over-regulation and the rationing of scarce capital for investment. In Malaysia, for example, State regulation increased housing costs by up to 50 per cent (World Bank, 1991, p. 39), and it is not hard to find similar examples elsewhere (see chapter IV on the consequences of regulation in land markets). Some economists argue that there are "no structural reasons why the size and role of government should be different between developing and industrialized countries" and that "government activity should be limited to the provision of public goods ... and to the correction of market distortions where justified by the balance of costs and benefits" (Colclough, 1991, p. 18). According to Gittinger (1982), governments should only intervene if consumers are unable to exercise proper choices in selecting from alternative suppliers, or if the prices consumers have to pay are higher than can be justified under conditions of "free" competition.

Other critics, however, argue that neo-liberal economics pays much more attention to distortions caused by government than to failures in the market itself, even though logic dictates that where there are serious imperfections, liberalization is likely to make matters even worse. In addition, these critics attack the orientation of neo-liberal economics towards short-term optimization at the expense of longer-term planning and investment; regarding the "long-run as no more than a series of short-runs", they say, ignores the real influence of longer-term factors in the economy (Colclough, 1991, pp. 20-21). Additional counter-evidence is provided by Ascher, who justifies public-sector intervention in services on the grounds that "public servants have an ethos devoted to customer service not profit" (Ascher, 1987, p. 252). Even though conventional wisdom suggests that public ownership is incompatible with entrepreneurship, the success of cooperatives such as Mondragon in Spain shows that "rapid capital formation can be made, compatible with collective ownership, within a legal framework that provides the proper incentives" (Brooks et al, 1984, p. 17). More radical critics have suggested that the ideas of "free marketeers" (i.e., those who "propose freedom of private property rights under current distributional conditions") inevitably run counter to the interests of the poor, because more powerful interests will appropriate resources wherever property rights are ill-defined, coerce the poor into "relatively disadvantageous contracts", and ensure that the poor are more severely affected by the "negative externalities" which the exercise of private property rights produces (Ekins and Max-Neef, 1992, p. 312). This analysis implies the need to change the distribution of property rights under "free markets" if markets are indeed to operate effectively.

Despite these theoretical arguments, real experience from around the world demonstrates that it is less than helpful to dichotomize public and private-sector roles in this way, and to imply that public and private sectors inevitably find themselves in opposition to each other. In reality (and as the rest of this report bears out), neither public nor private provision of services is "inherently" more efficient - effectiveness depends on circumstances, context, levels of income and resources, and the type of service or function in question. Both States and markets are simply social institutions designed to achieve specific

goals: markets aim to organize and facilitate production and exchange, while States define the framework and entitlements within which such organization takes place. This is why public and private sectors cannot develop effectively without each other. As the experience of Germany, Japan and the Republic of Korea demonstrates, successful economies are those in which public and private sectors are closely integrated, as compared with the adversarial relations (and less successful economies) of some other countries, or the former State-dominated economies of the Eastern Europe. A similar conclusion could be drawn about China, Sri Lanka (pre civil-war) and the Indian state of Kerala, all of which achieved a better balance between economic growth and social development by harmonizing the resources and energies of the commercial private and the third, sectors within a strong government framework.

There are many other arguments in favour of public/private partnership. First of all, as Keyes (1990, p. 167) points out, "effective market demand ... has historically intersected the housing supply curve at a point below the threshold of a socially-acceptable standard of housing." This creates the well-known "needs/demand gap" in housing provision between what the market can provide and what people can afford. Partnerships provide a mechanism through which this gap can be filled, by promoting the role of people and third-sector organizations in producing shelter at lower cost, within a framework of the right government support. Despite the obvious importance of removing unnecessary restrictions and regulations from private-sector activity, it is worth reminding ourselves that, at the levels of income current among most of the urban poor in developing countries, profits are not going to be sufficient to induce large-scale participation by the commercial private sector. Even successful examples of private-sector activity (such as the joint venture programme in the Philippines which is reviewed in chapter V) do not reach beyond the top 50 per cent or so of the income distribution.

Secondly, partnerships enable different sectors to gain access to the skills and resources (i.e., to the comparative advantages) of each other. The potential of the commercial private sector to generate funds far exceeds that of the public sector (Lanier et al, 1986), and a similar point could be made about the capacity of the third sector to generate "social energy" and initiative among the poor themselves. In the Philippines' Joint Venture Program, the National Housing Authority uses its scarce resources to draw in much greater resources from private developers, resulting in a much higher level of output overall (Leynes, p. 17).

Thirdly, partnerships are an excellent way of reducing and spreading the risks associated with investment in low-income housing, particularly in relation to finance, construction, marketing and management (Peddie, 1991). As Lanier et al (1986, p. i) point out, "in structuring public/private partnerships, care must be taken not to remove completely the market risk aspects of the proposed undertaking, as this would undermine the basic force behind management efficiency." However, this does not mean that risks should not be reduced wherever possible, given the unwillingness of the commercial private sector to invest where returns are low and/or unstable, as they are in most developing-country cities. Similarly, in the Philippines joint venture programme, sharing of resources, expertise, risk and profits is a fundamental principle, with liabilities and exposure being limited to the extent of the partner's contribution (Leynes, 1992, p. 18). Shared risks are also one of the most important features. behind the success of public/private partnerships in Canada (Peddie, 1993, p. 5).

Fourthly, partnership provides a mechanism for maximizing returns on investment by achieving a better balance between the complementary capacities of different sectors. As John Turner (1988, p. 169) has shown, returns on public-sector investment decline as one moves away from "elements" (such as secure land tenure, and finance) and "components" (such as services) towards "assemblies" (i.e., completed dwellings and housing projects). Private output is maximized when the public sector concentrates on these elements and leaves the commercial private and third sectors to focus on the areas where returns to their investment are greatest - in "assemblies", the actual construction and improvement

of housing.

Fifthly, partnerships can increase the output of housing by creating economies of scale (Suchman, 1989). Finance, expertise and skills can be pooled and responsibilities shared. Finally, partnerships provide an excellent (and perhaps the only) way to balance equity with efficiency in the shelter process, which must be the overall goal of all shelter strategies. Given the comparative advantage of the public and third sectors in guaranteeing equity, and the strength and experience of the commercial private and third sectors in achieving efficiency, partnership is the logical way of putting the two together in the best possible way.

In conclusion, partnership provides a mechanism to ensure that the comparative advantages of public, commercial private, and third sectors are able to be exploited in a mutually-supportive way, to the ultimate benefit of both equity and efficiency in the shelter process. It is now time to review the actual performance of public/private partnerships in shelter, first in the industrialized world, and then in a range of developing countries.

## Chapter III. Public/private partnerships in industrialized countries: what does their experience have to teach?

Although in quantitative terms, public/private partnerships have only made a small contribution to low-income housing provision in the industrialized world, there is a very extensive literature on these experiments, particularly in North America. This makes it worthwhile to study the experience of the industrialized countries in order to draw out any lessons which may be applicable to the cities of the developing world. As the conclusion to this chapter makes clear, there are, of course, major differences between industrialized and lower-income countries which make much of the North American and European experience non-transferable. Equally, there are some interesting comparisons to be made, and some common themes which do turn out to be of relevance to the discussion of public/private partnerships in developing countries.

## Chapter III. Public/private partnerships in industrialized countries: what does their experience have to teach?

### A. Public/private partnerships in the United States of America

The United States experience in public/private partnerships began with the New Deal of 1932, when the Federal Government first became involved in housing in a variety of regulatory, support and subsidy roles (Keyes, 1990; Suchman et al, 1990; Huchanski, 1991; Rosenberry and Hartmann, 1989; Brooks et al, 1984). Experience during and after the New Deal showed that regulation alone was insufficient to persuade the commercial private sector to build for the urban poor, since the "needs/demand" gap (see reference in chapter II) was simply too great to be bridged in this way. Throughout the 1950s and 1960s, this led to a growing polarization between private housing for middle- and higher-income groups, and public housing for lower-income' groups, with a residue of single-room occupancy for the poorest families in the inner city. At the end of the 1960s, this pattern began to change as a result of two policy shifts by the Federal Government: first, private developers were encouraged to build and manage private housing that was subsidized with public funds in order to make rents more affordable to lower-income groups; secondly, public housing policy moved away from direct construction, towards encouragement for the commercial private sector to build and lease units back to government (Keyes, 1990, p. 174). During the decade that followed, attention shifted again, this time towards demand-side measures (such as housing allowances) along with public subsidies "layered" on top of private-sector finance to enable lower-income families to gain access to private housing.

More recently, the Federal Government's involvement in housing has declined, with state governments taking over the leadership role in partnership experiments. According to Suchman et al (1990, p. 6) the budget of the Housing and Urban Development Department declined from $US 31.9 billion in 1981 to $US 15.4 billion in 1988. According to Keyes (1990, p. 176):

*"the public/private partnerships that have emerged at state and local levels provide much optimism for the capacity of the three sectors to work productively on the low-income issue, particularly if the Federal Government were to re-emerge in a leadership role."*

This is a key point which is further emphasized in the conclusion to this chapter. The commercial private sector is prepared to enter the lower-income housing market in return for "deep subsidies" from the state, and the challenge for government is how to provide such subsidies without exhausting public revenue.

Current public/private partnerships in the United States cover a wide variety of arrangements, from formal, legal relationships to informal cooperation (Suchman et al, 1990). Many of these are "project-based" partnerships (i.e., restricted to a particular geographic locality), but some of the more influential experiments are "programme-based" i.e., they aim to change policies, draw in private-sector institutions and increase access to resources beyond the project level. Looking first at project-based partnerships, there are many similar stories to tell from across the country, including Boston, Chicago, Cleveland, San Francisco, Baltimore and New York City. Some of the most famous partnerships come from Boston, where over one hundred joint ventures have been developed under the umbrella of the Massachusetts Housing Partnership initiated in 1983 (Keyes, 1990). Most of these partnerships are structured as follows: a coordinating committee or board is formed from representatives of local and state

governments, private banks and other businesses, and neighbourhood-based non-profit cooperatives or "community development corporations." Finance comes from both public and private sectors, and may be used to build new units or to rehabilitate existing ones (usually apartment blocks and rooming houses in the inner city). The residents/cooperative members contribute their own labour and other resources to the scheme. The focus of these partnerships lies in facilitating the efforts of third-sector (non-profit) developers in inner-city areas using finance and technical assistance from municipal government and commercial banks. Most of these projects art ")mall (1000 to 6000 units), though there are examples which are larger, e.g., the Bridge Housing Cooperative in San Francisco, which has developed over 1000 units per annum since 1983, 66 per cent of which are affordable to low-income households earning 80 per cent or less of the median household income for the area (Suchman et al, 1990, p. 110). All told, the Cooperative Housing Foundation has developed over 55,000 housing units for people of "modest" incomes across the United States (UNCHS, 1992b, p. 168).

In Sandtown-Winchester, Baltimore, a partnership for urban renewal has concentrated on an integrated strategy to enable inner-city residents to own their homes. The strategy includes job-training, community health care, day-care centres and credit, while the residents themselves agree to make a small cash contribution plus 300 hours of "sweat equity" to the rehabilitation of their dwellings (Barringer, 1992). A similar example comes from San Francisco, where the Housing Development and Neighbourhood Preservation Corporation has transformed an old hotel in the inner city into a single-room occupancy hostel for very-low-income people. In this case, the building was purchased with a loan from the municipal government, and can be converted into equity within 20 years rather than being repaid, on condition that rents are kept as low as possible (UNCHS, 1992b). A further mortgage loan of $US 1 million came from Citicorp Savings - a good example of mixed public/private financing which promotes affordability while preserving the necessary returns to the commercial private sector.

One common theme in these partnerships is the essential role played by strong third-sector organizations in mobilizing residents and enabling them to gain access to land, finance and advice. These organizations take many forms: some are "land trusts", "democratic corporations designed to purchase territory in the public interest" (Bruyn, 1992, p. 375), which aim to keep land from being used for speculative purposes. Land is rented to those who wish to use it for purposes which are specified in the corporation's charter. This retains an element of the profit motive but acts as a guarantee against profiteering. Land trusts have already been established in Leesburg, Georgia, in Washington, D.C., and in Clairfield, Tennessee. Community development credit unions are democratic banks controlled by their members which channel finance from a revolving loan fund into local housing. They were originally established to circumvent the practice of "red-lining" of lower-income neighbourhoods by commercial banks (Bruyn, 1992). Community development corporations are one of the most common forms of partnership organization, and aim to provide a mechanism for local control over planning and decision-making.

Turning now to programme-based partnerships, the focus here is on legislative and policy reform, and on the promotion of incentives to draw in more resources from the commercial private sector. One of the first important measures here was the Community Re-Investment Act of 1977, which aimed to promote private investment by granting licences to financial institutions in return for a commitment to invest in local housing. In similar vein, the Massachusetts Housing Finance Agency requires that 25 per cent of all units built with its resources must be dedicated to lower-income households (Keyes, 1990, p. 180). The results of this experiment show that adequate housing for the poor can be built by the commercial private sector when the local authority uses regulation as a basis for negotiation with the developer, lowering barriers to investment in return for a commitment to build a certain proportion of units for the poor. In 1986, the Federal Government passed legislation to channel credit to low- and middle-income rental housing under the Low-Income Tax Credit Act, while the Local Initiatives Support

Corporation formed by the Ford Foundation in 1979 has channelled over $US 203 million from 515 private firms to affordable housing development in the last nine years (Suchman et al, 1990, p. 16). Perhaps more significantly, this money has been able to leverage an additional $US 1 billion of investment in 525 partnerships and community development corporations (Suchman et al, 1990, p. 16). Other similar institutions include the Enterprise Foundation and the Neighbourhood Re-Investment Corporation (Hulchanski, 1991).

The State Housing Assistance Rental Program (SHARP) subsidizes interest rates on mortgages down to 5 per cent and again requires that private developers reserve a minimum of 25 per cent of the units produced for lower-income tenants (Keyes, 1990). The state government also guarantees a sufficient level of subsidy to ensure that this target can be achieved; over 10,000 SHARP units have been built since 1983 (Keyes, 1990, p. 189). Since most low-income households in United States cities still live in unsubsidized rental housing, it is vital to encourage private landlords to play their role effectively. In this respect, the example of Fitchburg, Massachusetts, is often quoted. Here, homelessness has been all but eliminated using a variety of public/private partnerships which aim to make low-income households as "competitive" as possible, so that landlords are persuaded to remain in the low-income rental market. This has been achieved by ensuring a "continuous rent stream" for landlords from a range of welfare sources, by offering landlords a range of additional incentives such as home-improvement grants, and by ensuring an effective service from local government in mediating between landlord and tenant should disputes arise over non-payment (Keyes, 1990).

What, then, can be concluded from the United States experience in public/private partnership'? Although it is difficult to put an accurate figure on the total number of units rehabilitated or added to the low-income housing stock by partnerships, the figure is certainly small in scale when compared with the level of need. Overall, a two-tier housing market still dominates in the United States, with the commercial private sector producing owner-occupied units for those able to afford them, subsidized by tax and mortgage provisions; and a second market for those who cannot afford the first, made up of public housing, renting from private landlords, and public/private partnership projects. According to Rosenberry and Hartman (1989), those in the second tier end up by paying a higher proportion of their incomes for a lower quality of housing than those in the first tier (partnership projects excluded). A consistent feature of the United States experience has been that the urban poor have failed to benefit from the mainstream housing market, while the partnerships described above have made little impression on the overall scale of this problem. Of course, this does not mean that the partnerships themselves have failed - on the contrary, they have produced some remarkable results, but they have yet to be "scaled-up" to any significant extent. This is particularly true of project-based partnerships. The need for public subsidies to broaden the scale of partnerships seems clear, but how to use scarce public resources to maximum effect remains an open question. Even some of these "success stories" are now being questioned; for example, the $US 551 million Real Estate Tax Abatement Program in New York City intended to promote private investment in social housing by reducing taxation is now thought not to have created any more units than would have been developed without it (Carter and McAfee, 1990, p. 258).

Although there are some common features in the partnerships reviewed above, each is unique in terms of its specifics, and this means that they cannot simply be replicated across the board, particularly as "what might appear as a logical sequence of activities is in actual practice a messy and opportunistic process" (Suchman et al, 1990, p. 19). All successful partnerships are tailored to local conditions: in some, third-sector organizations act as developers; in others, they act as intermediaries; while in still others they provide technical assistance to other non-profit institutions such as community development corporations. Nevertheless, at least one commentator (Suchman, 1989) has been able to identify some common factors underlying successful partnerships in the United States. The most important of these factors are clear objectives and strong public support for the programme; responsiveness to the local

context; strong and viable leadership from all the partners; a strong. board of directors to coordinate the work; mutual trust and confidence; access to adequate funding and technical expertise; effective staff; and flexibility. These factors are balanced by a number of common barriers to success: instability in the economic, regulatory and incentive environments (e.g., changing land-use regulations, taxation, and political leadership); local politics; the difficulty of coordinating multiple needs, goals and actors (conflicting interests and agenda); complex financial arrangements (usually from multiple sources); problems inherent in promoting affordable housing in the inner city (competition for land uses, gentrification etc. ); and minimal participation by the commercial private sector (the needs/demand gap again, except for isolated examples such as the Bridge Housing Coorporation in San Francisco).

In order to build on these common features and overcome the barriers that have been identified, Suchman goes on to recommend the following: partnerships must be created with broad and visible support from all the partners, and the commitment of local leaders in both public and private sectors; they must have a clear and shared vision and purpose, hire the best staff and pay them well, and identify sources of funding and bring them into the partnership at an early stage. Furthermore, the partners must have patience and not expect results too soon; develop a strong management capacity for maintenance and long-term affordability; find ways to cut costs (by, for example, simplifying regulations, finding cheaper building materials, and waiving taxes); and ensure that the partnership is developed in the context of a stable and supportive economic and political environment (if possible). This is a lengthy and ambitious list which underlines the range of difficulties facing public/private partnerships in United States cities. It is clear that these conditions are hard to find in the United States; they are rarer still in the cities of developing countries.

## Chapter III. Public/private partnerships in industrialized countries: what does their experience have to teach?

### B. Public/private partnerships in Canada

Although the Canadian experience of public/private partnerships in housing is not as extensive as that of the United States, a considerable literature has developed around this theme which shows some striking similarities with the conclusions described above (Peddie, 1991, 1993; Carter and McAfee, 1990; Bruce, 1991; CHRA, 1991; Fallis, 1990). Indeed, "when the history of social housing in the 1980s and 19905 is written, the central theme may well be the search for effective public/private partnerships to meet the need for adequate and affordable housing (Carter and McAfee, 1990, p. 258). Until the late 19605, Canadian cities were plagued by the same problems that characterized their counterparts in the United States - rapid urban growth and increasing inner-city decay, high-rise developments, and urban planning dominated by expressways. In the decades that followed, these problems were reversed or severely constrained by what Fallis (1990, p. 66) calls a "neighbourhood-based reform movement" emphasising land-use conservation and enhancement, transit rather than expressways, and "downzoning" instead of high-rise development. Vigorous government intervention was essential in this movement, but it was rooted in participatory planning at the local level. These changes helped to take conditions in Canadian inner cities more positive than those in the United States, but they failed to provide for the poorest residents who fell victim to gentrification in their traditional neighbourhoods.

In reality, the "neighbourhood-based reform movement" cited above covered a wide range of partnerships. Carter and McAfee (1990, pp. 233-234) distinguish three models of municipal investment in social housing: the "reactor" model, in which government plays a passive role in processing development applications and ensuring compliance with building and planning, standards; the "facilitator" model, in which government actively encourages partnerships via subsidies, zoning and financial incentives; and the "comprehensive developer" model, whereby the State is involved in project design, implementation and management. Winnipeg provides a good example of the reactor model, Vancouver of the facilitator, and Toronto and Ottawa of the comprehensive developer. The experience of Vancouver is particularly interesting since originally it created its own non-profit housing corporation. However, this acted as a direct competitor to existing third-sector institutions in the city for land and resources, and so the government later switched its support to these established groups.

Carter and McAfee (1990, p. 236) note that active public-sector roles are costly, since they require subsidies for land and even so cannot guarantee affordable rents for the poorest. The limited tax base of most Canadian cities makes it difficult to generate sufficient revenue for social housing, a conclusion which is of crucial importance for the discussion of partnerships in developing countries. In Winnipeg, thy municipal authorities sold inner-city land below its market value to increase affordability, but this simply reduced the city's ability to purchase new sites. Vancouver tried to overcome this by leasing land to non-profit groups, but gentrification in the inner city made it almost impossible to preserve the social mix of the area. This problem has also undermined the impact of "inclusionary zoning", whereby the State requires private developers to provide a specified proportion of lower-income units within the scheme. Other forms of public/private collaboration include regional housing afford ability boards to improve coordination, affordable housing investment trusts to raise public and private-sector finance,

housing modernization associations to undertake urban renewal, public equity pools to fund third-sector organizations to undertake joint ventures with commercial developers, and re-development associations (Peddie, 1991). The Canadian Mortgage and Housing Corporation (a leading actor in the partnerships movement) also sponsors a programme called Affordability and Choice Today (ACT), which aims to eliminate legal barriers to partnership and provides grants to public, commercial private and third sectors to undertake "demonstration projects" and document successful experiments in partnership (UNCHS, 1991b).

Richard Peddie's (1993) detailed survey of public/private partnerships in Canadian housing written especially for this report is particularly illuminating. Peddie shows that most joint ventures in Canada are restricted to a single project, driven by the profit motive (at least for the developer), based on a pooling of resources (capital, land and expertise), managed and controlled jointly, and with profits or losses being shared by all the parties involved. They are intended to capitalize on the strengths of the partners and minimize their weaknesses, though, as Peddie shows, these weaknesses were often underestimated, to the ultimate detriment of the partnership.

According to Peddie (p. 6), the objectives of public/private partnerships have been as follows:

- (a) To ensure that affordable rental housing is developed for people who cannot afford to buy or rent on the private market;
- (b) To obtain access to high-value, centrally-located land that would not normally be affordable for low-cost housing;
- (c) To increase production of affordable rental housing by using partnership to gain access to government subsidies;
- (d) To generate revenues for public agencies to invest in the acquisition of other properties for affordable rental housing;
- (e) To share the risks of multiple land uses;
- (f) To harness the expertise available in the private sector;
- (g) To meet planning goals such as the promotion of downtown living and urban intensification.

To meet these goals, land, capital and expertise are pooled by the partners in different proportions, and in a wide variety of arrangements. Management is usually vested in the private partner since the private sector is assumed to be more efficient than the public, while both profits and losses are shared (an important principle in attracting private-sector participation). As in the United States, non-profit organizations of various kinds play an important role in mediating between commercial developers and the local authorities. However, one characteristic of the partnerships reviewed by Peddie in Toronto, Ottawa and Vancouver is their complexity, especially in relation to financial arrangements. This has some, obvious implications for the potential of similar partnerships where local government is weak and under-resourced. In the case of Vancouver, the city authorities established a joint venture with commercial developers under the umbrella of the Vancouver Land Corporation (Peddie, 19, p. 57), agreeing to lease land for a period of 80 years at rents which are tied to the retail price index.

Canadian cities have also played host to a wide range of innovative financing arrangements for social housing (Bruce, 1991). These include reducing the capital cost of housing via sweat-equity and leasing land, providing technical assistance and advice to housing cooperatives (e.g., the Housing Development Resource Centre in Toronto), leveraging private-sector funds from pension funds and

"community bond schemes" (in Saskatchewan), and legislating more resources for social housing. As in the United States, this last option may take the form of land-use regulations (e.g., 25 per cent of new housing built in Ontario must be reserved for low-income households), density bonuses. (more units/hectare being allowed than specified in the planning regulations, with the extra units designated as social housing), dedicated tax revenues and other tax measures (Bruce, 1991, pp. 29-35). Some Canadian cities also have revolving loan funds for acquiring land and providing start-up costs (e.g., Toronto), and third-sector community development corporations along the lines used in the United States to coordinate and implement construction (e.g., Cape Breton).

Despite these encouraging experiments, a common conclusion among commentators is that public/private partnerships have played only a very small part in the overall production of affordable housing in Canada (Peddie, 1993, p. 58; Mishra, 1990). Indeed, the Canadian Housing and Renewal Association (CHRA, 1991, p. 2) goes so far as to say that:

*"while the joint ventures reviewed have produced some affordable additional housing and have fulfilled a number of the project sponsors' desired objectives, in general they do not appear to be a cost-effective alternative to the non-profit or cooperative housing programs."*

They may, however, have been cost-effective alternatives to the private rental sector where no direct public assistance was available. Public and third-sector housing together constitute only 4 per cent of the total Canadian housing stock (Mishra. 1990. p. 107). As in the United States, partnerships have been limited in scale. and have been costly to implement. As Peddie (1993. p. 58) concludes.

*"even the Vancouver Land Corporation, whose approach is about as close to being programmatic as opposed to project as any described here, still depends heavily on project-by-project land lease deals with the City of Vancouver."*

A number of further conclusions can be drawn from the Canadian experience which are of relevance to cities in developing countries.

First, clear and agreed objectives are essential, but this is often difficult in cases where objectives may conflict with each other (as in Toronto, when the goal of affordable housing crossed with the city auditor's objective of getting the best financial deal for the Municipality; Peddie, 1993, p. 59). Secondly, doubts have been expressed about the cost-effectiveness of many joint ventures, and even about whether they have in fact been able to reach their intended beneficiaries. The costs of staff time and administration are rarely included in assessments of cost-effectiveness, and this was one of the factors that lay behind the pessimistic assessment of partnerships by the CHRA cited above. Peddie (1993, p. 60) goes on to say that this assessment was based on the fact that, because joint ventures involved the commercial private sector, they required a return on investment which would exceed the return on mortgages for non-profit projects. Since these mortgages are guaranteed by the Federal Government, they attract very competitive rates, and the Government would therefore be better served by directing its resources to those programmes. The CHRA (1991, p. 22) report concludes that most Canadian experiences show higher costs to government than would have been incurred under direct assistance to non-profit developers (i.e., direct partnerships between public and third sectors).

Thirdly, the complexity of public objectives in many joint ventures is a direct result of the political and bureaucratic environment in which the public negotiator must operate, which causes constant delays and reduced profits which act as a disincentive to private-sector participation. In contrast to the private sector, government is often slow, cumbersome and reluctant to innovate and take risks, and partnerships are vulnerable to changes in the political make-up and agenda of the local authorities.

*"Because of the continued need for governments to be seen to be guarding the public interest, close collaboration with private entrepreneurs requires extraordinary safeguards which, in turn, may fetter the partnership to the extent that its raison d'être, to harness the experience and*

*creativity of the private sector, may be lost" (Peddie, 1993, p. 69).*

Fourthly, although ideally partnerships should be programmatic rather than project-based in nature, this is unlikely to happen in Canada because most examples are location-specific and non-replicable (Peddie, 1993, p. 69). Fifthly, an important factor (and, according to some commentators, the key to successful partnership) lies in joint risk-taking and joint decision-making (CHRA, 1991). Sixthly, partnerships are heavily influenced by the environment in which they develop. The most successful joint ventures take place in cities with a buoyant economy, where growth in the business sector is strong enough to support compensatory programmes (Carter and McAfee, 1990, p. 253). This is a timely reminder that, despite the local impact of public/private partnerships, the fundamental responsibility for ensuring the right macro-level factors in the housing market (full employment and income security) rests with the State (Fallis, 1990). Finally, Peddie (1993, p. 71) offers some conclusions which highlight the best modalities for successful partnership and the administrative resources required to service them. These include tackling one joint venture at a time so that learning can be maximized, creating a strong negotiating' team with overall authority vested in the public sector, insisting on an equity contribution from the private partner to ensure that it is serious about its involvement, and aiming for an equal share of risks and profits among all the parties involved.

## Chapter III. Public/private partnerships in industrialized countries: what does their experience have to teach?

### C. Public/private partnerships in Western Europe, Japan and Australia

In the United Kingdom (as in the United States over the last decade or so), there has been a gradual move away from direct public-sector involvement in lower-income housing provision, and towards a role for the State in facilitating the activities of the private sector (mainly private rental housing) and the third sector (the network of housing associations which has grown rapidly with official encouragement). Partnerships have been developed between local authorities and private investors, and increasing (though still limited) amounts of private finance have been invested in subsidized rentals though new public/private funding mechanisms (UNCHS, 1992b). Responsibility for providing new subsidized rental housing has shifted gradually from local authorities to housing associations, funded from both public and private sources and monitored (to ensure minimum standards) by the Central Government Housing Corporation. Government grants have also been given to private builders to enable them to buy, renovate and sell council (public) housing, using mortgages from private institutions (UNCHS, n.d. ). British building societies play the crucial role in stimulating this type of activity, though it has declined markedly in recent years as the overall housing market has fallen into recession. Cooperative housing is also quite common in the United Kingdom on a small scale, supported with technical assistance by co-operative development agencies (Ward, 1985). Government incentives have also been provided to expand the private rental sector (e.g., to encourage shop-owners to let apartments above their premises). Overall, however, the impact of these partnership arrangements on the supply of affordable, good-quality housing has been disappointing. This has led to a reassessment of the options available, and a realization that an integrated approach to the housing market is likely to be more effective than action in one sector alone (e.g., selling off council housing without simultaneously expanding the stock of alternative housing elsewhere).

Although the Scandinavian model of social capitalism is now undergoing its own recession and consequent re-evaluation, it is worth noting that official support for community and cooperative housing has long-been practised in Norway and Sweden. Preferential mortgages and subsidies were given to third-sector housing institutions, which were also encouraged to take on welfare functions (such as day care) from the State (Mulgan and Wilkinson, 1992). In Norway, the Oslo Kommune (the local authority for the national capital) negotiated with one of the largest housing cooperatives in the country to take over the public sector's housing waiting list as far back as the 1930s. Low-income households were encouraged to buy shares in the cooperative by providing loans to cover their deposit (Mulgan and Wilkinson, 1992, p. 349). Some 45 per cent of Oslo's housing stock is now in cooperative hands, demonstrating how effective it can be to tap into existing networks and institutions in civil society. However, there are also worries that the cooperatives exclude the poorest families in the city (being a self-selecting and often unrepresentative group) and that an unhealthy dependence on the State has been encouraged.

In the Netherlands, non-profit housing organizations have had a significant role in official housing policy since before the Second World War (Heerma, 1992). During the 1960s and 1970s, the Dutch Government funded upwards of 40,000 social housing units, so that over 33 per cent of the national housing stock is now managed by 850 third-sector organizations (over 2 million units). As in Canada, the

United Kingdom and the United States, however, the Dutch Government is now drawing back from its previously strongly-interventionist role to give the social-housing organizations more freedom to develop policy, and to expose them to market forces. This should lead to a greater emphasis on public/private partnership. Financial guarantee funds have been established to protect the continuity of the social-housing sector under this new regime. One of the major lessons learned from this experience is the non-viability in the long term of direct government subsidies to social housing on such a large scale, and the feeling (difficult to demonstrate empirically) that consumers have had to pay higher prices for their housing than they would have had to pay under a more market-oriented system.

In Australia, the experience of the common-equity rental co-operatives is worth citing (UNCHS, 1992b, p. 6). Launched in the State of Victoria in 1986, these institutions mix Federal and State Government funds for community housing with loans from the commercial private sector, to maximize the number of houses purchased or constructed. Common-Equity Housing Finance Ltd. is a non-profit private company which finances the programme using loans from private institutions. Cooperative members pay only a cost rent (which includes a charge for maintenance and administration). In 1992 there were 62 such cooperatives managing a total of 520 properties.

Finally, experience in Japan suggests that the commercial private sector will be prepared to enter into partnerships which involve high initial capital investments if expectations of profit in the longer-term are sufficiently high. In the case of the Japanese railway system, private companies have been prepared to defer their expectations of making a profit for long periods of time, given that the eventual return will be considerable (Academy for State and Local Government, 1987).

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### D. Common themes and lessons of experience

What common threads can be drawn from these diverse experiences, and more importantly, of what relevance is the experience of the industrialized countries for public/private partnerships in the cities of developing countries? The experience of partnership in North America, Canada and Western Europe suggests the following conclusions.

In all cases the impact of public/private partnerships on the overall shelter needs of the urban poor has been very small in scale. In Canada, public and third-sector housing together constitute less than 4 per cent of the total housing stock (Mishra, 1990, p. 107); in the United States the figure is only slightly greater than this. Partnerships remain the exception rather than the norm, and have been unable to scale up their coverage to a significant level. This is a reflection of the cost and complexity of partnerships (see below), and the unwillingness of large-scale private capital to invest in them, which is in turn a consequence of the needs/demand gap which lies at the heart of the housing problem. There is some evidence that programme-based partnerships are more likely to achieve significant scale and impact than project-based partnerships, because of their effect on systems, structures, attitudes and policies (Suchman, 1989).

Most partnerships have incurred significant administrative and other costs which, if incorporated into cost-benefit calculations might reveal that joint ventures are a less cost-effective solution than previously thought (CHRA, 1991 ; Peddie, 1993). These hidden costs must be taken into account in assessing the viability of similar heavily administered partnerships in developing countries.

A related point is that most partnerships involve complex negotiations, financial arrangements and legal documentation which increase costs and delays, and require a sophisticated bureaucracy to deal with them.

Strong central and local government is therefore an essential pre-requisite for successful partnerships, especially if there are dangers of speculation involved (as there are in "hot" housing markets characteristic of the inner city undergoing gentrification). As Brooks et al (1984, p. 307) put it:

*"the conceiving, planning, goal-setting, standard-setting, performance-monitoring, evaluating and correcting all remain with the government. If these are done badly, the public interest suffers, and so, usually, does the private contractor."*

The withdrawal of the Federal Government from lower-income housing in the United States was cited by Keyes (1990, p. 176) as a key factor in limiting the scale and scope of public/private partnerships, despite strong action at the state level.

Even in successful partnerships, it. is difficult to reach the very poor. "Most partnerships are limited in their ability to provide housing for those most in need "(Bruce, 1991, p. 58), especially where cost overruns create an upward pressure on rents, as documented by Peddie (1993, p. 27) for Toronto. Without massive subsidies (which would be unsustainable - see below) the needs/demand gap is too

wide to bring even social housing within the reach of the poorest families.

Partnerships often involve significant subsidies, financial incentives, and lost revenue on the part of government, and therefore work best in buoyant economies where public and private-sector resources are plentiful. The limited tax base of many cities makes it difficult to generate sufficient revenue for social housing on a large scale (Carter and McAfee, 1990).

There is some evidence that the commercial private sector is as concerned with the stability and predictability of revenue streams as with short-term profits. Anything which guarantees long-term, stable cash-flows will therefore encourage private capital to enter into partnerships, as in the case of Fichburg in the United States cited above (see also Peddie, 1991).

A key factor in successful partnerships is the sharing of risks among the partners, though in reality the public sector often shoulders most of the risk itself (CHRA, 1991).

Strong partnerships must have clear and shared objectives right from the start. Equal partnerships are usually more successful than those in which the relationship is biased artificially towards the commercial private or the third sectors (Peddie, 1991). "Experience suggests that private partners in this co-operation cannot be solely profit-maximizers; they must have a strongly-developed social conscience in combination with an eye for profitable business" (Brooks et al, 1984, p. 25). Clear definition of the terms of the relationship among the partners is also vital, to prevent misunderstandings later on.

Effective partnerships are characterized by high levels of community participation, strong community and other third-sector organizations, and an integrated approach to housing, incomes, employment, training and social sectors.

Each partnership is unique, at least in its details, and one must beware of generalization. Replicability is very rare.

In conclusion, many of the lessons listed above are important to the following discussion of public/private partnerships in developing countries. The importance of programme versus project-based partnerships, the need for strong and competent government, the value of community participation and strong third-sector organizations, the need to guarantee stable cash flows and to identify clear and shared objectives, are all highly relevant to the experience of developing countries. On the other hand, there are some obvious differences which restrict the relevance of these experiences. As Arrossi et al (1992, p. i) point. out, housing improvement in the rich North is based on:

*"well-developed private capital markets within prosperous, usually-growing economies; with low inflation, well-established local government with a large local tax and revenue base, and a high proportion of the population able to make large and regular payments for housing and basic services."*

None of these conditions applies in most developing countries. There are three critical differences: rust, levels of income are much lower and less regular, and the needs/demand gap is much larger; secondly, government is much weaker, very poorly resourced, and unable to sustain significant subsidies or forego sources of revenue; thirdly, the commercial private sector is much less well-developed. These differences make it unlikely that the heavily-administered models of partnership that have grown up in North America and Western Europe can or should be copied in developing-country cities.

## Chapter IV. Public/private partnerships in developing countries: the focus of partnership

The literature on public/private partnerships in developing-country cities is much less extensive than in North America and Western Europe. Of course, a great deal of research has been carried into specific aspects of the shelter process (such as upgrading or the role of NGOs), but generally the linkages between public, commercial private and third sectors have received scant attention, or have been treated only in passing. This may be because (in most situations), the urban poor have always relied on their own resources to house themselves regardless of, or perhaps in spite of, the activities of governments and the commercial private sector. However, as the enabling approach to shelter suggests, this situation is far from ideal, and housing outputs and housing standards would be very much higher if the three sectors were to cooperate with each other in a positive way. The following review of experience, which concentrates on the focus of partnership rather than modalities (see chapter V) is, therefore, necessarily rather circumspect. The report looks first at the experience of partnerships in facilitating the supply of inputs into the shelter process (land, finance, materials and skills), and then at partnership in the production of shelter outputs (housing, services, jobs and incomes).

## Chapter IV. Public/private partnerships in developing countries: the focus of partnership

### A. Partnerships in the supply of land

Land is the most important input into the shelter process and without it there is no possibility of the enabling approach being implemented. Without an adequate supply of land in the right place, at the right time, and at a range of prices within reach of the poor, people will be forced into higher-density rental accommodation and/or squatting on marginal lands outside the market, with damaging consequences for the orderly development of the city, the cost of service provision, and the welfare and shelter standards of those affected. "However, land supply is also the area of greatest failure in shelter provision over the last ten years" (UNCHS, 1991d, p. 18), largely because governments have been unable to find the right balance between liberalization and intervention in the urban land market. Land markets in developing-country cities have been allowed to operate in ways which deny access by low-income groups and which promote the holding and exchange of land for speculative purposes. Urban land markets have always been notoriously "imperfect" (Walters, 1983; Baross and Van der Linden, 1990), dominated by powerful interests. which attempt to increase monopoly control over land in order to push up prices and profits. Land-registration and information systems are usually very weak, and attempts at government regulation have often made the situation even worse (see below). In Karachi, for example, there is enough land lying vacant to house over 1 million people at current planned residential densities; land held vacant for speculative purposes in Bombay would be sufficient to accommodate the entire population of the city's illegal settlements, pavements and rental tenements (Hardoy and Satterthwaite, 1989, p. 101). The process of "commercialization", by which land enters the formal market and becomes a tradeable commodity, is well-nigh universal in developing-country cities, and the resulting price increases in situations of high competition usually exclude the poorest from land. This process has been documented in many cities (Amis and Lloyd, 1990), especially where tenure is legalized in informal settlements.

Partnership is an essential key to improving the operation of urban land markets because the efficient and equitable use of land depends on maintaining a balance between different (and often conflicting) interests in the land market. If left solely to the commercial private sector, land is likely to be held for speculative purposes or turned over to more profitable uses such as commercial or high-income residential purposes, at least under the conditions which hold true in most developing-country cities. On the other hand, if left solely to the public sector, the allocation of land to alternative uses and groups may be no more efficient, probably slower and more bureaucratic, and equally open to corruption and politicization. The role of the third sector in land development is crucial, but acting alone and in isolation people and their organizations cannot ensure that land and infrastructure across the city as a whole are developed in the most rational way. Hence, there are strong reasons for encouraging partnerships in the land market as a way of reducing the problems associated with monopoly control over land allocation by any of the three sectors, independently of the others. As this report makes clear, successful partnerships in the land market work because they offer something concrete in terms of benefits to all the partners involved. The overall impact of measures such as land-sharing is to satisfy more of the interests of previously competing actors than would have been possible had the partnership not been brought into being.

Perhaps the most famous example of public/private partnership in the supply of land to

lower-income groups is land-sharing, and the associated practice of land adjustment. Most of the examples used in the housing literature to describe the potential of land-sharing come from Bangkok (Boonyabancha, 1990), though valuable experience has also been gained with this approach in Colombia (Useche de Brill, 1990) and India (Sundaram, 1990). Put simply, land-sharing is a method of securing ownership rights for low-income families living on land which has a high potential exchange value (usually sited in or near the city centre). In most cases, the landowner is part of the commercial private sector, though sometimes land is owned by the municipal authority. In exchange for the freedom to develop part of the lot in the most profitable way (i.e., commercial or high-income residential uses), the landowner or purchaser agrees to sell the remaining portion of the lot to its current inhabitants, usually at below the prevailing market price. In this way, the residents are able to gain security of tenure *in-situ*, though at a higher density because the land area is reduced in size. For their part, the landowners can reap a higher profit from the sale or redevelopment of the portion of the lot they retain than would have been possible had the land continued in rent to lower-income families. Both landowner and residents benefit, and at no cost to the municipal authorities in terms of tax and revenue foregone or inefficient urban planning. Indeed, government is likely to gain in the longer term through increased property taxes and revenue from more profitable land uses.

Four or five land-sharing schemes have already taken place in Bangkok, and many more are under consideration by the Crown Property Bureau, the largest owner of slum land in the city (Boonyabancha, 1990, p. 17). It is difficult to place an accurate figure on the total number of households in Bangkok who have benefited from land-sharing arrangements, but it must run into the thousands, an important achievement even if on a small scale when compared with the overall housing needs in the city. "Land adjustment" differs from land-sharing in that small parcels of land are brought together, consolidated and re-developed (i.e., re-adjusted) by public agencies through the provision of improved infrastructure and services. The land is then returned to its original owners to do with as they will, on condition that an agreed proportion of the unearned increase in land values that has been created is returned to the public sector. In the Indian land adjustment schemes cited by Sundaram (1990, p. 36) this figure is set at 50 per cent As in land-sharing, both partners benefit: the municipal authorities acquire land temporarily without having to pay compensation (and should make permanent revenue gains), while the landowner and residents receive a higher-quality environment in return. However, there is less of a guarantee that lower-income families will be able to remain on the land (or on part of it), than in the more formal land-sharing programmes developed in Bangkok. In Gujarat, more than 10,000 hectares of land in 20 cities has been developed using land adjustment (Sundaram, 1990, p. 36). In Colombia, payment to the landowner has been made in dwelling units rather than serviced lots (Useche de Brill, 1990, p. 51).

However, both land-sharing and land adjustment have experienced problems as well as successes. Relative to housing needs among the urban poor their coverage has been very small, and there are reasons to believe that it will prove difficult to scale up the size of land adjustment programmes in any significant way. This is because (with land adjustment) costs have a tendency to escalate during the development phase and windfall gains can be made by the landowner unless full cost recovery is imposed by public agencies. For this reason, Sundaram (1990, p. 36) recommends that betterment charges should be levied on the basis of realistic market values, and that the average gestation period be reduced as much as possible (certainly from the six years which is the current norm in Gujarat). In addition, land-sharing tends to have high administrative costs to local government because it is a complex process that requires considerable negotiation between landlord, tenants (and their organizations) and the municipality. Where lots are small (as they often are in central locations) or prices cannot be subsidized by an appropriate amount, development costs may price the poor out of this particular market too (Sheng, 1989).

The surplus created by land-sharing should in theory be shared between the public sector, the

private sector, and the poor themselves. In practice however, the municipality must take concrete steps to channel development gains to the remaining residents, or to the public purse. As in Canada and the United States (see chapter III), the process of gentrification may mean that lower-income families who are able to remain in the area initially are forced out over time as competition for their properties from commercial or higher-income residential uses proves too great to sustain. A similar process has taken place in the Klong Toey land-sharing scheme in Bangkok, where many of the poorest residents have been forced out as land and housing continue to be exchanged on the newly-commercialized market (B. Turner, 1988, p. 80). While the partnership may enable low-income people to remain in the city centre for awhile, it may prove to be a short-lived success unless government is prepared to take strong protective action in the longer term.

Another form of partnership in the supply of land emerges when the public sector is committed to intervening in the land market in order to supply land to third-sector organizations at prices that their members can afford. Various mechanisms have been developed to achieve this, including "land banks", straightforward grants of publicly-owned land, cost-recovery schemes and zoning regulations. All of these measures recognize that imperfections in the land market, combined with the size of the needs/demand gap for land that is available for sale, require strong public intervention if land is to be brought within reach of the poor (UNCHS, 1991d, p. 20). Government "stockpiling" of land has been tried with varying degrees of success in (among others) Brazil, Colombia, India and Thailand. The basic principles involved are simple: expropriate or purchase land in different parts of the city and release it in whole or in part for specified uses, as and when required. Land from the "bank" must be able to be released quickly and efficiently, otherwise it may simply add to the bottle-necks already present in most developing-country urban land markets (as has happened in Delhi; Sundaram, 1990). Land must also be purchased well in advance of being developed, so that prices reflect their real market level more accurately. Otherwise, prices tend to be "market false", since speculative interests will cause them to rise in advance of purchase or development by the State.

Alternatively, government may hand over part of its own landholdings free-of-charge to third-sector organizations, on condition that the land is developed for low-income groups. This is what happened in Barrio San Jorge, Buenos Aires, where the Municipality donated seven hectares adjacent to an existing low-income settlement which was being upgraded, so that households made homeless by the need to reduce residential densities could be accommodated nearby (UNCHS, 1992a, p. 11). An essential ingredient in this process was a local-support NGO (IIED-Latin America), which acted as an intermediary in the negotiations and provided technical and moral support to the community. This example could be replicated many times over, but the presence of strong community and support organizations is usually a prerequisite for success in partnerships of this sort (see below). In two out of the three case studies conducted for this report (the Philippines and Turkey), the public sector played a major role in ensuring an adequate supply of land to joint venture partnerships, though in both cases this was on a cost-recovery basis. While this clearly increases the sustain ability of the venture, it also reduces the reach of the partnership in terms of income group. In the case of the Philippines Joint Venture Program, land may be provided by the public sector (the National Housing Authority), the commercial private sector (the developer) or (as is usual) a. mixture of the two (Leynes, 1992, p. 18). This is on a cost-recovery basis, although prices may be subsidized depending on the income levels of the target group. In the case of the Batikent Co-operative housing project in Ankara, responsibility for providing land rests with the municipal authorities, which allocates tranches of land twice a year to the Co-operative. The Co-operative then arranges and collects repayments from the eventual occupants and passes the money back to the municipality over a pre-determined number of years (Tokman, 1992, p. 10). A further example comes from the Incremental Development Scheme. in Hyderabad, Pakistan. Here, the local development authority provides unserviced land to low-income families at prices they can afford and with the lowest possible initial payment. Services are provided incrementally to keep pace

with family incomes, and speculation is discouraged by holding back official registration until the house has been built and is inhabited by its owner (Baross and Van der Linden, 1990).

In Sao Paulo, Brazil, the municipal authorities have made imaginative use of their own landholdings and of zoning regulations in order to attract the commercial private sector into joint ventures (Peddie, 1993, p, 73), A "Development Corporation" was formed (along Canadian lines - see chapter Ill) made up of both public and private interests, while the Municipality offered land and selective use of its planning powers (mostly 'in relation to residential densities) to benefit both the commercial private sector (for the building of luxury condominia) and the urban poor (for the rehousing of *favela* and *cortico* dwellers). Special use was made of density bonuses, through which private developers were allowed to exceed existing density regulations in return for concessions to low-income households and the local authorities. Land-use regulations have been used to attract private investment in this way in many other cities too, In India, for example, private developers are allowed to utilize land held under the Urban Land (Ceiling and Regulation) Act (ULCRA) on condition that they agree to sell between 40 and 50 per cent of dwellings constructed to "lower-income" households either directly or via government agencies (Sundaram, 1990). The balance of units can be sold to high-income customers. An alternative (used in Lucknow) is to allow private developers to build on public land, and to hand over the units to government for allocation to lower-income groups, and alternative which is explored in more detail below.

However, in striving for effective partnerships in the land market, governments must be careful not to exacerbate shortages by imposing ill-conceived regulations which, while intended to facilitate access by the poor, end up by rewarding the rich. The classic case of this problem is the ULCRA legislation cited above; which specifies that government must be offered priority access to vacant land in metropolitan areas above a certain level of landholding (Baross and Van der Linden, 1990). However, less than 1 per cent of land falling under ULCRA regulations in Ahmedabad was acquired by state agencies between 1976 and 1982 (Raj, 1990). In total, only around 5000 hectares out of an estimated total surplus of 327,000 hectares in Indian metropolitan areas has so far been acquired (Sundaram, 1990, p. 38). Land that is acquired is not released, or is released far too slowly, so that the overall effect is to contribute to rising land price rises rather than to combat them. Perhaps the lesson to be learned here is that a more positive vision of partnership is required than simply freezing large tracts of idle land out of a fear that they are ripe for speculation. It is one thing to prevent speculative holdings by the commercial private sector; and another to promote the active use of vacant land for development, at least some of which will be affordable to the poor. Among such positive measures might also be fiscal and monetary instruments (such as land-transfer taxes), and institutional measures to facilitate land transactions (such as a more efficient land-registration, information and valuation system).

A further problem with encouraging commercial private-sector involvement in the land market without adequate safeguards is that development gains captured previously by lower-income groups may instead be captured by the rich. As many authors have noted, unplanned development allows poor families to reap the benefits of gradually rising land values, whereas planned development directs these benefits to a small number of private developers in a shorter space of time (Baross and Van der Linden, 1990; I. Turner, 1992). This is a particular problem in the highly politicized land markets characteristic of many developing-country cities, because the pressure on local politicians to allocate land to private interests can be very powerful. Instead of allocating land to the poor and to third-sector organizations, lots in Mexico City, in Bamako, Mali and elsewhere are routinely sold (often at below-market prices) to political allies (Baross and Van der Linden, 1990). Similarly, when development standards are reduced in order to encourage private investment in lower-income housing, the developer may reap higher profits in the longer term because more of the development costs can be shifted on to the public sector (in the shape of financing for services and infrastructure), and the poor themselves (who build their own houses). This is what happened under the *normas minimas* legislation in Colombia (Doebele, 1975). Such

problems illustrate the difficulties which can arise in public/private partnerships in the land market, or at least with certain types of partnership where the balance between public and private gain is misconceived. Forms of collective land tenure which allow individuals to own only the leasehold to their property may offer the best way to avoid some of these difficulties, since this discourages speculation and preserves the intended income profile of the residents (J. Turner, 1992).

In summary, examples do exist of innovative public/private partnerships in the supply of land, but they are rare. Some of these partnerships take place between government and the commercial private sector, such as land-sharing, re-adjustment and development; other examples depend on strong links between government, people and their organizations. Overall, however, difficulties in ensuring access to land in sufficient quantities remain the most severe constraint on low-income housing development in the third world. Even in a city like Delhi, where a very large proportion of the land market is controlled by government and compulsory purchase (of over 45,000 acres since the 1960s) has been extensively used, access to land has been too restricted to prevent the growth of 700 or more unplanned settlements around the metropolitan area (Sundaram, 1990, p. 39). The potential for partnership (at least if this includes commercial private developers) is limited by the lucrative gains that can be made from the highly-constrained and politicized land markets characteristic of Latin America and Asia, by low levels of income on the part of the majority of urban residents, and by physical shortages of land. Strong government intervention in the land market on a much greater scale is required if low-income families are to gain access to the land they need to house themselves. The potential for partnerships between government and people is therefore very great, and this potential is explored in more detail in section D below.

## Chapter IV. Public/private partnerships in developing countries: the focus of partnership

### B. Partnerships in the supply of housing finance

Experience shows that poor people can develop their own housing over time with minimal external financial inputs, but constraints on the supply of housing finance still form one of the most serious barriers to the enabling approach to shelter. Formal housing finance (i.e., the provision of funds for shelter from the commercial private sector) has proved an extremely difficult area to reform, because adequate rates of return can rarely be achieved where margins are low, risks are high, and investments are realized over long periods of time (UNCHS, 1991d, p. 25). All housing-finance systems have to reconcile three objectives which may conflict with each-other: afford ability to the borrower, viability to the lender, and resource mobilization for the expansion of the system or economy as a whole (Renaud, 1984). In practice, it is rare to find these objectives in balance. Hence, affordable housing finance may not be viable (sustainable), and viable systems are often not affordable, at least to the urban poor. As a result, "the urban poor have to depend on their own sources or what can be borrowed in the unorganized market" (Sundaram, 1990, p. 20). The challenge posed by the enabling approach to shelter is to find ways of balancing these different needs and objectives in a mutually supportive manner, and this places the spotlight on partnership. As in the case of the land market, public/private partnerships in housing finance provide a mechanism for increasing access among lower-income groups while not sacrificing the efficiency, sustainability or viability of the system as a whole, or at least while maintaining efficiency losses within acceptable limits. This can be achieved by promoting credit schemes for the poor outside of the formal housing-finance system (public/third sector partnerships), by re-directing formal housing finance to lower-income groups (public/commercial private-sector partnerships), or via a mixture of the two (partnerships involving all three sectors). Because of the difficulty of promoting access by the poor to formal housing finance on the necessary scale, public-sector agencies usually take a key role in channelling funds to low-income builders, either directly or via intermediaries.

There are many credit schemes in operation by NGOs and community-based organizations, with among the most famous being the Self-Employed Women's Association (SEWA) in India, and the Grameen Bank in Bangladesh (UNCHS, 1991d, p. 31), both of which now deal with hundreds of thousands of customers. Most, however, are much smaller than this, confined to a single city or even a single neighbourhood. A typical example comes from Karachi, Pakistan, where the NGO Catholic Social Services (CSS) supports a network of savings-and-credit cooperatives in the city's squatter settlements (Mitlin and Satterthwaite, 1992). Contributions from cooperative members are supplemented by loans from international donor agencies, and allocated by common agreement among the society members. As with most 'successful credit schemes (including the Grameen Bank), repayments are guaranteed by the rest of the peer group, and consequently they are very high. Unlike Grameen, however, no interest is charged by CSS (save a small administration fee), and therefore there are major question marks over the sustainability of the scheme. Partnerships offer greater potential for sustainability because low-income families can be encouraged to participate in formal housing-finance institutions, while these institutions can be encouraged to accept lower-income borrowers and savers. The presence of an intermediary (usually a third-sector institution but occasionally a government agency) is usually essential to ensure the success of such joint ventures, since this third party (or partner) can act as a guarantor against default for the private-sector institution, and can represent the interests of the borrower more forcibly. This acts to build up trust and confidence on both sides. For example, the Housing and Local Management Unit in Chile is

an NGO which has established a successful credit-guarantee scheme with local commercial banks (Arrossi et al, 1992, p. 34). The Unit coordinates borrowing from a range of private financial institutions and guarantees the loans. Repayment rates have been so good that the commercial banks involved are now prepared to risk their own funds independently of the Unit's guarantees. Research has shown that the scheme (which also includes a building-materials bank and technical assistance) unlocks 200 per cent more resources than the value of the credit provided, in the form of labour, materials and loans from other sources, and this also demonstrates that commercial banks can make an adequate return with acceptable risks from lending to low-income builders (Arrossi et al, 1992, p. 79).

In Costa Rica, an NGO named FUPROVI seeks to integrate low-income households into the national system for housing finance by transferring them from FUPROVI's own loan scheme to a 15-year credit from BANHVI (the Costa Rican Mortgage Bank for Housing) on receipt of legal title to their property. Government support is crucial in this process because only the State can grant legal titles. At the same time, the household also qualifies for a direct subsidy called a "family bond" - an excellent example of all three sectors (public, commercial private and third) working together to promote access to housing finance on an affordable but also sustainable basis (UNCHS, 1992a, p. 9). Turner (1988) quotes a similar success story from the Saarland project in Manila, the Philippines, in which a local intermediary NGO financed a second low-cost housing project (Saarland II) by selling mortgages on an existing scheme (Saarland I) to the National Home Mortgage Finance Corporation (NHMFC), a State body. The NGO thus reimbursed its capital expenditure and invested the proceeds in developing Saarland II, leaving the Corporation to take over the loan portfolio of Saarland I. NHMFC has developed something of a reputation for innovative partnerships in housing finance through its Community Mortgage Scheme. Launched in 1988, this programme aims to promote access to affordable housing credit among the poorest 30 per cent of the income distribution (UNCHS, 1992b, p. 108). Loans are made to community organizations, which make their own arrangements for repayment by the individuals concerned. Land-use rights are obtained through a lease-purchase agreement between each individual and the community organization, though permanent transfer of titles is possible later on. These organizations select an "originator" from a government-approved list which includes NGOs, commercial private developers, and local and national public agencies, and this "originator" then facilitates the scheme by guaranteeing all the loans, providing technical advice, and assisting with negotiations between all the partners. Some of the community mortgage schemes have developed substantial involvements by the commercial private sector in services and infrastructure. In Sao Paulo (Brazil), the Municipal Fund for Low-Income House Construction (FUNAPS) provides credit to the urban poor on condition that they organize themselves into community associations, supported by "technical assistance teams" composed of shelter professionals from NGOs, local universities and private architectural firms.

Elsewhere, the commercial private sector plays a larger and more direct role in partnerships, often with government funding derived from external development assistance. In Bolivia, for example, external financing (from USAID) revitalized the national savings-and-loans system for housing as part of an economic adjustment package promoted by the World Bank (ASOBUR, 1991). In addition, FONVI (the National Fund for Housing) collects contributions from private employers, employees and central government and channels these resources into social-interest housing. A number of commercial finance institutions also agreed to relax their lending regulations to promote access among lower-income groups. As a result of this package of reforms, private investment in social-interest housing increased tremendously, and public-sector housing output rose by 350 per cent (ASOBUR, 1991, p. 321).

In "Colombia, a complex and sophisticated housing-finance system has been developed which mixes public and private-sector resources and institutions, with household savings. Since 1972 the system has handled around $US 1. 54 billion in resources and now has close to 5 million individual savers (Useche de Brill, 1990, p. 56). It is based on the indexation of savings (to preserve positive interest

rates) in specialized housing and savings funds, which lend these resources for investment in shelter for middle- and higher-income groups. Private institutions are backed up by public agencies such as the National Savings Fund, the Urban Development Fund, and FONDETER (the Land Development Fund). These agencies direct their own resources (often originating from external finance) to the private commercial banks and financial corporations, which on-lend to local government for public works and other shelter-related investments. Between 1975 and 1990, $US 1.09 billion was lent to 1378 "local physical infrastructure" projects in 600 municipalities, with most of the financial risks involved being borne by the commercial private-sector intermediaries (Garzon, 1992). A proportion (usually 30 per cent) of the cost of each project is provided by the Municipality. The private-sector partners generate their profits via a system of differential interest rates between borrower and lender; The Colombian system provides a good example of public/private partnership in national housing finance systems, based on the mobilization of household savings, competitive credit mechanisms, and well-developed institutional capacity (on both sides). However, the reach of the system is quite narrow, and it is not a significant contributor to low-income housing development.

Thailand is another country which has experienced a dramatic: expansion in formal housing finance over the last 15 years (Boonyabancha, 1990). The National Housing Bank (a public agency) has tapped into private capital markets and facilitated the development of a strong secondary mortgage market, with mortgage loan portfolios rising by 43 per cent in 1988 alone (Boonyabancha, 1990, p. 21). Between 1986 and 1988, commercial bank mortgage lending increased by a spectacular 188 per cent (Boonyabancha, 1990, p. 22). This rapid expansion in mortgage finance is the key factor in Bangkok's recent housing boom, but it could not have happened without central government support in the form of "capital adequacy allowances" to encourage commercial banks to make more loans for housing, maintenance of market interest rates, and other measures. Again, however, there is little evidence that the low-income population of the city has benefited from this process, and they may even have suffered as a result of "over-heating" in the housing market, rising speculation in property, and an escalation in land prices (Boonyabancha, 1990).

India's Housing Development Finance Corporation (HDFC) and its companion organization, the National Housing Bank (NHB) are often cited ~s relative success stories in terms of private-sector participation in housing finance (UNCHS, 1991 d, p. 26). Established in 1978, HDFC was assisted in its early years by preferential access to capital from life insurance funds, tax concessions on deposits, a wide range of fiscal incentives for depositors to invest in property and construction, and loans from external donors (including USAID and the World Bank). Over the next 10 years, the proportion of total deposits originating from domestic and individual savers increased gradually, and private firms began to utilize the system to facilitate housing loans to their own employees (Sundaram, 1990, p. 134). The total assets of the Corporation now exceed $US 1 billion, and it has had a "demonstration effect" in helping to stimulate the emergence of other private-sector financial institutions in India (UNCHS, 1992b, p. 60). Although HDFC is sometimes quoted as a pioneering public/private-sector. partnership in mobilizing household savings and promoting access to market-oriented housing and services, its real reach is limited, and only a very small proportion of its loans go to lower-income housing (Sundaram, 1990, p. 134). Nevertheless, as an example of what can be achieved in a lower-income economy (albeit an economy with a very substantial middle class and a large domestic industrial and financial base), the Corporation's experience is certainly worth noting. In similar vein, Struyk and Turner (1986) conclude that increasing access to formal housing finance (i.e., mortgage lending) in the Philippines and the Republic of Korea has had little impact on housing quality, especially among lower-income groups. As elsewhere, the main problem is lack of access among the urban poor, based on low and unstable incomes, and "risk-minimizing behaviour" among the commercial banks and financial institutions.

In Barbados, over $US 14 million was lent to 2100 low-income families by private financial

institutions between 1983 and 1985 (Lanier et al, 1986, p. 1-4). These funds, originating from USAID and channelled to the commercial private sector via the Central Government, have now formed a revolving loan fund (the Housing Credit Fund), but have been used mainly for the improvement of dwellings rather than for new construction (which is not as profitable). Kenya also has a USAID $US 20 million Housing Guarantee Loan, with the National Housing Corporation on-lending to private financial institutions, who in turn pass on the loans to commercial developers (Lanier et al, 1986). A final example. of this sort of public/private partnership in housing finance comes from Zimbabwe, where the Central Government encouraged private building societies to increase their lending for housing by allowing them to offer tax-free shares to the public (in 1986), on condition that one quarter of the resulting funds were directed to low-cost housing (UNCHS, n.d. ). The building societies were also encouraged to allow borrowers to contribute their own sweat-equity in lieu of a cash down-payment on the mortgage. This scheme, like many of the others cited above, was facilitated by external donors.

To summarize, although public/private partnerships in housing finance have demonstrated in many lower-income countries that a viable system can be developed, they have yet to prove that such systems can be made affordable to the poorest 50 per cent or so of the urban population on anything like a significant scale. Various forms of partnership have been tried: in some cases formal-sector financial services have been extended to the informal sector; in others, formal-sector financial institutions have offered "mutual accounts" to groups of the organized poor; a third approach has been to affiliate informal financial institutions to formal ones, with the former providing local knowledge and enjoying a high level of trust among clients, and the latter providing access to a much larger pool of funds. Interestingly, a similar process underpinned the development of the building society movement in the United Kingdom in its early years (UNCHS, 1991a, p. 74). But "unleashing" the private sector does not obviate the need for regulation and supervision; if anything, it increases the need for a much higher quality of supervision by government (UNCHS, 1991a, p. 93). In all of the partnerships cited above, the role of the State was vital in providing a channel for external funds to the private sector, in stimulating private investment in housing-finance institutions via an appropriate fiscal and regulatory environment, and in regulating the tendency of the commercial private sector to concentrate solely on profit-maximizing and risk-minimizing behaviour, to the exclusion of loans to lower-income housing development. At a more detailed level, public/private partnerships took many different forms:

- (a) Direct government loans to private-sector institutions (but these can be costly due to high administration costs and problems with repayment);
- (b) Private-sector administration of public loan funds (where costs are lower e.g., Barbados);
- (c) Using government funds to subsidize interest rates (e.g., Thailand, though all such measures have a cost to the exchequer);
- (d) Blending public and private-sector funds and institutions together in an integrated system for housing finance (e.g., Colombia);
- (e) Using government guarantees for private-sector loans;
- (f) Stimulating the development of a secondary mortgage market (e.g., Brazil, the Philippines, and Thailand);
- (g) Encouraging private-sector investment in housing finance via tax credits and exemptions, special bonds, and other incentives (e.g., India and Nigeria).

The central problem with all these approaches to public/private partnership is that. because they concentrate on encouraging participation by the commercial private sector, their reach and impact on the

urban poor is very limited. The potential profitability of housing loans to low-income families will, in most situations, be too low or risky to justify large-scale private-sector involvement. Hence, a vital aspect of partnership in housing finance lies in increasing public and commercial-private-sector support for informal (NGO and community) finance institutions, including credit groups, cooperatives and traditional savings clubs. These institutions are much more flexible than either the government or commercial private sectors; they are well-rooted in local realities and have first-hand knowledge of their borrowers; and they are able to support the kind of lending patterns required by the poor - small amounts over irregular intervals, simple application and approval procedures, low collateral requirements, and flexible repayment. In India, over 85 per cent of all housing finance comes from these informal sources (Sundaram, 1990, p. 20), while in Kenya it has been estimated that a loan of $US 10 will unlock four times as many resources in the informal sector (Lanier et al, 1986, p. 11-4). In these circumstances it makes sense to re-focus public/private partnership on the third sector, but always with appropriate backing from both government and commercial private interests, since only they can provide access to the scale and continuity of resources required to guarantee viability and sustain ability over the longer term and across the low-income population as a whole. Ideally, then, partnerships in housing finance should involve all three sectors in a mutually-supportive relationship. The challenge is to find more creative ways of doing this, since the evidence cited above suggests that only small-scale successes have been achieved thus far.

## Chapter IV. Public/private partnerships in developing countries: the focus of partnership

### C. Partnerships in the supply of building materials and construction skills

Poor people are remarkably resourceful in garnering construction materials, often free-of-charge or in small quantities over a long period of time, to develop their housing. However, lack of access to affordable building materials is a constraint on shelter development and public/private partnership provides one way around this constraint. Partnerships in this area may take the form of government assistance to small-scale suppliers, "materials banks" developed by third-sector organizations, collective access to materials (as in housing cooperatives) and research and information-sharing. In India, for example, central and state governments are attempting to increase official support to private brick producers, who, with over 232 billion bricks per annum, are responsible for producing the entire output of the country (Sundaram, 1990, p. 92). Official support to these producers takes the form of simplified procedures for licences (for raw materials), affordable credit (e.g., loans from HUDCO at below-market interest), advice on marketing, and technical assistance to improve productivity. Also in India, the Department of Power (a public agency) has granted permission to use flyash in commercialized building components, with the Building Materials Technology Promotion Council responsible for research, development and dissemination among both public and private sectors. New building materials are also used extensively in public housing programmes (Sundaram, 1990, p. 67). At the level of macro-economic policy, government can also (for example) facilitate the supply of building materials to the commercial private sector by reducing tariff barriers on imports. Useche de Brill (1990, p. 72) describes just such a process under the Colombian economic liberalization programme of the 1980s.

At the neighbourhood level, formal partnerships in the field of building materials usually rely on strong links between individual builders, community organizations and NGOs. In Bangkok, for example, local NGOs manage a number of small-scale savings-and-loan schemes within low-income settlements. Resources from the community are used to purchase materials in bulk, which are then made available to savers rather than providing them with cash (Boonyabancha, 1990, p. 28). NGOs in the Philippines have also developed considerable experience with building materials "banks", as has EVGL in Chile which provides a particularly interesting example of public/private partnership in this field. In the case of EVGL, materials banks have been established with loans from the local municipality, supplemented later by the Development Bank (a commercial institution). Loans are guaranteed by the borrowers on the peer-group system described earlier in this chapter in relation to the Grameen Bank and other successful savings-and-credit schemes among the poor. EVGL coordinates loans from public and commercial private sources, obtains construction materials from private suppliers at wholesale prices, provides technical advice on building techniques, and supports the community organizations in the vital task of group motivation and supervision. In this way, low-income builders can gain access to the economies-of-scale provided by bulk purchases of construction materials, while the commercial private-sector suppliers and banks are assured of a safe and adequate return by the effective group organization and supervision developed by the NGO and CBOs involved (Arrossi et al, 1992, p. 76). A similar system operates in Colombian cities where Carvajal (a private foundation) provides support for materials banks linked to small-enterprise development (see section F ).

At slightly higher levels of income, pre-fabricated building materials can be an important help to shelter development. The Centro Cooperativo Uruguayo cited by Turner (1988, p. 118) is an NGO

which has established its own factory for the production of pre-fabricated materials, which are then distributed by the cooperative. Similarly, the Batikent Co-operative in Ankara (described in more detail below) established a subsidiary in 1982 to produce pre-stressed hollow-core concrete slabs, in conjunction with a commercial private firm (Tokman, 1992, p. 14). Approximately 1400 dwellings were built by the Co-operative using these materials. A final area of partnership in the facilitating the supply of cheaper construction materials lies in research and information, usually via an alliance of public and third-sector agencies. The experience of the Building Materials Technology Promotion Council in India has already been cited; SENA in Colombia and a number of State agencies in Nigeria have similar programmes aimed at developing innovative materials and then publicizing their use among low-income builders (UNCHS, 1991d). State agencies also play an important role in encouraging the development of more skilled labour, a crucial factor since a great deal of self-help construction is carried out by small-scale firms and individual artisans. The Habitat Schools being developed in India provide a particularly interesting example of partnership in training, because they attempt to combine the traditional technical skills of the builder and planner, with the "social development knowledge of the facilitator" (Sundaram, 1990, p. 104). NGOs and NGO federations, such as FEDEVIVIENDA and Construyamos in Colombia and CONAMUP in Mexico, have provided skills training to low-income groups for many years (UNCHS, 1991d, p. 48).

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### D. Partnerships in construction and development

While public/private partnerships in the supply of inputs to shelter are clearly crucial, they also have considerable potential in facilitating the processes by which inputs are transformed into outputs - the processes of construction, production and development. Partnerships in this area may take the form of public contracts with private developers; public assistance to the commercial private sector in the form of land, infrastructure, tax concessions and other incentives; government assistance to third-sector organizations in providing more effective support to individual low-income builders; and simplifying building regulations and streamlining approval procedures, rent controls and other legal measures in order to stimulate the development of a private rental market and/or inner-city redevelopment. This section of the report looks at each of these types of partnership in turn. However, the focus of the discussion is on public-third sector partnerships, since (as chapter II pointed out), commercial private interests usually have little comparative advantage in building shelter for the urban poor. The costs of doing so using industrialized methods, and the severe difficulties in generating a sufficient return on investment caused by the size of the needs/demand gap at low levels of income, mean that commercial private-sector involvement in low-cost housing production is comparatively rare. This is not to say that the commercial private sector has no role in partnerships of this nature (some innovative examples which buck this trend are explored below), but it is important to be realistic about its real potential. Much the same conclusion can be reached about the role of government agencies in direct shelter production - experience demonstrates conclusively that dwellings built and administered by the State are expensive to produce and unattractive to the poor (UNCHS, 1991 d, p. 36). The most efficient producers of housing are the poor themselves, and the partnerships they need are those which recognize this fact and help them to play their role even more effectively. Partnerships which support individual producers and their organizations, and which remove the constraints which often face poor people in their efforts to develop their own shelter, are critical to the success of the enabling approach.

## Chapter IV. Public/private partnerships in developing countries: the focus of partnership

### D. Partnerships in construction and development

#### 1. Partnerships involving the commercial private sector

Public/private partnerships in the land market, such as land-sharing, have already been analysed above. These experiments are important in showing that commercial interests can be encouraged (or in some cases coerced) into developing land and turning over a portion of the lots or dwellings to lower-income groups. A variant of this model is the development of publically-owned land by private developers who hand the completed units back to State agencies for allocation. This has been tried with some success in Lucknow, India (Sundaram, 1990, p. 96), whereas in Haryana and (to a lesser extent) Delhi the State Government has licensed private developers on a larger scale, again on condition that a proportion of the houses produced are devoted to lower-income families. Similar experiences in inner-city rental markets are described in chapter V, whereby private landlords are allowed to redevelop their properties on condition that the original tenants are allowed to return to occupy part of the space created. Elsewhere in India, there are examples of commercial private companies which have developed serviced lots for lower-income groups, with graduated loan repayments being made on favourable terms. Baross and Van der Linden (1990, p. 333) cite the case of ELDECO in Uttar Pradesh to illustrate this form of involvement.

Similar examples exist in some West African cities. For example, the Société d'Equipement du Terrain Urbain (SETU) in Côte d'Ivoire equips land with basic services and then leases it to individuals or private firms at a rate which is calculated to recover all the development costs. According to Stren and White (1989, pp. 56-57), approximately 350,000 people in Abidjan had benefited from this approach up to 1980, though they admit that the "by far a majority" of the city's poor still lived in irregular settlements. Nigeria's new National Housing Policy envisages a greatly expanded role for the commercial private sector in planning and servicing of land for sale to private individuals, "supervised" by government (Odimuko, 1990, pp. 48-50). Three possible modalities are under consideration: "limited layout", under which the private developer is responsible for the initial site survey, layout, earth roads and "functional drainage"; "comprehensive sites-and-services", which involve higher levels of infrastructure; and "comprehensive land development", in which the developer constructs the dwellings and provides the services. Public/private partnerships in infrastructure and services are considered in more detail in section E below. In the Nigerian plan, State Governments will be responsible for the overall allocation of land to commercial private developers, and will oversee and monitor planning standards and legal agreements. The developer will apply to government for land, raise the necessary capital, develop the lots to an agreed standard, and market the units produced (Odimuko, 1990, p. 52). It remains to be seen whether housing produced under this system will be affordable to the poor, though it seems very unlikely. However, there are one or two examples of this type of partnership already in existence in Nigeria, including Benjaville Suburbia, a site-and-service scheme developed by a private company in Otta in Ogun State. The response of the commercial private sector to previous State incentives was disappointing: Odimuko (1990, p. 78) quotes the example of a directive from government that private employers should invest in housing for their employees, with at least 75 per cent of units allocated to low-income staff. This directive was systematically ignored.

A more conventional use of private-sector developers is as contractors in public-sector housing

programmes. In Colombia, for example, capital from the UPAC (indexed savings) system described in section B above has been made available to private developers through State housing agencies, on condition that the units built were committed for low-income groups (UNCHS, GSS, p. 41). This Loans to Developers Scheme is supplemented by subsidized loans from government housing bodies to individuals who wish to purchase their properties (Ospina, 1987, p. 178). New proposals introduced recently will enable State housing agencies in Colombia to open tenders for housing projects to private contractors (Useche de Brill, 1990, p. 82).

The best documented case of public/private partnership in the production of low-cost housing is the Joint Venture Program in the Philippines. This is described in detail in chapter V, since it is one of the few examples available of successful cooperation between commercial developers and government agencies. However, a brief summary of its major characteristics will be useful at this point. The goal of the Joint Venture Program (JVP) is to utilize the resources of the National Housing Authority to draw in investment and involvement from the commercial private sector. Resources, expertise, risks and profits are shared in proportion to each partner's contribution, while the level of public and private involvement in various aspects of production (land, planning, services, construction, finance and marketing) varies from project to project. To ensure efficiency, implementation is "simplified, standardized and systematized" (Leynes, 1992, p. 106). Incentives to private investment are maintained through the appropriate product-mix and by restricting the target market to middle- and lower-middle income groups. Profitability is based on high volume and "fast multiple investment turnover" to allow for lower margins and promote affordability, at least within this income range (Leynes, 1990, p. 106). Thus far, 22. 5 per cent of total production from the JVP has proved itself affordable to households in the thirtieth percentile of the income distribution, and 87. 3 per cent to those in the fiftieth percentile (Leynes, 1990, p. 110). Of the 56 JVP projects approved up to late-1992, seven have been completed with a total output of almost 4000 units (Leynes, 1990, p. 30). While this has increased the output of the National Housing Authority by over 25 per cent, it represents a contribution to low-income housing needs which is very small.

The experience of the Philippines and other joint ventures illustrates a number of important conclusions with regard to early public/private partnerships in low-income shelter production. Such partnerships usually work more effectively where the focus is on drawing in private investment rather than contracting out various functions to the developer by the State. The subsidies involved in this latter arrangement are unsustainable, while at the same time providing easy opportunities for profit to the private developer. In El Salvador, for example, State pension funds have been used to fund commercial developers and the units produced let to lower-income families at below-market rates, but the level of subsidy involved has proved unsustainable to government (UNCHS, n.d., p. 10). More promising are partnerships in which public agencies agree to provide a specific service to the private-sector developer in order to reduce their costs and provide incentives to profits (such as land-sharing and lowering of standards), while keeping out of the actual marketing of the dwellings. In addition, the units produced under these partnerships are rarely affordable to low-income families (at least those in the bottom 30 per cent to 50 per cent of the income distribution), and the usual technique which is employed to promote access by the poor (specifying a certain proportion of dwellings that must be directed to a particular income group) is easily circumvented or is made redundant over time as higher-income families move into the properties and buyout the existing residents. Such partnerships are not unimportant, however, since they may relieve pressures higher up in the housing market and therefore make it less likely that higher-income households will compete with lower-income households in, for example, irregular settlements. The example of ELDECO in India also shows that it is possible to reach further down the income distribution and still make a profit, though there are few other examples of this nature.

## Chapter IV. Public/private partnerships in developing countries: the focus of partnership

### D. Partnerships in construction and development

#### 2. The role of cooperatives in public/private partnerships

Although poor people are superb builders and developers they can often benefit (from economies of scale, technical innovations and access to finance) by working together rather than individually. Collective organizations such as housing cooperatives can bridge the gap between needs and demands by acting as guarantors for loans, negotiating over land, and pooling labour resources to assist labour-scarce households in the construction phase. However, if they are to flourish, housing cooperatives also require support from government (to ensure access to land, and the right legal and regulatory framework), and from the commercial private sector (to facilitate access to capital and credit). The success of cooperatives in shelter production also depends, therefore, on the existence and operation of creative partnerships.

In India, the National Co-operative Housing Federation (NCHF) has been charged with the production of 1 million dwelling units between 1990 and 1995, to be co-financed by the Central Government and the members themselves (Sundaram), 1990, p. 56). This would involve a commitment of Rs. 20 billion by the State. As of 1988, there were already over 41,000 housing cooperatives in India covering more than 3 million members, many of which were in receipt of funding from HUDCO, the State housing agency (UNCHS, 1991d, p. 35). Despite official encouragement, most housing cooperatives dealt only with the better-off, particularly employees in the formal and State sectors. Colombia also has a well-developed cooperative movement backed by State financial institutions, with the primary societies making it much easier for their members to apply for credit without having to supply collateral individually (Useche de Brill, 1990, p. 74). Credit is provided to the cooperatives at below-market interest rates. Ospina (1987, p. 180) provides a case study of the FUNDEMOS housing cooperative in Manizales, Colombia, which was able to achieve a 50-per cent reduction in construction costs (over the State housing agency) by pooling resources from the community and from government. Half the required finance came from the cooperative members, and the other half was provided by the State housing agency. Ospina concludes that FUNDEMOS shows how "subsidized government resources and self-help effort could be committed to produce a more appropriate, cost-effective solution" to housing problems. Contrast this with Thailand, where a lack of government support for the cooperative movement has resulted in the registration of only three housing cooperatives in the city of Bangkok (Boonyabancha, 1990, p. 25).

Similar evidence comes from other lower-income countries. UNCHS (Habitat) (1992a, p. 12) quotes the example of Koperasi Kredit Boorometus, a housing cooperative in Bandung, Indonesia, which provides loans to its members (who mostly work at the local hospital) financed by the Government National Savings Bank and by external funds (from international donor NGOs). In Dodoma, the United Republic of Tanzania, the Low-Cost Housing Unit of the public Capital Development Authority assists housing cooperatives in the city to prepare mortgage-loan applications. By the end of 1988, over 30 employment-based housing cooperatives had been established, with loan repayments being deducted from the members' salaries (UNCHS, 1992). One housing cooperative that did reach the very poor was the Jose Isias Gomez society in Managua, Nicaragua, though with only 463 houses this was certainly a small-scale success (UNCHS, 1989, p. 11). Another positive factor in this case was the deliberate

decision to train women in building skills and ensure their access to credit, but the heavy subsidies involved (due to the absence of selection criteria and down-payments, and monthly loan repayments limited to 10 per cent of household income) makes it difficult to replicate the programme on a wider scale. In Ethiopia, the cooperative housing movement began in 1986 and as of 1992 had produced over 6500 dwellings for its members. These and other experiences demonstrate that successful cooperatives (even on the relatively small scale described above) require considerable assistance if they are to flourish, particularly in the form of an enabling national framework of institutional support, support organizations, a financial system which recognizes their particular needs, and competent management and training within the societies. Federations of primary societies have also proved useful in negotiating and representing their members at the national level (as in Ethiopia). Experience from the Philippines also shows that the internal conditions must also be right; this means integrating functions such as credit, employment- and income-generation, training, construction and community organization; and planning for sustain ability by using, for example, cross-subsidies.

## Chapter IV. Public/private partnerships in developing countries: the focus of partnership

### D. Partnerships in construction and development

### 2. The role of cooperatives in public/private partnerships

#### a. The Batikent experience

By far the best-documented example of partnership in cooperative housing production comes from Turkey, and this is the experience of Kent Koop in Ankara which forms the basis for one of the detailed case studies compiled for this report (Tokman, 1992). It is worth quoting this study at length, not only because it provides a unique insight into housing cooperatives, but also because it demonstrates some important lessons to be learned if partnerships are to become more effective. The Batikent project began in 1974 when the Municipality of Ankara acquired 1034 hectares of land 11 kilometres from the city centre to develop new housing for "lower and middle-income groups." After an initial experiment with sites-and-services, the municipality switched its attention to a more formal system centred on cooperative production of standardized dwellings, with an overall objective of producing enough housing for 200,000 people (Tokman, 1992, p. 10). In 1979, the Union of Batikent Housing Co-operatives was formed to bring the individual societies together under the acronym of Kent-Koop, and by 1984 the number of members had risen to 17,000, distributed among 65 cooperatives. The Ankara Municipality is a member of the Board of Directors of Kent Koop, while Kent Koop itself is a member of the municipal Advisory Council which coordinates urban planning across the city.

In the Batikent partnership, land is allocated twice a year by the Municipality from the holdings expropriated in 1974, and is paid for by cooperative members over time. Infrastructure and commercial centres are also developed by the Municipality or by private contractors, again in return for payment from Kent Koop. Community facilities (such as schools and clinics), on the other hand, are the responsibility of the Central Government, using land provided by the Municipality. For its part, Kent Koop organizes applicants for land and housing, prepares the plans, constructs the dwelling (either via its own subsidiaries or via private contractors on an approved list), and ensures adherence to all the necessary legal arrangements. The cooperative union is also responsible for collecting repayments from its members and passing them on to the municipality, and for obtaining and administering finance from domestic and foreign institutions. In terms of results, Kent Koop has achieved a solid start to its activities, though progress has been slower than anticipated. Out of a target of 46,600 units (which includes almost 18,000 "core houses" built via self-help the balance being multi-occupancy units for sale or rent), just under 16,000 have been completed (as of 1992; Tokman, 1992, p. 17). The population accommodated by Kent Koop has now reached approximately 65,000 (Tokman, 1992, p. 29). Two credits totalling $US 78 million have been received from the European Community, supplemented by domestic credits from the National Housing" Fund.

Another 27 municipalities have initiated similar projects based around cooperative unions, though since 1989 (when the Turkish economy deteriorated and the cost of borrowing rose significantly), the model has "lost much of its attraction" (Tokman, 1992, p. 14). These 27 municipalities have a collective target of 120,000. housing units to be provided by cooperative unions, though as of 1992 only 14,000 had been built. There are no detailed statistics available on the income profile of cooperative members, but a comparison of average incomes with the cost of repayments indicates that the project is affordable only to middle-income groups. At least 50 per cent of the original inhabitants of the dwellings have left the

project (Tokman, 1992, p. 15). The economic reach of the project declined markedly as a result of the decision by central and local government to abandon the sites-and-services model in the late-1970s. Production of infrastructure and community facilities is significantly further behind schedule than the output of dwellings.

A major factor behind the relative success of Kent Koop has been the supply of cheap land guaranteed by the Municipality, though because low-income groups have still been excluded it could be argued that this simply provided better-off households with an undeserved subsidy. Pegging land prices at their 1983 level also lies behind the inability of the Batikent project to establish a revolving fund to finance new investments. On the other hand, Kent Koop has managed to develop a broad financial base for its activities and no longer relies on municipal or central government for credit. The proportion 9f the costs of each dwelling financed by the National Housing Fund has fallen from 62 per cent in 1985 to 34 per cent in 1990 (Tokman, 1992, p. 23). The balance of the costs are financed by the cooperative members themselves, from foreign credits, and from funds from domestic private institutions, and this is a positive development in terms of the sustainability and viability of the whole project Infrastructure and services are also financed mainly by cooperative members, paid in monthly instalments to Kent Koop over a period of three years.

On the debit side, Kent Koop has had to face a number of problems which have impeded its coverage and progress, many of which have not been of their own making. Increasing politicization of land and housing in Ankara has led to a significant deterioration in relations between the cooperative union and the Municipality, greatly weakening their partnership. Political differences also emerged within Kent Koop itself, but (particularly after the military intervention in Turkey in 1980) the major problem was that opposing political factions came to dominate the union on one side and the Municipality on the other. This led to increasing competition between the two partners which was exacerbated by the rejection in 1984 of the Chairman of Kent Koop's application to run for the office of Mayor of the city (though five years later he stood again and was successful). As a result of these tensions, a rival cooperative union was established by the Municipality (called Turkkonut) and was allocated land intended originally for Kent Koop (Tokman, 1992, p. 32). These political differences obviously interfered with the smooth running of both Kent Koop and the Municipality, disrupting continuity in terms of staff and management, and undermining coordination among all the agencies involved. These problems were exacerbated by the lack of what Tokman (1992, p. 32) calls a "project approach" in government, i.e., the absence of a multi-sectoral office with clear powers to coordinate activities.

In summary, the Batikent experience represents a valuable attempt to promote lower-cost shelter via a partnership between different levels of government, third-sector organizations (the cooperatives and their union), external donor agencies and the commercial private sector (which provided some of necessary capital). The key relationship here has been that between municipal government and the Co-operative Union, since without a guaranteed supply of cheap land the project could not have attained anything like its current level of production. However, while the project is proving its sustain ability it has not been able to preserve affordability, at least to those who formed its original target group. There has been a gradual slippage over time in terms of the costs of the dwellings and their associated infrastructure, and this has gradually excluded lower-income families from participating in the venture (Tokman, 1992, p. 35). Problems have also been experienced as a result of politicization and managerial weaknesses. Overall, Kent Koop demonstrates the crucial importance of creating an enabling environment within which people and their support organizations (in this case cooperatives) can do what they do best - concentrate on the actual production of shelter.

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### D. Partnerships in construction and development

#### 3. Other third-sector institutions in public/private partnerships

As chapter II pointed out, NGOs have no comparative advantage over people and private developers when it comes to the actual building of housing, but they can and do playa critical role in facilitating people's efforts by negotiating on their behalf, representing their interests, providing technical support and advice, acting as a channel for credit and other inputs, and assisting with community organization and mobilization so that individuals can work together and pool their resources. Chapter V looks in detail at partnerships in shelter between the State and third-sector institutions, so a brief summary of the major issues relating to housing production will suffice here. Examples of NGO support roles in relation to popular housing are legion (B. Turner, 1988; UNCHS, 1992b; Arrossi et al, 1992). Usually these are on a small scale, being partnerships between people and NGO within a single neighbourhood or area of the city, but there are also examples of partnership on a larger scale. These examples include FONHAPO (the National Fund for Popular Housing) in Mexico, FUNDASAL in El Salvador, the Community Mortgage Program in the Philippines (described in section B above), and the Emergency Social Fund in Bolivia (financed by the World Bank to fund social "safety-net" expenditure under the structural adjustment programme). FUNDASAL has supported low-income families to build over 15,000 dwellings in San Salvador, using credits from the World Bank (Arrossi et al, 1992, p. 92). Between 1983 and 1988, FONHAPO financed the construction or improvement of well over 245,000 units, mostly on serviced sites or as low-cost core housing, with money channelled through an extensive network of NGOs, CBOs and housing cooperatives (UNCHS, 1992a, p. 17). However, the role of FONHAPO declined dramatically when the Mexican Government scaled down its role in the housing market as a consequence of its own economic liberalization policies and pressures from external donors. Again, this demonstrates the importance of creating an enabling environment for third-sector activity by government.

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#### 4. Public/private partnerships in the production of rental housing

When discussing low-income housing it is always important to remember that a great many, and in some cities most, of the urban poor live in various forms of "non-owned" tenure i.e., sharing and renting (Edwards, 1990; UNCHS, 1990c). Overall, around 40 per cent of the world's urban population live in some form of rented accommodation (UNCHS, 1991d, p. 31), and the great majority of this accommodation is held in the private sector, though usually on a small scale. It can be argued, therefore, that encouraging the production of rental housing via public/private linkages is one of the most important aspects of partnership in the development of enabling shelter strategies. Evidence shows that the great bulk of low-income rental opportunities are provided in the homes of low-income owners, with a smaller proportion in rental tenements in the inner city (a case which is examined in chapter V). In other words, most landlords among the urban poor are poor themselves, and own property only on a very small scale. The critical policy choice to be made in this respect is how to encourage low-income homeowners to build and let part of their property, since by doing this there is some guarantee that the supply of affordable rental housing will be increased without any significant trade-off with housing quality. Large-scale involvement by the commercial private sector in the low-income rental market has been shown to result in a decline in housing standards, increasing costs (rents), and the concentration of profits in the hands of a small number of landlords (UNCHS, 1990c). The only way to prevent these conditions from developing is to promote low-income construction by the poor and encourage homeowners to accept tenants by removing any unnecessary constraints on renting.

These goals can be accomplished in a number of ways, but all of them depend on a positive partnership being developed between government authorities and low-income builders/landlords. Gradual rent decontrol is essential, as is the removal of other legal or fiscal constraints on landlordism (Malpezzi, 1990). Assuming that sufficient numbers of poor households are able to purchase or gain access to land and materials in other ways, pressures in the housing market overall will be reduced to a level at which rents and incomes will be maintained in a reasonable balance. Ideally (if government can afford the loss of revenue this entails), more positive measures should be taken to increase incentives to landlordism, though in the case of low-income landlords this is of less importance. In Colombia, for example, the Central Mortgage Bank (BCH) has in the past provided financial incentives to those who wish to add an extra storey to their properties for rent (the so-called Plan Terrazas; UNCHS, 1991d, p. 33). A recent report on Indonesian rental housing suggests that government should provide cheap credit to "small developers" for investment in new rental housing (Hoffman et al, 1990). Whatever the measures used, the crucial task is to create an environment within which low-income households are able to build more housing, either for their own use or for letting to others. This is a task which only the State can fulfil.

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#### 5. Public/private partnerships in inner-city renewal

A particular case of the value of partnership in the low-income rental market is provided by the experience of inner-city renewal in Bombay, Delhi, Mexico City and elsewhere. In Bombay, the State Government of Maharashtra offered tenants of over 50,000 inner-city tenements the option to purchase at the original cost of construction minus 20 per cent for repairs, on condition that the tenants formed a cooperative to manage the repairs and the installation of services (Sundaram, 1990, p. 23). These cooperatives were also encouraged to join together into a cooperative union in order to facilitate the management of basic services at the "colony" (neighbourhood) level. The cooperatives were able to borrow money from commercial banks to cover the costs of repairs, and the State Government amended cooperative law to enable the societies to recover these costs from their members, thus ensuring the sustain ability of the scheme.

In a variant on this partnership (again in Bombay), state agencies acquired inner-city *chawls* (rental tenements) on receipt of an application from at least 70 per cent of the occupants, with the owner being compensated at a level not exceeding 100 times the gross monthly average income for the city (Sundaram, 1990, p. 25). Tenants who did not join a cooperative (see above) had to pay a proportionate amount of the costs of repairs to the property in which they lived. A similar scheme has been undertaken in the old city of Delhi. In terms of results, while tenants ' cooperatives have been successful in managing repairs and services, the response by tenants overall has been rather disappointing, perhaps because re-sale after redevelopment was prohibited under the terms of the scheme (Sundaram, 1989, p. 132). Shortages of finance for repairs and increasing liabilities due to a rise in rateable value also acted as disincentives to participation. Nevertheless, the Indian experience does represent a very innovative partnership in an area of the housing market (inner-city rental tenements) which has been notoriously difficult to address in the past.

In Mexico City, the earthquake of 1985 which destroyed a considerable proportion of the central tenement district provided an opportunity to develop a creative partnership between residents, State agencies, local academics, NGOs, and external finance in re-constructing over 48,000 dwellings (Ebrard and Gamboa, 1991). Funding for the scheme came from the central government budget and from the World Bank, with the external funds being used to cover building costs, and domestic taxation being used to pay for "indirect costs" such as administration and technical support. Residents repaid a proportion of the re-building costs (up to a maximum of 30 per cent of the monthly minimum wage), but a considerable State subsidy was still incurred. Technical and organizational support was provided by local NGOs and academics working together. Over 48,000 dwellings were rebuilt in just over 18 months, a remarkable achievement made possible by "the democratic consensus and participation of all the parties involved, which permitted the setting of clear rules for the process of reconstruction, accepted by all" (Ebrard and Gamboa, 1991, p. 26). Significantly, this partnership did not involve the commercial private sector, and it remains to be seen whether real-estate speculation in the inner city will drive out low-income residents over time, as has happened elsewhere. Certainly, some residents have already sold out to higher-income families since no restrictions were placed on re-sale. In Mexico City, the private. sector "dropped its interest in low-income housing" (in the inner city) because government regulations were very tight and

potential financial benefits very limited (UNCHS, 1991, p. 63).

Encouraging experiments in inner-city partnership have also taken place in Bangkok (the land-sharing schemes described in section A ), Colombo (the Common Amenities Board) and Santiago (direct government grants to tenants). In all these examples, the role of strong local government has been crucial in protecting the position of the poor (often, it must be said, at considerable cost to the exchequer) and consolidating the position of low-income groups in apart of the city subject to intense commercial pressure. In terms of overall costs and benefits, however, redevelopment *in-situ* is a better alternative than resettlement to the urban periphery, which often has damaging consequences both for the poor themselves and for the overall management and servicing of the city (UNCHS, 1984).

In conclusion, partnerships of various forms have proved themselves essential ingredients in the enabling approach to low-income housing production. The most successful of these partnerships have taken place between people, third-sector organizations (including cooperatives) and government. Although involvement by the commercial private sector is becoming increasingly common, in general the returns to be made from producing low-income housing on a large scale are insufficient to provide sufficient incentives to private capital. When the commercial private sector is involved in housing production (as in the case of ELDECO in India or the Joint Venture Program in the Philippines), the dwellings produced are usually priced out of the reach of the bottom 30 to 50 per cent of the income distribution. Even in the Batikent experience where housing cooperatives were the dominant force in the partnership, afford ability became a very significant problem because of the need to repay private and external. funds. The key to partnership in the production of low-income housing remains, therefore, the development of an enabling environment by government which can liberate the third sector - people and their organizations - to do what they can do best, but to do it more effectively.

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### E. Public/private partnership in the provision of basic services

While low-income builders have a clear comparative advantage when it comes to construction and upgrading, it is unreasonable (because of the high capital costs involved) to expect them to develop their own infrastructure and services, especially in the areas of electricity supply, drainage and sanitation. Mitlin and Satterthwaite (1992, p 171) estimate the cost of supplying a household with piped water and the cheapest sanitation system that is adequate to be between $US 500 and $US 800, depending on the context. Comparable costs in established settlements are much higher. These are very substantial sums for the majority of the urban poor in the developing countries, especially when (as is normal) services are given a lower priority than land or housing in the allocation of scarce resources. Efficient infrastructural development also requires a high level of coordination at the neighbourhood and city levels to ensure that service networks are integrated and standardized, that maintenance is cost-effective, and that user charges are set at the appropriate level. Government supervision is essential to maintain standards of quality, ensure the maximum degree of equity in access (and therefore preserve affordability), and prevent speculation. As Colman (1989, p. 150) puts it, "cautious experiments are better than wholesale, rapid change", because the State needs to retain the power to monitor the impact of private provision on quality and cost. It is interesting to note in this context that one of the factors which led to increasing State intervention in basic services in the nineteenth century in the United Kingdom was lack of equity in access and coverage, because private- (commercial- and third-) sector providers responded only selectively to their constituencies (UNCHS, 1992a, p. 22).

Almost inevitably, there will be some conflict between the need to maximize cost recovery (in order to ensure the viability and sustainability of the service), and the responsibility of government to guarantee a basic minimum level of provision for all its citizens. Many urban services are "natural monopolies" (electricity and sanitation, for example); if these services are privatized there is a real danger that coverage and/or quality will decline (Hardoy and Satterthwaite, 1989, p. 167). Some urban services are complementary (e.g., water and sanitation) and should ideally be developed together. However, the commercial private sector rarely develops services in this way in low-income settlements, because the potential profitability of different services varies, and the capital costs are extremely high. On the other hand, some urban services are probably more efficiently provided by the commercial private sector, or by third-sector organizations. This applies to urban transport (certainly) and water (probably). Even here, however, public-sector investment at the construction stage is usually required given the capital costs of installing water, sewerage and electricity connections, and roads. Private interests can then take over the operation of the networks, given that the costs of running and even extending such services is much lower than the cost of setting them up.

Those services which tend to attract private-sector investment are obviously those where customers are prepared to pay for the service received and where usage can be accurately assessed, i.e., where the service is "divisible" and "chargeable" (Colman, 1989, p. 139). Such "user-based financing" works best in urban transport and water but is not appropriate (for reasons of equity and quality) in social services, health and education. Where user costs can be assigned to individuals in this way without restricting access or reducing quality, market mechanisms will be more appropriate than State provision. Indeed, a great deal of the water and transport provided to the urban poor is already financed by the

commercial private sector, though usually operating only on a small scale (see below). Advocates of "privatization" in developing-country cities sometimes forget that private provision is often already the norm, though not (in many cases) at anything like the desired levels of quality, equity, or efficiency (in terms of costs to the consumer).

Because the provision of urban services therefore requires cooperation between public, commercial private and third sectors, it represents an ideal testing ground for public/private partnerships in low-income shelter. In their study of urban services in lower-income countries, Rondinelli and Cheema (1988, p. 6) list seven "policy alternatives" which merit further consideration:

- Expanding direct government provision by strengthening administrative capacity and expanding the municipal revenue base;
- Using "market surrogates" to increase organizational efficiency and the responsiveness of public agencies;
- Reducing the costs of providing services through changes in regulations and methods of service-delivery;
- Supporting self-help and the upgrading of services by the poor;
- Promoting public/private-sector cooperation and private-sector participation in services.
- Increasing effective demand for services by stimulating employment and incomes;
- Changing the spatial distribution of the urban population so that people are settled in areas where service provision will be less expensive.

From the point of view of public/private partnership, the most interesting of these policy alternatives are those which involve market surrogates, commercial private-sector participation and "self-help"/third-sector activity in service provision. A market surrogate is any measure which introduces an element of competition, choice and accountability into a non-market setting (Rondinelli and Cheema, 1988, p. 33). For example, government agencies can be encouraged to compete with each other, or performance agreements can be used to contract out services to public or private agencies on the basis of certain agreed standards. The goal of using market surrogates is to introduce some of the benefits of market provision in services while minimizing their costs (in terms of equity and quality) i.e., an illustration of the benefits of public/private partnership. Encouraging commercial private- and third-sector participation is another way of achieving the same goal, with varying levels of public supervision. Since the early 1970s, there has been a "gradual taking-over of urban services by small-scale enterprise" (Stren, 1988, p. 218), particularly in African cities. Rising demand for services, coupled with the increasing inability of public-sector agencies to meet it, has led inevitably to this process of "incremental privatization." According to Stren (1988, p. 220), the urban poor have, on balance, benefited from this process, particularly where the start-up costs for small-scale enterprises are low and the service in question is not a natural monopoly (hence urban transport has had greater benefits and fewer equity/quality costs than water and sanitation). Gradual privatization has been spurred on by the decision of many higher-income households to "buyout" of public services after years of dissatisfaction with cost, quality and regularity. This reduces public revenue still further and also dilutes people's political interest in exerting pressure on government to improve the system (Cook and Kirkpatrick, 1988, p. 222).

Many of the most interesting public/private partnerships in urban services come from the field of water-supply, particularly in cities in the French-speaking countries of West Africa. Following the example of a range of systems developed in France, commercial private companies have expanded their

role in the provision of piped water to middle- and lower-middle income areas of cities such as Abidjan and Lomé. At least four different models have been developed:

- (a) "*Concession*", in which a commercial private-sector company finances the capital investment and sets the rates paid by consumers according to a contract issued by the public sector. The private operator derives profit from the rates/payments while any government costs are covered by surcharges;
- (b) "*Affermage*", in which the public sector finances the capital costs and sets the rates paid by consumers according to a contract issued to a commercial private company;
- (c) "*Régie*", in which the government finances the capital expenditure and sets the rates paid by customers, but allows private companies to operate the service in return for a percentage of repayments;
- (d) "*Gérance*", which is similar to *régie* except that the private contractor is paid a set rate and customers are bound contractually to the local authority rather than the company.

Since the level of commercial private-sector involvement, investment and risk in these various models increases as one moves from *gérance* and *régie* to *affermage* and *concession*, it is unusual to find examples of the latter in lower-income settlements. Naturally, *concession* and *affermage* are most popular where high returns can be guaranteed. The two best-known examples of this system are SAUR/SODECI in Côte d'Ivoire and the Compagnie General des Eaux in Senegal (Roth, 1987). SODECI is jointly-owned by SAUR (a commercial private company) and the Government, and operates a *concession* system in the "formal" housing market of Abidjan. Although a recent World-Bank evaluation of SODECI emphasized its "efficiency", it must be remembered that this relates to a system in which government bears the costs of capital investment and higher-income consumers are able to support the level of user charges required to ensure profitability (Stren and White, 1989, p. 41). In other words, the *concession* system is not an answer to the question of water supply in low-income settlements in poorly resourced municipalities. It is worth noting in this context that the level of new connections by SODECI in Abidjan fell significantly in the early 1980s during an economic downturn which reduced the level of government subsidies available (Stren and White, 1989, p. 41). Although the World Bank claims that SODECI's "efficiency gains" enable it to reduce costs so that the poor can afford its services, there is little evidence to support this claim apart from some figures which show that (see below) poor people pay much more for their water from private vendors in irregular settlements than the cost of a subsidized connection from SODECI (Stren and White, 1989, p. 42).

Most low-income households in cities such as Abidjan, Dar-es-Salaam and Lagos rely on small-scale private water vendors using trucks and carts, and the cost they have to pay (if averaged out over a 12-month period at the same rate of consumption) is usually very high. Stren and White (1989, p. 41) estimate that low-income households in Abidjan's irregular settlements pay five times the price of water supplied by SODECI to the better-off. In Dar-es-Salaam water costs 10 times as much in squatter settlements than in formal housing areas, though this is changing as more public standpipes are installed (Stren and White, 1989, p. 42). A study undertaken by the World Bank in Onitsha, Nigeria, concluded that poor households pay private water vendors the equivalent of over twice the operation and maintenance costs of a piped water system every year (Whittington et al, 1989, p. i). This is partly because the record of revenue collection is much higher among private vendors than among public agencies - in the case of Onitsha, 10 times higher in the rainy season and 24 times more in the dry season (Whittington et al, 1989, p. i). This situation, whereby higher-income groups receive a piped supply of water subsidized (via the capital costs) by the State, while low-income groups are forced to rely on highly priced water from private vendors, will continue so long as governments fail either to extend the same

services to low-income settlements or act more forcefully to encourage "managed markets" in water to work to the benefit of the poor (Roth, 1987, p. 264). This will require deregulation and the removal of barriers to private-sector involvement (e.g., obtaining a licence to provide water in Lima, Peru, takes years rather than months), and also a more serious attempt to enter into partnerships with third-sector organizations which can protect their members from overpricing and problems with access and quality. If collective agreements can be reached among residents, it is easier to attract private-sector involvement, or to persuade government to issue a contract to a private company, because the risks of default are reduced (Arrossi et al, 1992, p. 19). Third-sector organizations (NGOs, CBOs, water cooperatives etc. ) are ideally placed to mobilize the community in this way. At the same time, they do not have the resources to cover the capital costs of installing piped water systems, and other partners (most obviously government) must shoulder this burden.

Ideally, in a public/commercial private/third-sector partnership such as this, the quality and coverage of the service provided can be maintained by the nature of the contract between government and private company (assuming the contract is enforced), costs to the consumer are reduced (because of the economies of scale enjoyed by the contractor), and profitability is ensured because of collective guarantees from the community. Unfortunately, there are at present very few examples of such a partnership in operation, though a variation on the same theme comes from Villa el Salvador in Lima. Here, the Municipality acted as a guarantor of a substantial loan from the National Housing Bank which enabled the community to hire private contractors to undertake improvements in the water supply (along with a small labour contribution from the residents themselves). By exerting constant pressure over a period of eight years, CUAVES (the community organization representing the residents in their negotiations with contractors and the Municipality) managed to persuade the National Housing Bank to reduce the rate of interest on the loan from 32 per cent to 19 per cent (Arrossi et al, 1992, p. 67).

In other areas of service provision, examples are even less frequent, though some interesting partnerships have been developed in low-cost sanitation. In some Nigerian cities, for example, the removal of solid waste is sub-contracted to local entrepreneurs, while in Abidjan one company is responsible, though serving higher- rather than lower-income areas of the city (Stren and White, 1989, p. 43). The high capital costs of setting up a city-wide sewerage network and refuse-disposal system mean (as with water) that the poor must usually rely on inadequate and/or expensive private services. In countries where foreign exchange is scarce, privatization (to large-scale commercial contractors) is less of an option because it is impossible to import the equipment and spare parts required to operate the system. In Nairobi, for example, fleet quality has deteriorated to such an extent that 10 per cent less solid waste was collected each year between 1977 and 1983 (Stren and White, 1989, p. 47). However, where government steps in to ensure the reliability of the service (so that consumers are willing to pay for it), private-sector involvement can work well, as in the case of solid-waste disposal in some Brazilian and Chilean cities cited by the World Bank (1991, p. 60). The experience of the Nigerian Infrastructure Development Fund is also instructive, since it demonstrates that attempts to finance services through the commercial banking system will face serious problems where there is a high risk of low cost recovery. In this case, World Bank funds have been channelled though the Federal Government to the commercial banks, which add in their own and a State contribution for on-lending to municipal authorities. The banks then supervise cost recovery and collection of loan repayments, but many banks complain that long delays in repayment make the risks involved in the scheme too high to justify continuing (Odimuko, 1990, p. 75).

One alternative to greater involvement by the commercial private sector is community action to develop low-cost sanitation on a neighbourhood basis. The well-known example of the Orangi Pilot Project in Karachi, Pakistan, is a case in point. Here, community organizations were established in each "lane" (section of the settlement) to coordinate planning and construction of a piped sewerage system.

Finance was provided by the residents themselves, and a local bank. The Orangi Pilot Project (NGO) staff supported the process with technical advice and social organization. Despite fears about technical differences in construction standards and layout between the "lanes", and

without any central coordination, the system worked well. By the end of 1988, 34,856 dwellings (out of a total of 43,424) had been connected to the drainage network (Hasan, 1990, p. 225). The Orangi experience is now being replicated in other low-income settlements in Karachi and other cities. NGOs in India have pioneered the large-scale construction and use of two-pit water-seal latrines, with over 50,000 having been facilitated by one organization alone, Sulabh Sauchalaya Sansthan (UNCHS, 1991d, p. 22).

High levels of popular participation and strong third-sector organizations are key ingredients in other successful partnerships in urban services. Since 1972, potable water and other services have been provided to over 25 million low-income households in Indian cities under the Urban Basic Services Programme (with considerable financial assistance from UNICEF), though problems remain in terms of sustain ability and scaling-up (UNCHS, 1991d, p. 21). Community involvement was an essential component of the Programme. In Thailand, government provides a subsidy of $US 360 for each family involved in the slum-upgrading programme, to cover the costs of installing concrete walkways, drainage systems and refuse collection (Boonyabancha, 1990, p. 18), but because of the level of these subsidies the scale of the programme is limited. In Calcutta, the *Bustee* Improvement Programme was based around consultation and planning with over 2 million residents, who were re-grouped around communal water and sanitation facilities financed by central and state government (Sundaram, 1990, p. 121). At another level, Colombia has experimented with representation by users on the boards of directors of public utility companies at the municipal level (Useche de Brill, 1990, p. 15). The Aqueduct and Sewage Corporation of Bogotá has designed a number of systems which promote innovative partnerships between community organizations and State authorities in the construction of drainage networks. In some of these partnerships, the community provides labour while the public agency provides the materials and technical advice; in others, the roles are reversed with the State providing the labour and the community financing the materials (UNCHS, 1991d, p. 21). Sustainability is promoted by charging consumers the costs of construction on their monthly bills over the long term. If straightforward cost recovery is a major problem then "cross-subsidies" may offer a better option. Commercial and industrial users of a service can be charged higher rates than residential consumers, as in Khartoum, Sudan where the New Omdurman Committee for Upgrading Services raised over LSd 1. 4 million in three years for re-investment in infrastructure (UNCHS, 1991d, p. 23). Bangkok has a similar system, whereby the National Housing Authority charges higher water, electricity and other rates to commercial users than to the urban poor (Boonyabancha, 1990, p. 19).

Perhaps the most promising area for private-sector involvement in urban services is transport, because the conditions required by private contractors (divisibility and chargeability) are much easier to secure than in water or sanitation. The emergence of private transport operations has been a common feature of many developing-country cities over the last 10 years, as with the *matatus* of Nairobi, private buses in Calcutta or the jeepneys of Manila. By the early 1980s, *matatus* carried 42 per cent of the daily passenger load in Nairobi and served low- as well as higher-income areas of the city (Stren, 1991). However, even in the transport sector there are distinct advantages to public/private partnership over exclusive operation by one sector alone. For one thing, although private operators can enjoy significant cost advantages over the public sector, they often create fewer jobs per vehicle (Stren, 1991, p. 20) and are often owned by large entrepreneurs rather than small ones. In addition, urban transport systems work best where operators coordinate over routes and this requires a degree of overall supervision by government. Finally, though *matatus* and other forms of private transport are relatively cheap, standards of safety often fall below what is acceptable and passengers have few safeguards. Traffic accidents are

the largest source of adult mortality in Kenya!

In summary, there are distinct advantages to public/private partnership in the provision of basic services to the urban poor. While community involvement and organization can reduce construction costs, increase cost recovery and promote both coverage and sustainability, it is impossible for the poor to develop all the services they need by themselves. The capital costs of installing water, drainage, electricity and road networks are far too high. It makes sense, therefore, for the State to focus on providing things which the poor cannot do for themselves (such as services), rather than on things which they can (such as housing). However, direct public provision of services is unlikely to be an effective solution to the needs of the urban poor (even if it was an option, which it rarely is in resource-poor economies). Small-scale privatization of services is bound to continue in most developing-country cities, though this has "more to do with sheer scarcity of resources than with economic theory" (Stren, 1991, p. 21). Nevertheless, experience shows that private suppliers can enjoy significant cost advantages over the public sector and are prepared to invest in service provision so long as the risks are acceptable. They must, however, operate within a framework supervised by government which can maintain the necessary levels of quality and accessibility. Otherwise, commercial private companies will concentrate on higher-income areas where returns are highest, leaving the poor to rely on more expensive small-scale private vendors or on their own resources. In order to balance cost recovery with equity three conditions are essential (UNCHS, 1991d, p. 24). First, people will not pay for services they do not want or find inadequate, so there must be a strong link between cost and quality (hence the role of the private sector). Secondly, cost recovery is easier where there is a high level of participation by consumers at all stages of the process (hence the importance of third-sector organizations). Thirdly, sustainability and access cannot be secured where municipal government is weak, since these processes are complex and require effective administration and supervision (hence the importance of the public sector). For all these reasons, partnership in the provision of services and infrastructure is essential.

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### F. Public/private partnerships in employment and income-generation

A final area of public/private partnership which deserves attention in the context of enabling shelter strategies concerns the provision of support to the poor in raising incomes. Clearly, without economic development it is difficult to envisage progress in any other area of the shelter process - housing, land, services or finance. The most important contribution government can make to economic development lies at the level of macro-economic policy, creating the right environment within which the commercial private sector and the informal economy can flourish. However, the focus of this section of the report is on partnership at the neighbourhood level.

One of the best known examples of public/private-sector collaboration in income and employment-generation is provided by the Carvajal Foundation in Colombia (Arrossi et al, 1992; Steams and Otero, 1990). Carvajal was established in 1961 in Calf by a commercial printing company. Concentrating in its early years on one low-income settlement in Calf, Aguablanca, the Foundation now has offshoots in Brazil, Chile, Ecuador and Venezuela and in 1988 joined together with an alliance of 17 other private foundations, NGOs, commercial finance houses and public agencies to develop a National Plan for the Development of Micro-enterprises (Steams and Otero, 1990, p. 48). Carvajal focuses on small enterprise promotion via training and the provision of credit to entrepreneurs. Loans from external donors (such as the Ford Foundation and the Inter-American Development Bank) have been obtained by the Foundation and to promote sustainability are usually administered by local commercial banks. Between 1980 and 1986, over 23,000 entrepreneurs received loans from Carvajal (Steams and Otero, 1990, p. 55). However, their programmes are relatively expensive (at around $US 1000 for each job created), and it has proved difficult to reach the very poor (Arrossi et al, 1992, p. 85). As an example of how philanthropic foundations based on the profits of commercial private companies can promote economic development among the urban poor, however, Carvajal deserves the recognition it has received from the international community.

Other examples of partnership in small-scale economic development come from Brazil, India and Malaysia. In Recife, Brazil, government and private-sector companies provide support for the Union of Assistance to Small Organizations, a local NGO which works with low-income entrepreneurs and cooperatives (UNCHS 1990 p 31). Some of the Urban Community Development Programmes in India (and especially Hyderabad) have tried to link upgrading with productive activities so that it is easier for low-income households to purchase building materials and repay loans. In this way, assistance can be given to people to generate their own funds for upgrading, rather than always relying on outside sources (Sundaram, 1990, p. 50). The Nadi programme in Malaysia operates in a similar way (UNCHS, 1990, p. 31). The integration of physical and economic development in this way is an important area, given the need to ensure sustainability in the shelter process and support the emergence of an independent economic capacity among the poor. It is also an area in which partnership is crucial because of the experience and expertise which the commercial private sector has to offer in terms of entrepreneurship training, marketing advice and other aspects of small enterprise promotion.

This survey of public/private partnerships according to their focus within the process of shelter development demonstrates that there are certain areas which offer more potential for cooperation than

others. The most successful partnerships (such as land-sharing, NGO credit schemes and government support to low-income builders) work because they offer concrete benefits to both partners and because they play to the comparative advantages they possess. Less promising are partnerships in which only one side benefits or in which the partners take on roles for which they are not suited (e.g., NGOs which try to produce housing on behalf of the poor, or large-scale commercial involvement in service provision which excludes low-income groups). The need to generate a sufficient return on investment to the commercial private sector will always be a problem when it comes to building low-income housing, providing credit or installing services, so it is better to leave these functions to government and to the poor themselves. The crucial task for public/private partnerships is to free low-income builders to produce more of their own housing, since only they can do this on the scale that is necessary. However, to play this role effectively poor people need the support of the state (to provide the legal and regulatory framework that is required, and to promote access to sufficient land and finance), and the involvement of the commercial private sector (when it comes to service provision, skills training and employment generation).

## Chapter V. Public/private partnerships in developing countries: Modalities for partnership

Having reviewed the focus of current experiences of public/private partnership in enabling shelter strategies, it is now time to turn our attention to modalities for partnership. Which modalities for partnership have been most successful and why? Are some types of partnership more appropriate for certain objectives than others? This chapter looks first at the experience of partnerships between government and third-sector organizations; then at links between the public and commercial private sectors, third-sector/commercial private-sector partnerships, and finally at partnerships which involve all three sectors in varying proportions.

## Chapter V. Public/private partnerships in developing countries: Modalities for partnership

### A. Public/third-sector partnerships

The crucial role played by NGOs and CBOs of various types has been highlighted in every section of this report thus far. Community-based organizations form the basic building blocks of popular action in the shelter process. They are essential in organizing poor people to take collective action, fighting for their rights, and representing the interests of their members in dialogue with NGOs and government. NGOs, on the other hand, are better at facilitating the supply of inputs into the housing process, mediating between people and the wider political system, networking, information-dissemination and policy reform. NGOs possess four intrinsic advantages over both the public and commercial private sectors: mediation, communication, coordination and networking (Turner, 1988), but they face major difficulties when it comes to sustaining and scaling up their activities and impact over the longer term and beyond the level of a single neighbourhood. This is why partnership with government, is usually essential if NGOs are to make maximum use of their strengths, and to minimize their weaknesses. By creating an enabling framework of laws, economic and political conditions, the State can playa fundamental role in helping NGOs and CBOs to play their roles more effectively. Acting in isolation, third-sector institutions find it very difficult to influence the shelter process in anything but a localized and/or transitory way. At the heart of most successful partnerships in low-income shelter, therefore, one finds strong and creative links between people, their organizations and government.

There are three areas in which partnerships between third-sector organizations and the State are particularly important: facilitating the supply of inputs into the shelter process, mediation, and scaling-up/policy reform. In terms of easing the input constraints on popular housing action, examples abound of CBOs and NGOs which facilitate access to affordable land, finance and construction materials to low-income groups. A few brief but representative case studies will suffice to illustrate the importance of public/private partnership in the activities of NGOs in this area. Sevilla (1991) describes the experience of the Fundación para Promoción de la Vivienda (FUPROVI), a Costa Rican NGO which had overall responsibility for implementing a major squatter-upgrading programme in the capital (San José), with funds from the Swedish bilateral donor agency SIDA. Between 1988 and 1991 almost 2400 households in 13 communities had received loans, training and advice, with legal tenure being granted as a prerequisite for credit. Funds were channelled through the National Housing and Mortgage Bank (a public agency), which invested them and used the interest to cover administrative costs before passing on the balance to FUPROVI, and on to the community groups who acted as guarantors. In this case the State played two crucial roles in relation to the NGO and CBOs involved: it granted legal tenure to squatters, and it allowed the National Housing Bank to act as a financial intermediary.

In Asia, there are a number of significant examples of NGO-government links including the Zone One Tondo Organization (ZOTO) in Manila (which negotiated successfully over the terms of upgrading with the municipal government and the World Bank on behalf of local residents), the People's Organization for Participation in Bangkok, and PROUD in Bombay. PROUD works in the huge low-income area of Bombay called Dharavi, and has organized over 165 *chawl* (tenement) committees and 51 housing cooperatives, covering well over 5000 households, and is in the process of forming a further 10,000 households into the cooperative network (D. Murphy, 1990, pp. 106, 123). PROUD has

encouraged and supported these CBOs to enter into agreements with local government to upgrade the settlement. A small monthly charge (Rs. 20) is levied on each household, who must also have paid all their taxes due to the Government since 1970. In return, the state authorities have allocated Rs. 1 billion to the cost of upgrading. A similar experience comes from Manila, where 25,000 squatter families in Quezon City persuaded the Government to hand over 150 hectares of land on condition that the squatters agreed to clear the rest of the lot for government use (D. Murphy, 1990, p. 120). The Sama-Sama Housing Project committee was given an equal voice by government in all matters relating to resettlement and housing. A local firm of architects provided free technical advice.

Habitat International Coalition (1992) cite the example of San Miguel Teotongo in Mexico City to illustrate the impact that government/NGO partnership can have on a community when it is properly organized. "The key to this achievement lies in the coming together of a persistent, clearly-defined, and truly community-based social movement, the support of an NGO, and the opening of the city government in the light of a concrete, technically-sound proposal whose value could not be ignored" (HIC, 1992, p. 3). In this case, the key partnership developed between a CBO (the Unión de Colonos de San Miguel Teotongo), an NGO (FOSOVI, which provided technical assistance), and various departments of the Mexico City administration which competed with each other before a final agreement was reached. The potentially damaging impact of this sort of politicization can be a major factor in undermining the efficacy of this form of partnership (see chapter VI). A much larger government/third-sector partnership comes from Sri Lanka, where the Million Houses Programme confined the role of the public sector to technical and financial support (using funds from USAID), channelled to communities via district-level government authorities working in cooperation with community development councils" and thrift societies which managed and administered the loans (UNCHS, 1990, p. 14). Over 50,000 households have benefited from the scheme, though more recently it has encountered severe problems in repayment (Edwards and Hulme, 1992). Like the Million Houses Programme, FONHAPO (the Mexican Fund for Popular Housing) does demonstrate that it is possible to scale up the size of low-income shelter activities if the link with government (and usually with external funds channelled through government) is strong enough. Between 1983 and 1988, FONHAPO financed the construction or improvement of over 245,000 dwellings, mainly sites-and-services or core-housing units, working though CBOs such as cooperatives ( UNCHS, 1992a, p. 17). To add force to this conclusion, it is worth noting that once central government support was withdrawn from FONHAPO after 1990 (as part of the economic liberalization programme) its activities declined dramatically.

Success in the Klong Toey land-sharing project cited in chapter III was dependent on the right combination of roles among public, private and third sectors. The National Housing Authority was an essential ally for the community organizations in Klong Toey because it helped them to negotiate effectively with the landlords. In this way, government acted as a "force for compromise" at a level which would have been impossible for the community acting alone (Turner, 1988, p. 79). An equally illustrative case study (though in this case unsuccessful rather than successful) comes from Lima, where the El Augustino community worked with a local NGO (CIPUR) in an attempt to re-model their *barriada* (irregular settlement). External constraints eventually undermined their efforts, since there were severe problems in expropriating land and the community failed to secure backing from the Government (B. Turner, 1988, p. 125). The Guerrero Co-Operative in Mexico City also described by, Turner (1988) was a "triple alliance" between the cooperative members, a support NGO (CENVI), and the federal authorities. Finance from FONHAPO (see above) was also crucial, as was the ability of the cooperative and CENVI (and the flexibility of the government) to modify key planning regulations so that construction was cheaper and quicker. In Villa el Salvador, Lima, the partnership between the community's representative council (CUAVES) and the Municipality was crucial in facilitating access to land, finance, services and technical advice (B. Turner, 1988, p. 160). All these examples show that partnerships between the State and third-sector organizations are crucial if either is to make an effective contribution.

NGOs and CBOs are effective in mobilizing their members and constituents, and in channelling housing, inputs to them. However, unless they can engage constructively with the wider forces which surround them there is a danger that they can easily be opposed, undermined or marginalized by more powerful interests, particularly in the commercial private sector (such as landlords or commercial banks). This is what happened in the case of El Augustino cited above, an experience repeated countless times in the cities of developing countries. NGOs and CBOs need alliances with government at both local and central level in order to gain access to resources on a significant scale. Otherwise their impact will always be very limited. On the other hand, governments need to strike up creative partnerships with the third sector, both because it is this sector which gives the State its legitimacy and also because there is little that government can do in the field of low-income shelter without the active involvement of people themselves. The best partnerships are those in which government is aware of, but does not control NGO/ CBO activities, a point which is. explored further in chapter VI.

As John Turner (1990) has pointed out, all partnerships imply mediation or negotiation of one form or another among the partners. Partnership is impossible without a continuous dialogue between the parties involved, and NGOs often provide the best vehicle though which people and government can talk to each other. Direct links between communities and the State are difficult, partly because people often lack the confidence to negotiate at higher levels, and partly because government bureaucrats are often unwilling to listen. Yet these links are crucial if the enabling approach to shelter is to work effectively. "The existence of mediating structures is therefore a pre-requisite for an enabling shelter policy" (J. Turner, 1988, p. 16). The second aspect of third sector/government partnerships that merits discussion, therefore, is the role of NGOs in mediating between the interests of people and the State in decisions over housing and planning.

In order to make progress in securing improvements in the shelter environment, people must come together, agree a common agenda and decide on a course of action to which they all subscribe. In turn, the wider environment itself must be favourable to popular organization if it is to thrive. This is particularly true in areas such as security of tenure and security from eviction, where the balancing of different and sometimes conflicting interests is all-important. In the Ruamjai Samakki Resettlement Project, Bangkok, for example, concerted action by a well-organized community group was able to achieve, significant gains in negotiations with government (Niyom et al, 1990). Here, a group of tenants faced with eviction by a private landlord organized themselves into a registered cooperative and successfully pressured him to increase the amount of compensation he was prepared to pay by over 100 per cent. At the same time, the CBO was also negotiating with the municipal government to grant legal title over the resettlement area in the name of the cooperative. This objective was also achieved in less than a month, a remarkably short time for negotiations of this son. Turner (1988, p. 64) describes a somewhat similar case study from the Indian city of Pune, where tenants in a "rental shantytown" banded together to force their landlords to sell to them the properties in which they lived. In 1976, they replanned the settlement and successfully lobbied the municipal corporation to provide basic services and legalise tenure. The example of ZOTO (the Zone One Tondo Organization) in Manila has already been mentioned. ZOTO is a federation of over 100 CBOs which joined together to halt government plans to re-develop the area in which their members lived. the federation persuaded the authorities to launch a large-scale upgrading programme and worked in direct liaison with the World Bank, which agreed to finance the scheme (Salmen and Eaves, 1989).

In San Salvador, FUNDASAL (a local NGO) assisted two low-income communities (Comunidad Lupita) to negotiate with local government over the regularization of their tenure (A. Stein, 1989). Shortly before the municipal elections of 1985, the Council agreed to sell land to FUNDASAL at a symbolic price, and me NGO then transferred title to the communities. However, me newly-elected Mayoress of the city insisted mat me land should be used to build a market for use by middle-class families.

FUNDASAL and the communities pressed on regardless, redeveloped the land, and six months later saw me original decision ratified by government While strong CBO and NGO action was a vital ingredient in all these cases, equally important was the fact that the government authorities involved reacted positively (though usually under pressure) to demands "from below." In oilier words, these partnerships worked because they were partnerships, in which both sides cooperated to support each other. The response of me State is crucial in shaping popular action in shelter. For example, me recent upsurge in NGO activity in Bangkok's slum communities could not have occurred had it not been for wider political developments which permitted the development of greater democracy and participation ( UNCHS, 1991d, p. 42). The role of NGOs in mediating between government and people in partnerships over shelter is therefore critical to me success of the enabling approach at grassroots level.

A third element of partnerships over shelter between government and third-sector organizations is policy influence - the role of NGOs and CBOs in informing the shelter policies of public agencies so that these policies are relevant and that State agencies remain accountable. NGOs have an important part to play in ensuring that the voices of the poor are heard in discussions and decisions over shelter at municipal and national levels. Federations of popular organizations often play this role more effectively than NGOs acting in isolation from each other, as in the case of CONAVIP in Colombia, or the National Campaign on Housing Rights in India (UNCHS, 1991d, p. 44). CONAVIP, which is itself a coalition of four other federations (FEDEVIVIENDA, CENAPROV, CENPAVI and Construyamos) has developed an effective voice in shelter policy, and is a leading player in recent debates over a new Colombian Social Housing Policy (Useche de Brill, 1990, p. 84). The role of these third-sector federations has been enhanced by recent changes in the Colombian political system, which have encouraged decentralization and underpinned an upsurge in popular democracy. CONAMUP, the National Coordinating Body of Popular Movements, plays a similar role in Mexico, representing over 1 million members in a partnership over shelter policy at the highest level. As in Colombia, the Mexican Government has (at least until recently) played an important role in encouraging the popular housing movement through the financial support it has offered to FONHAPO (UNCHS, 1991d, p. 44). NGO flexibility and comparative advantage in networking and communication gives them great potential in this sort of relationship with government.

However, NGO/government partnerships in the policy dialogue over shelter have rarely produced significant changes of direction at the national level. There are many powerful but competing interests acting on the State, and the third sector is rarely the most influential voice. Even at the neighbourhood and municipal levels, NGOs find it difficult to influence public policy, partly because the political composition of government changes from election to election. As Dawson (1992a) has shown, INCIDES (a local health NGO working in Villa el Salvador, Lima) was frustrated in its attempts to influence official health policy by the changing fortunes of its political allies at municipal and national" levels. NGO views can easily be opposed or ignored when the "political wind" changes direction. A similar situation faced IPADEL (the Institute for Popular Democracy), also in Lima, in trying to consolidate a process of participatory planning at the district level (Dawson, 1992b).

Experience shows that NGO-government partnerships over policy work best when the NGO agrees to work within the constraints imposed on the State system right from the word go (Edwards and Hulme, 1992). Unlike in the third sector (which often has access to foreign NGO funding), government personnel cannot be handpicked nor rewarded by high salaries and perks. Rewards and therefore motivation are often low, and this is exacerbated in times of severe economic hardship when ministry staff are forced to take on extra jobs to make ends meet (as happened, for example, in Peru and Uganda during recent periods of economic adjustment). Personalities are all-important, and it is usually easier for NGOs to influence decisions when acting in association with each other, as in the case of CONAMUP and CONAVIP cited above. Even when they do forge strong alliances among themselves, however,

more powerful forces (such as external donors) can and do have a louder voice. In the case of Mexico, CONAMUP was powerless to prevent the State retrenching its involvement in popular housing under the influence of the structural adjustment agenda emanating from the World Bank in Washington. There is also evidence to suggest that policy influence is easier in smaller countries where NGOs are able to gain more access to key decision-makers. Finally, NGOs often face a major barrier between the "pilot-project" phase of their involvement in shelter, and the widespread dissemination and assimilation of new ideas, attitudes and policies throughout the government hierarchy. The former simply requires success on a local level, and given the resources available to many NGOs and the expertise and dedication of their staff, is not too difficult to attain. The latter, on the other hand, requires the acceptance of the lessons of NGO experience by large numbers of government bureaucrats who were not involved in the original project. This is very difficult to achieve, especially when the State bureaucracy is fairly rigid and resistant to change (Edwards and Hulme, 1992). These difficulties are partly responsible for the failure of many NGOs to scale up their impact beyond the local and immediate, especially as what needs to be scaled up is the approach of the third sector, not third sector projects (UNCHS, 1991d, p. 45). This has not been helped by the tendency of most NGOs not to document and evaluate their experiences, which makes learning (both inside and outside the organization) very difficult.

In summary, partnerships between the third sector and government in the low-income shelter process are critical for many reasons. Most importantly, these partnerships can facilitate greatly the supply of housing inputs to the poor, especially in the case of land. Secondly, all partnerships imply and require mediation between the interests of the partners, and NGOs are ideally-placed to play this role. Thirdly, NGOs and CBOs need to be involved as genuine partners in the policy debate over shelter at the highest level, if government policy is to remain relevant, effective; and accountable. In turn, the third sector cannot operate effectively without the support of the State in creating an enabling environment within which NGOs and CBOs can flourish. The partnership is therefore of critical importance to both.

## Chapter V. Public/private partnerships in developing countries: Modalities for partnership

### B. Public/commercial private-sector partnerships

In terms of low-income housing, the potential of partnerships between government and commercial private interests is limited simply by the size of the needs/demand gap described in chapter II, which makes it unlikely that adequate returns will be generated from investments in popular housing unless circumstances are particularly propitious. This is confirmed by the difficulty faced by nearly all the partnerships analysed in this report involving large-scale private capital, in providing and preserving access to land, housing finance and services among the urban poor. Of course, this does not mean that such partnerships are unimportant in the development of enabling shelter strategies. At higher levels of income, government must do all it can to encourage involvement by the commercial private sector in the shelter process so that those opportunities that do exist can be maximized. This will relieve pressure from the lower-income housing market and help to prevent "downward filtering." Government can also act to protect the interests of the poor in particular areas of the city which are attractive to commercial private capital (such as the city centre). In addition, as chapter IV pointed out, there are certain aspects of the shelter process (such as some basic services and employment-generation) in which the commercial private sector can playa more valuable role. There are also (see below) a number of examples of partnerships between public and commercial private sectors which have had a beneficial impact on the urban poor. However, It is best to approach this discussion from a spirit of realism and an acknowledgement of the limitations of this form of cooperation at low levels of income.

Government may encourage commercial interests to play more of a role in the low-income housing market in a number of ways. First, it can relax the legal and regulatory framework within which private companies have to operate, and ensure that macroeconomic conditions (such as false exchange rates, crippling interest or over-taxation) are not prejudicial to the private sector. Secondly, the State can contract out certain aspects of shelter to the commercial private sector, as in the case of water companies in West Africa described in chapter IV. Thirdly, public/commercial private partnerships may take the form of joint ventures in which the two sectors work together, each being responsible for different elements of the shelter process. Examples of all three types of partnership have been given in earlier sections of this report. In terms of the legal and regulatory framework, the crucial task of government in public/private partnerships is to promote incentives to commercial investment in shelter, either via tax credits or exemptions, credit guarantees, bridging funds, relaxing building and planning standards, or' deregulating the financial and land markets. In Zimbabwe, for example, the Central Government underwrites the risks incurred by private financial institutions in accepting low initial payments from borrowers (to promote affordability). In so doing, the State bears 20 per cent of the total risk, and this is enough to tempt at least some private capital into lending to lower-income households (Lanier et al, 1986, p. 27). The relative success of the Housing Finance Development Corporation (HDFC) in India in attracting private funds is also due to its market orientation (Sundaram, 1990, p. 134). Some further variants of this approach are discussed in chapter VI.

Contracting out by the State has already been discussed in some detail in chapter IV, in relation to the provision of basic services and infrastructure. As the examples quoted there show (such as ELDECO in India, SODECI in Côte d'Ivoire and the Infrastructure Development Fund, or IDF, in Nigeria), it has

been difficult for large-scale private contractors to extend their coverage to low-income settlements, even though they receive sizeable subsidies from the public sector to cover capital expenditure. IDF is a way of creating "a pool of long-term loan funds to assist state and local government in ... co-financing urban infrastructure" (Odimuko, 1990, p. 95). The Federal Government of Nigeria facilitates this partnership by acting as an intermediary between external donors (the World Bank) and commercial banks, which on-lend to local authorities who provide the balance of the project costs themselves. This works out at about 15 per cent of total cost/risk for the local authority, 10 per cent for the commercial bank, and 75 per cent for the Federal Government/external donor. The commercial banks supervise the activities of the borrower and collect and administer the repayments. Since the IDF programme was launched in 1987 a number of experimental schemes have been undertaken in the states of Benue, Gongola and Ondo (Odimuko, 1990, p. 99). However, long delays have been experienced in IDF project implementation (up to two years in one case between signing the project agreement and starting actual construction), and the state governments have been reluctant to come up with their share of the funding. This has led the commercial banks to question their involvement in the IDF, even though the World Bank expects them to increase their contribution from 10 per cent to 80 per cent over time. This seems unlikely to happen.

At the level of joint ventures, there is more experience to relate. Municipal credit institutions in Colombia, for example, have been able to expand their operations with official support because government has made it easier for them to mobilize both public and private savings (including bonds of various kinds, monetary issues and foreign credits), has ensured the maintenance of competitive credit mechanisms, and has deliberately built up the institutional capacity of both borrowers and lenders. Between 1975 and 1990, $US 1.09 billion was lent to over 1300 "physical infrastructure" projects in 600 municipalities (Garzon, 1992, p. v). All credits have been fully-repaid, and the commercial banks and private financial institutions (who act as intermediaries between municipal credit agencies and local authorities) bearing most of the risk. These intermediaries make their profits by "discounting" interest rates. The municipality bears at least 30 percent of the cost of each project. Joint ventures have also been encouraged in the liberal economic climate of South-East Asia. Even China, which is encouraging public/private partnerships in housing as one component of its general economic reforms, is working together with developers based in Hong Kong. In Diong Hu Residential District, for example, government provides water and sewerage while private developers are responsible for all other aspects of construction and finance (Lanier et al, 1986, p. iv-5). Nigeria's new National Housing Policy envisages a much-expanded role for the commercial private sector, with government retaining control over the allocation of land to developers, planning standards, monitoring and legal agreements. Private developers will be able to apply to government for land, survey and develop it to agreed standards, market the plots or houses, and pay any required development fees (Odimuko, 1990, p. 52).

Under Bolivia's New Economic Policy introduced in the mid-1980s, the housing-finance system was revitalized by sound macro-economic management and large external credits. The National Fund for Housing (FONVI) created in 1987 collects contributions from private employers, employees, and Central Government, and channels these resources to social-interest housing. (ASOBUR et al, 1991, p. 31). Increasing private-sector participation in Bolivian housing has been coordinated and promoted by ASOBUR (the Bolivian Association of Institutions Involved in Urban Affairs), which was created in 1989 to bring together construction companies, NGOs and academics in research and development of public/private partnerships. ASOBUR is currently researching a "private guarantee fund" to cover the costs of action designed to address restrictions on commercial investment in popular housing. In Jamaica, the Urban Development Corporation is a government body but receives funding from the commercial private sector for upgrading projects on public land, and for purchase-and-lease deals in squatter settlements. After several years of repayments on the lease, the accumulated sum is accepted as a downpayment on a mortgage for the property, an innovative way of making formal home ownership more affordable to the urban poor (Gunneman and Power, 1991).

## Chapter V. Public/private partnerships in developing countries: Modalities for partnership

### B. Public/commercial private-sector partnerships

#### 1. The Joint Venture Program in the Philippines

By far the best-documented example of public/commercial private-sector partnership in lower-income housing is the Philippines' Joint Venture Program (JVP) analysed by Angelo Leynes (1992) in his case study written especially for this report. Given the comparative rarity of this approach, it is worth recording at some length the nature of this partnership and the lessons learned thus far from its implementation.

The overall aim of the JVP is to "harness and promote private participation in housing ... in terms of capital expenditures, land, expertise, financing and other facilities for the sustained growth of the housing industry" (Leynes, 1992, p. 17). Given the limited resources of the National Housing Authority (NHA), the central theme in this partnership is the use of scarce government resources in drawing in much larger investments from the commercial private sector. In this way, NHA is able to increase the production of housing overall without adding to the strain on public expenditure. Resources, expertise, risks and profits are shared by the partners in proportion with the size of their investments. The primary role of the NHA is to provide land and/or finance, with the private-sector partner handling land development, construction, infrastructure and marketing, but these responsibilities vary considerably from one partnership to another (see below). The target market for the units produced under the JVP are families within the fiftieth percentile of the (urban) income distribution, though as is detailed below, major problems have been encountered in meeting this goal (Leynes, 1992, p. 18). Private-sector profits are based on high volume and rapid turnover to allow for lower margins and affordability. The NHA has defined a "fair profit margin" as "direct cost multiplied by the Unified Home Lending Program factor of 1. 6" (Leynes, 1992, p. 19).

Projects under the JVP may be sites-and-services developments, slum upgrading or new housing units, while profits may be shared in the form of cash revenue or land/housing units. NHA contributes a maximum of 40 per cent of total project costs in the form of land and/or finance, except where the partnership involves local government, when the ceiling rises to 80 per cent. Ideally the NHA's contribution will be lower than this, depending on private-sector participation. To promote affordability, the NHA stipulat~ that at least 60 per cent of units produced must be sold at prices not exceeding the amount of the loan, plus the lowest interest rate available, plus 5 per cent. The remaining 40 per cent of units can be sold on the open market, an interesting variant on the land-sharing arrangements described in chapter III. For privately-owned properties in Manila, the figures are reversed, with only 40 per cent of units being governed by price restrictions.

In terms of roles and responsibilities, NHA takes the lead in assisting the private developer to obtain the necessary clearances and licences, accredits and shortlists the partners, provides equity up to the limits described above, arranges for development finance from State financial institutions, and provides technical advice on design and engineering. For its part, the commercial partner is responsible for preparing detailed feasibility studies and settlement plans, provides the balance of the equity, develops the land, services and housing units, and controls the marketing of the final product. These guidelines

were prepared after a period of consultation among public and private sectors. During these discussions, it was agreed that the contributions and activities of the commercial private-sector partner would not be subject to government audit, another concession by the State intended to promote private-sector participation in joint ventures by deregulating the housing market (Leynes, 1992, p. 29). Since the JVP was adopted in 1989, 56 partnerships have been approved with a total target output of 33,448 units (Leynes, 1992, p. 29). As of June 1992, almost 4000 of these units had been completed. The contribution of NHA has been limited to below 16 per cent of total project costs overall (though local government funds have also played a major role in accounting for the balance of investment).

There are many different types of joint ventures in JVP, though the majority fall into two or three categories. The modalities described in detail by Leynes (1992) are as follows:

- (a) NHA is the landowner while the private-sector partner is responsible for all aspects of shelter development (including finance). With 23 out of the total of 56 joint ventures approved thus far, "this arrangement has been the most popular. Most of the units offered under these joint ventures are completed single-family dwellings with "basic service" i.e., sewerage is limited to individual septic tanks, drains may be open or covered, and piped water and power connections are provided to each house. The mix of units constructed is based on a market survey undertaken prior to construction, but the typical consumer of this type of housing is a "low-salaried government employee such as a teacher or civil servant" (Leynes, 1992, p. 35). Since NHA is the landowner, the transfer cost of the land determines the share of the public sector in the partnership, and the balance is deemed assumed by the commercial developer regardless of the initial equity provided. Private-sector participation is determined by the level of confidence they have in the capacity of NHA to respond to their needs effectively, and (most importantly) by the willingness of NHA to provide land. Having been released from the difficult process of acquiring land, the developer can concentrate on other aspects of the project. The widespread reliance on private capital to finance development (even though the partners had access to government financial institutions) shows that this form of joint venture is certainly viable. However, because these partnerships depend on NHA for land, the size of public landholdings obviously limits the number and scope of such ventures and places an automatic ceiling on future developments. Leynes (1992, p. 82) reports that the supply of NHA land suitable for joint ventures has already been used up.

- (b) NHA is the landowner and also assumes a proportion of the financial equity, while the remainder of the funds are provided by the commercial partner, along with responsibility for construction, development and marketing. Only five joint ventures of this nature have been undertaken, and again the great majority of units produced are completed dwellings (indeed, the only serviced lots that were developed could not be sold and were later converted to completed dwellings; Leynes, 1992, p. 42). Roles and responsibilities among the partners are the same as for the first category of joint venture, with the exception that NHA provides some of the necessary finance. However, these partnerships have not been very successful: three of the five have been cancelled because of the failure of one or both partners to deliver their commitments on time. As a result, penalties have been incurred by both public and private sectors, and this has caused considerable conflict and a decline in interest in this particular modality. It seems that commercial developers are happier when the NHA's contribution is limited to land, assuming that a reliable source of private finance exists. The units produced by these joint ventures have also been more expensive than planned, with only 17. 8 per cent being affordable to households in the thirtieth percentile (Leynes, 1992, p. 88).

- (c) Land is owned privately, construction and marketing are handled by the private partner, but both public and private sectors contribute to financing. Thus far, private landowners have

contributed just under 50 hectares of land to eight joint ventures of this type, though two of the eight have been severely delayed (Leynes, 1992, p. 49). The private sector provided around 63 per cent of the total financing required; NHA provided 15 per cent; and the balance came from mortgage finance. The target group for these units are government employees - just over one third of units are affordable to households in the fiftieth percentile (Leynes, 1992, p. 91).

- (d) Land is owned privately and the commercial developer assumes responsibility for all aspects of financing, construction and marketing, with the NHA providing technical assistance only. In these six joint ventures, the only role played by the public sector is the provision of advice on the design of financial and technical packages, and works engineering. If necessary, the private developer can have access to public funds under the Home Loans Program but in practice this is rarely required as the developer can generate returns sufficient to allow for borrowing on the private market. Leynes (1992, p. 94) estimates that around 50 per cent of units produced under these arrangements are affordable for households within the fiftieth percentile, though only 17 per cent fall within reach of those in the thirtieth percentile. The high level of viability of these joint ventures make it likely that they would have been undertaken regardless of government participation, though the private developers involved do say that NHA technical assistance has been useful.

- (e) Land is owned by local government, and NHA undertakes to provide finance, develop the land, and construct and market the housing. Involvement of the commercial private sector is limited to infrastructure. Thus far, only two partnerships of this kind have been approved. Though they are more accessible to lower-income groups (being serviced lots rather than completed dwellings), their scale is limited by the scarcity of public-sector resources, given that NHA has to shoulder the full costs of development (amounting to some 62 per cent of overall costs; Leynes, 1992, p. 56). The target group for these projects (the lowest 30 per cent of the income distribution) means that participation by the commercial private sector (apart from contracts to develop infrastructure and services) is unlikely - they are not sufficiently viable.

- (f) Land is owned by local government, finance is provided by NHA and the commercial private sector, and construction and marketing are undertaken by the commercial developer. This is the second most popular type of joint venture, with nine of the 53 projects thus far. It is closer to a genuine partnership than many of the other modalities described above because investments and risks are more equally shared between public and private interests. It is also (like the first format listed above) more popular with commercial developers, because land is provided by the State, which also (through NHA) provides some of the required development finance. However, very few of the units produced under these joint ventures are accessible to families in the thirtieth percentile of the income distribution (and none in this category in Manila: Leynes, 1992, p. 99). The fact that this type of partnership is not more popular may be due to the fact that there are two government partners (local and national) for the private sector to deal with, rather than one. This increases the dangers of politicization in the partnership, as in the case of one of the nine projects which was aborted as a result of a legal action filed by political opponents of the Mayor (Leynes, 1992, p. 100).

- (g) Land is owned privately, but finance is provided by NHA and local government; construction and marketing may be undertaken by either the private or public-sector partners, or by both working together. This last format has been used only three times under the JVP, most notably in Talisay, in Negros Occidental, where four partners are working together: a private landowner (land), a private developer (construction and marketing), the provincial government (finance) and NHA (finance). Due to the relative complexity of this arrangement it has proved more difficult to attract commercial investment.

Hence, JVP covers a wide range of partnerships in which public and private interests play different roles depending on circumstance. Though the scale of the programme is small when compared with overall housing needs (with a total target output of just over 33,000 dwellings and only 4000 completed thus far), the JVP does demonstrate that it is possible to induce commercial private-sector involvement in the production of housing for middle- and lower-income groups (though not for the poorest 30 per cent to 50 per cent of the urban population), if the conditions are right. The most important of these conditions are viability, efficiency and the sharing of risks. Viability is achieved through adapting the "product mix", including higher-income households, and aiming for high volume and rapid turnover. Efficiency is promoted by simplifying regulations and procedures, and by standardizing methods of production and development. The sharing of risks, investment and resources promotes the ;involvement of commercial developers who would otherwise soy away from this sort of project, with the provision of public land being a particularly important incentive. Clearly, government (both municipal and national) plays a crucial role in all three areas: viability, efficiency and shared risk.

The obvious problem with the JVP, however, is its inability to reach the urban poor, which makes it of marginal significance in low-income shelter strategies overall. In this respect, the Program shares in the experience of most if not all other partnerships which involve a significant element of participation by the commercial private sector. The size of the needs/demand gap in developing country cities, and the absence of the conditions required to generate a profit sufficient to attract private capital, make this an inevitability. This conclusion is common to all the experiences recounted above - JVP, private developers such as ELDECO, financial institutions such as the Housing Finance Development Corporation in India, and private service-providers such as SODECI in West Africa. Of course, this does not mean that such partnerships are irrelevant to the urban poor; it may be that their reach can be extended given the right conditions, or simply that they help to relieve pressures in the low-income housing market by providing efficiently for higher-income households. Overall, however, partnerships between government and the commercial private sector are unlikely to have much of an impact on the housing needs of the urban poor in developing countries.

## Chapter V. Public/private partnerships in developing countries: Modalities for partnership

### C. Partnerships between the commercial private sector and third-sector organizations

At first sight, partnerships between the commercial private sector and third-sector organizations are an unlikely combination because the underlying interests of the two groups are so different. Commercial investment requires an adequate return which, as has been demonstrated, is extremely difficult to guarantee at low levels of income, even under conditions (of quality, density and levels of servicing) which approach the exploitative. By contrast, third-sector organizations are value-based and often find themselves defending their members against what they see to be exploitation by private landowners, landlords or speculators. This rather simplistic picture is complicated by the increasing operation of small-scale entrepreneurs in low-income settlements, and by the increasingly entrepreneurial attitudes of many third-sector organizations (such as housing cooperatives). These "mixed partnerships" are considered in the next section of this report. In general though, it is good to be realistic about the real prospects of creative partnership between large-scale commercial interests and organizations of the urban poor.

Where they do exist, therefore, partnerships between the commercial private sector and third-sector organizations tend to be built around private firms which are more philanthropic in their outlook, and are prepared either to reduce their profit expectations in the light of the needs of the poor, or to channel some of the profits they make to charitable foundations which then make grants or loans to the third sector. A number of examples of this type of relationship have been given in earlier chapters of this report. EVGL, a Chilean NGO which supports community action and participatory planning in urban areas, receives much of its funding from the Dayton Mining Corporation. It has also been successful in attracting involvement by commercial banks in administering (and later in making) loans to low-income households (Arrossi et al, 1992, p. 76). EVGL coordinates the contributions of a range of private financial institutions in authorizing loans, providing construction materials at wholesale prices for their "materials banks", and supplying technical assistance. Once the banks are convinced that their borrowers are a reasonably secure source of repayments, they are prepared to risk their own capital for further loans. All in all, EVGL's programmes unlock an estimated 200 per cent more resources (in labour and materials) than the value of the credit provided.

A variant on this approach comes from Venezuela, where the Fundación de la Vivienda Popular uses some of the profits made by a commercial construction company from middle-income housing to provide cheap credit for upgrading projects in four settlements in Caracas (UNCHS, 1992b, p. 139). Loans are made through community organizations to increase the likelihood of repayment, and thus far loan recovery has been "excellent." Given that the interest rates that are used are below the market rate, the private company involved is providing a sizeable subsidy to the families involved in the upgrading programme. The Carvajal Foundation in Colombia (and now elsewhere in Latin America) has been cited before as an excellent example of private-sector support for small enterprise development among the urban poor. Between 1980 and 1986, Carvajal made loans to over 23,000 entrepreneurs, and by concentrating on creating a "multiplier effect" in its work (via skills training and networking) has had a significant impact on many more (Stearns and Otero, 1990). The National Plan for the Development of Micro-enterprises was coordinated by Carvajal to bring together in a very creative partnership a wide

range of private foundations, NGOs, financial institutions and government agencies.

On a much smaller scale, an example from Jamaica shows how third-sector organizations can turn to their advantage the problems which often face the commercial private sector and government in economies where there are severe restrictions on foreign exchange and the movement of capital. Members of the St Peter Claver Women's Housing Co-Operative work in the Free Trade Zone of the capital, Kingston. They were able to use external donor funds to purchase a. portion of the Jamaican national debt at preferential rates for deposit in a private commercial bank. With the proceeds, the cooperative was able to buy and refurbish a number of houses without recourse to mortgage finance (Gunneman and Power, 1991). Partnerships between the commercial private sector and third sector organizations are most common in the field of credit, since it is here that returns can be more easily guaranteed. Commercial financial institutions can also help to promote the sustainability of NGO credit schemes by integrating them into the existing banking system, a tactic employed by many of the most successful lending programmes initiated by third-sector groups in developing-country cities (Mitlin and Satterthwaite, 1992). FUPROVI, fur example, transfers credit holders in Costa Rica to the national housing-finance scheme after legalization of their titles, while EVGL, the Chilean Housing and Local Management Unit cited above, offers loans through commercial banks with the objective of persuading the banks to take on its members after a trial period during which they can satisfy themselves about the creditworthiness of the borrowers. The alternative to this form of partnership"" creating new financial institutions which combine some of the characteristics of both 'private commercial and third-sector organizations - is exemplified by the Grameen Bank in Bangladesh. This possibility is considered further in the Conclusion to this report.

## Chapter V. Public/private partnerships in developing countries: Modalities for partnership

### D. Mixed partnerships in low-income shelter

While many of the partnerships described above fall neatly into one or other of the categories used this far, it is more common for all three sectors - public, commercial private and third - to be present at the same time: In reality, it is comparatively rare for any one of the three sectors to be wholly absent from the shelter process at grassroots level. This is partly because (particularly at low levels of income) the boundaries between "commercial", "private sector" and "third sector" begin to blur; Many low-income households engaged in developing their own shelter are also private landlords on a small scale; informal-sector entrepreneurs who supply construction materials or skilled artisans work on a profit-making basis but cannot be classified alongside large commercial firms; and some third-sector organizations (particularly credit providers and promoters of small enterprise development) are intimately connected to the formal financial system. In addition, reality dictates that some level of government action will always be present even in highly open or informal markets. Often, it is simply a reflection that successful action in shelter on a significant scale requires collaboration among public, commercial private and third sectors, each of which has a different comparative advantage and none of which can achieve success on its own. (see chapter II). Therefore, a closer examination of public/private partnerships in shelter will usually reveal that government, commercial and third-sector actors and interests will be mixed together, often in a form which is difficult to disentangle.

In successful upgrading schemes, for example, such mixed partnerships have been a key factor in overcoming some of the problems faced by earlier projects (UNCHS, 1991d, p. 54). The Aguablanca upgrading programme in Cali, Colombia, provides a useful example of this trend. Here, shelter-related training was provided by government, NGOs and the Carvajal Foundation; technical assistance came from local universities; finance for housing and infrastructure was provided by the Central Mortgage Bank using funds from the commercial savings system; construction was undertaken by people themselves, with the active support. of strong community organizations; and overall coordination was provided by the municipal government, with the active (and essential) support of successive mayors (Useche de Brill, 1990, p. 98). Subsidies were limited by ensuring that properties were registered accurately, so that service charges and taxes could be levied on upgraded dwellings. The presence of Carvajal emphasizes the importance of strong links between shelter development and economic development as a key benefit of public/private partnership. Another example of this form of mixed partnership comes from Indonesia, where a variety of public and private support agencies "enable the community to gain access to the strategic resources which fall under their control" (Ministry of Public Housing, 1992, p. 5). PERUMNAS (the Urban Development Corporation) provides access to land (serviced lots) and approves building permits, the State Savings Bank channels subsidized credit to community organizations, the National Development Bank provides loans for income generation and small enterprise development, Indonesian Credit Insurance and the United Nations Development Programme (UNDP) provided guarantee funds to underwrite these loans, and local NGOs supplied technical and organizational assistance to the communities involved.

As in the case of upgrading, resettlement works best when continuity of support from the State combines with a highly-organized community with access to land and financial resources, often from the

commercial private sector. In the Ruamjai Samakki resettlement programme studied by Niyom (et al, 1990) in Bangkok, people (with the help of local NGOs) were able to persuade private landlords to increase their offer of compensation for being moved from the city centre to the new site in the urban periphery. Compensation payments were channelled through the National Housing Authority for land purchase on the resettlement site, and NHA also assisted with a temporary water supply and technical assistance on site layout. Further help of this nature came from the Human Settlements Foundation (another NGO), and the commercial private sector (in the shape of the National Security and Finance Company) agreed to provide credit at 9 per cent interest to cover the costs of construction materials. As a result, 75 per cent of families completed their new dwellings within a month of arrival, a remarkable testament to the benefits of partnership. Overall, some 38 per cent of total project costs were covered by the community in cash or kind; 31 per cent by compensation from the landlords; 19 per cent from NGOs and international organizations; and 12 per cent by government, demonstrating the viability and sustainability of the program (Niyom et al, 1990, p. 40).

Similar experiences have been reported from India, Malaysia, the Philippines, and Turkey. In India, government can provide up to 50 per cent of the finance required for village building projects on condition that government standards are adhered to, a facility used by many local NGOs including the Village Reconstruction Organization (VRO). As in Ruamjai Samakki, the partnership enables costs to be shared between people themselves, NGOs, government and the private sector, so that both affordability and sustainability can be preserved. In the case of one VRO project cited by Turner (1988, p. 102), 28 per cent of total costs came from government, 12 per cent from the community, 10 per cent from NGOs, and 50 per cent from external donors. The Desa Pandan Programme in Malaysia provides another illustration of how local government, the commercial private sector and communities can work together to develop shelter on marginal land (in this case, disused mining land). When the Malaysian Government decided to "privatize" the development of a number of squatter settlements on State lands they opted to resettle the residents in the existing neighbourhood but having upgraded the environment (UNCHS, 1992b). They selected a number of commercial private developers to undertake the work, on condition that "low-cost" dwellings had to be provided in equal numbers to the existing squatter shacks. In return, the Government relaxed its usual planning and building regulations and provided credit to home buyers. Six settlements have been identified thus far, with a total target of 80,000 low-cost dwellings to be completed over the next five years. However, with an average pricetag of $M 25,000 it is doubtful whether many of the dwellings produced will be accessible to the previous residents (UNCHS, 1992b, p. 66). In Manila, local NGOs working with residents of the Saarland Village were able to use finance from government and private institutions to transfer mortgages on properties in the scheme to the national Home Mortgage Finance Corporation. With the proceeds, the NGOs financed a second housing project (Saarland II) while residents of the first continued as mortgagees of the HMFC (B. Turner, 1988, p. 96).

The Batikent cooperative housing programme in Ankara has already been described in some detail in chapter III, but is another illustration of a successful mixed partnership in lower-income shelter. In brief, the key elements in the Batikent experience were the provision of land at low cost by the municipal government, the provision of financial resources from domestic; (public and private) and foreign donors, and the presence of a highly sophisticated and effective third-sector organization, Kent Koop. This partnership made it possible for the Municipality to bypass existing legal obstacles to lower-cost housing because it was possible" legally to allocate expropriated land to members of the cooperatives (Tokman, 1992, p. 20). The partnership also relieved the Government from lengthy bureaucratic procedures in force under existing squatter legislation.

Mixed partnerships are also in evidence in successful inner-city rehabilitation programmes such as Bombay and Mexico City. The municipal authorities in Bombay adopted an imaginative approach to the rehabilitation and/or rebuilding of rental tenements, with the State acquiring the property from the landlord

at compensation valued at 100 times the average gross monthly income, or working together with both landlord and tenants to refurbish the property using public and private-sector finance (Sundaram, 1990, p. 131). Where 70 per cent or more of tenants form a cooperative and apply for transfer of title, the Government is bound to acquire the property from the landlord in return for the usual compensation. The cooperative then secures finance for the necessary repairs to the property, often from the commercial banking system, though overall the response to this scheme has been "disappointing" (Sundaram, 1989, p. 132). However, involving commercial private interests in inner-city rehabilitation can be problematic, simply because of the potential gains to be made from upgrading in centrally-located areas subject to intense pressure from competing land uses. For example, in the Hafsia Quarter Project in Tunis, the physical fabric and economy of the city centre was successfully regenerated, but the original lower-income residents have all been pushed out to the urban periphery as their properties were bought up by middle- and higher-income groups (UNCHS, 1991d, p. 59). This was the main reason why the reconstruction programme in central Mexico City after the 1985 earthquake excluded commercial private interests (Ebrard and Gamboa de Buen, 1991).

Hence, although mixed partnerships in low-income shelter are certainly the most common, the most successful examples (in terms of access among the poorest) often involve only minimal participation by the commercial private sector. Experience shows that private-sector involvement works best, either in programmes which aim slightly higher in the income distribution (so that adequate returns can be generated), or in certain aspects of the shelter process where the right trade-offs can be preserved between profits and afford ability (e.g., in the provision of credit and infrastructure, at least under certain conditions), or in situations (like land-sharing in Bangkok) where commercial interests are prepared to forgo some benefits in return for a guarantee of others. The most effective modalities for public/private partnership seem to be those in which government steps in to promote access to inputs (especially land) and basic services, leaving the commercial private and third sectors to deal with development, construction and marketing. Such partnerships play to the comparative advantages of the three sectors and can result in significant efficiency and productivity gains to all concerned. The most important relationships of all (at least at low levels of income) are those which develop between people themselves, their organizations, and the State, since among the poor there is relatively little "room for manoeuvre" for commercial private interests. While a case can be made for promoting more private-sector participation in low-income shelter (and especially in areas such as land, finance and services), this must be undertaken with care if it is not to result in reduced access among the very poor and a lower-quality environment. The key to more effective partnership involving the commercial private sector is how to guarantee adequate returns without adversely affecting access, coverage and quality. This dilemma, and how it might be solved, is explored in more detail in chapter VI.

## Chapter VI. Common factors underlying success and failure in public/private partnerships

What, then, is to be concluded from this extensive review of experience in relation to the role of public/private partnership in enabling shelter strategies? While generalizations are always dangerous given the variations in economic, political and social circumstances which exist among cities in developing countries, there do seem to be certain common elements which lie behind the success of some partnerships and the failure of others. Of course, "success" and "failure" are relative terms, and there are elements of both in most of the public/private partnerships analysed in earlier chapters. Nevertheless, it is possible to identify a number of general themes which run throughout the text. This chapter looks at these themes, concentrating first on common factors in effective partnerships, and then on the factors which seem to undermine the impact and efficacy of partnerships in different contexts.

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### A. Common factors underlying successful partnerships

#### 1. The importance of strong government support

It is, perhaps, a popular misconception that the enabling approach to shelter implies less (or even no) role for government, yet the experiences of partnership recounted in this report demonstrate very clearly that strong government (at both national and local levels) is essential if partnership is to work. While the enabling approach does imply a different role for the State, this new role remains critically important, since only the public sector can facilitate and regulate the overall legal, administrative and economic framework within which people, their organizations and the commercial private sector can make their most effective contributions. This implies strong and coherent action by government, including intervention in the land and financial markets when they fail to respond appropriately to the needs of lower-income groups. The most successful public/private partnerships, such as the Batikent experience with cooperatives in Turkey, the Joint Venture Program in the Philippines, land-sharing in Bangkok, and inner-city rehabilitation in Mexico City, all take place within a framework of strong and effective municipal government with national-level political support. Successful partnerships require a strong government presence to protect the interests of the urban poor, ensure access to inputs and services among those who would otherwise be excluded by the private market, regulate excessive profiteering and speculation, ensure that different institutions and actors coordinate their efforts, and link the activities of small grassroots groups with the wider political and financial system. The municipality in particular has a crucial role to play, because partnership implies mediation between the sometimes conflicting interests of people and capital, commercial private and third sectors, use-value and exchange-value in land and shelter.

The examples of Sao Paulo and Curitiba in Brazil are often quoted in the literature on public/private partnership, and both show that success on a citywide scale can only be achieved within the framework of a strong and efficient municipal authority. In Sao Paulo, the Municipality was able to use its landholdings and planning powers to encourage private-sector participation in both high-income and low-income shelter development. Using "density bonuses" and special zoning, the municipal authorities were able to promote commercial investment in luxury condominia and in rehousing for the residents of some of the city's *favelas* (Peddie, 1992, p. 73). A key element here was the formation of a development corporation to represent the interests and coordinate the activities of public, private and third sectors. In Curitiba, basic infrastructure and services are being upgraded across the city and the municipal authorities are encouraging the process of "progressive development" by lower-income groups on publically-owned land (J. Turner, 1992). This includes a new mass transit system and investment in community facilities. Similarly, the development of successful public/private partnerships in the provision of basic services relies to a great extent on supervision, coordination and investment by government.

Strong government is also essential so that the correct balance between intervention and liberalization (or between the three sectors) can be maintained in the housing market. The enabling approach requires that the commercial private and third sectors are free to utilize their energies, talents and resources to maximum effect. This means granting secure tenure to the poor, removing restrictive legal and bureaucratic controls, and providing greater incentives to private investment. However, the effect of these measures is simultaneously to add' value to land and housing and so stimulate their

exchange on the market. In the highly imperfect land, housing and financial markets characteristic of cities in developing countries, supply constraints must be vigorously attacked if access to adequate shelter is to be preserved among lower-income groups. Only government can accomplish this task. Bangkok illustrates this dilemma well. Here, "free" markets have been a feature of the city for many years, and have led to a thriving financial sector and a housing boom for middle- and higher-income groups. However, these developments have not improved the housing situation for the great majority of the city's low-income population, who face the constant threat of eviction and rapidly escalating land prices and rents. Those instances (partnerships) in which poor people have been able to secure improvements in their shelter, such as the land-sharing and resettlement schemes described in chapter V, have been possible only because of strong government support in negotiations with landlords and private financial institutions:

*"If government errs too far in the direction of* laissez-faire*, the housing options of the poor will not improve substantially because they will be excluded from access to essential inputs, especially land and finance.... If the State intervenes too heavily, incentives to private and household-sector production will decline, so reducing the quantity and quality of housing available It is no exaggeration to say that the successful implementation of the GSS depends on the ability of governments to find and maintain this balance over time"* UNCHS, 1991d, p. 67).

This is another way of saying that government plays the crucial role in maintaining the right balance between the interests of different sectors in public/private partnerships. The experience of partnerships in the industrialized countries reinforces this conclusion. As Brooks et al (1984, p. 307) have shown:

*"in true privatization, the government's role is only reduced; it does not disappear ... the conceiving, planning, goal-setting, standard-setting, performance-monitoring, evaluating and correcting all remain ... if they are done badly, the public interest suffers, and so, usually, does the private contractor."*

Building government competence and effectiveness is therefore a vital pre-requisite for successful public/private partnerships in low-income shelter.

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### A. Common factors underlying successful partnerships

#### 2. Third-sector organizations and popular participation

As John Turner (1988, p. 16) has pointed out, partnerships among the "three, interlocking systems of market, state and people" imply negotiation. In turn, negotiation (over resources, over terms and conditions, roles and responsibilities and so on) requires the existence of strong mediating structures which are able to ensure that the partners talk to each other, and that they listen. Sometimes government plays this role (as above), but usually, and especially when the negotiation involves the urban poor, the intermediary is a third-sector organization - an NGO or a CBO. Individuals and groups who lack power and resources depend on strong intermediaries in their relationships with institutions with greater power and resources, whether they are institutions of the State or the commercial private sector. This is particularly true in situations where poor people are exposed to pressures from private interests, as they are, for example, in the inner city. NGOs and CBOs playa crucial role in balancing opposing interests and in channelling the needs and views of the poor to those in power. They are also essential in building up political pressure for reform at the grassroots level. Their role in assisting people to organize, articulate their demands, plan and negotiate with landlords, financial institutions, donors, developers and government agencies, is crucial to the success of most popular housing efforts. In their analysis of the "enabling state", Mulgan and Wilkinson (1992) conclude that government should concentrate on upholding efficient property rights and restraining the power of large businesses so that small traders can compete and people can build for themselves, but they recognize that this can only work with adequate mediation on behalf of the poor - otherwise smaller groups with less economic power can be easily dominated and/or exploited by the strong. This is why strong third-sector organizations are an ever-present in successful public/private partnerships in low-income shelter, and why high levels of public participation in decisions over shelter are essential if partnership is to work.

Participation is essential to ensure accountability among government agencies, and to promote ownership and sustainability among third-sector initiatives and public/private partnerships. The success of the reconstruction effort in the centre of Mexico City after the earthquake of 1985 has been attributed to "the democratic consensus and participation of all the parties involved, which permitted the setting of clear rules for the process of reconstruction, accepted by all" (Ebrard and Gamboa de Buen, 1991, p. 26). A similar conclusion comes from Bombay, where tenants' cooperatives have taken over the operation and maintenance of services in the inner city (Sundaram, 1990, p. 43). Successful partnerships are clearly vital if grassroots initiatives are to be sustainable and grow in scale, but the pace and shape of these partnerships needs to be carefully controlled, and ideally should be determined by the community itself, acting through third-sector institutions (Mitlin and Satterthwaite, 1992, p. 178). This provides some guarantee that the process will be of genuine benefit to the community, and prevent the partnership from being misused for private or public gain (i.e., profiteering or electioneering). In the Sandtown-Winchester project in Baltimore cited in chapter Ill, higher levels of participation in planning and decision-making were seen as one of the key factors behind the success of public/private partnership in contrast to earlier efforts. "The planners believe that earlier initiatives failed in part because they were out of step with the residents' goals and abilities" (Barringer, 1992). All the "stakeholders" in a partnership must have a sense of "ownership" in working together so that they feel committed to making things work, even when the partnership runs into difficulties (as inevitably it will). All the successful partnerships cited in this report

have laid special emphasis on the setting of clear and agreed objectives, and roles and responsibilities, at an early stage, so that there is less likelihood of conflict and confusion later on.

The role of popular participation in basic services is often stressed - not only does this reduce the costs of installing water supplies, drainage and sanitation, but it also promotes sustainability by empowering people at household and neighbourhood level to maintain the systems themselves, without having to rely on external assistance. The success of the Urban Basic Services approach promoted by UNICEF in Indian cities (among others) has largely been attributed to high levels of participation and consultation (Rondinelli and Cheema, 1988, p. 42). Representation of users on the boards of directors of public utility companies at municipal level in Colombia has led to greatly improved levels of service provision in urban areas (Useche de Brill, 1990, p. 53). The success of the Orangi Pilot Project in Pakistan was cited in chapter IV as an illustration of the impact a partnership among people, NGOs and government can make when all the partners are fully involved right from the word go in the design and implementation of infrastructural work. Partnership (especially with the public sector) is, however, vital if popular-participation is to flourish, since the ability of people and their organizations to playa larger role in decision-making is highly dependent on developments in the wider political process such as democratization and decentralization (see below). There is, then, a reciprocal relationship between partnership and participation: on the one hand, participation is essential if partnership is to be effective and sustainable; on the other hand, partnership is necessary if participation is to be encouraged.

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### A. Common factors underlying successful partnerships

#### 3. Integration and coordination

One of the advantages offered by public/private partnership is greater coordination among the different sectors involved in the shelter process, and the possibility of integrating functions which would be less effective if undertaken in isolation from one another. In turn these two themes - coordination and integration - have been shown to be important factors underlying the success or failure of partnerships. Generally, the strongest partnerships are those in which the different sectors coordinate with each other at every stage, and also in which a range of related functions are integrated under a single policy framework, and into the wider financial and other systems which can promote the sustainability of the partnership and its benefits (e.g., the commercial banking system in the case of housing finance). Experience in Latin America demonstrates that government approaches to informal-sector support must be integrated so that the policy, legal and regulatory frameworks, credit and training support each other (Stearns and Otero, 1990, p. 12). Government can also ensure that all the relevant partners are integrated into a national strategy and policy framework. In the survey of "urban services in developing countries", Rondinelli and Cheema (1988, p. 43) conclude that partnerships in the provision of basic services in irregular settlements must be integrated into the municipal network as soon as possible after they are established in order to "create the linkages which are needed to sustain service improvements." Successful upgrading programmes usually include an income/employment-generation component in addition to infrastructure and credit, so that the processes of shelter development and economic development move ahead together, each sustaining the other. This was certainly the case in (for example) Aguablanca in Cali, Colombia, and Hyderabad and Calcutta, India, (UNCHS, 1991 d, p. 55). Public/private partnerships are important in this respect because different sectors have a comparative advantage in facilitating different aspects of the shelter and economic development processes.

The second factor here is coordination, which like integration is both a cause and an effect of effective public/private partnerships. Arrossi et al (1992, p. 47) cite the example of Barrio San Jorge to illustrate the importance of coordination in low-income shelter development. Here (and under the guidance of the Carvajal Foundation) there was clear agreement on the roles and responsibilities of the various partners involved in an upgrading project, which made it possible to avoid unnecessary duplication of resources and effort, and also acted as an encouragement to creativity and innovation.

In India and Thailand, government has gone to considerable lengths to encourage greater co-ordination in shelter policy at national and municipal levels. Bangkok has a citywide forum which represents the interests of government, NGOs and the commercial private sector, and operates in a fashion similar to the "urban development corporations" cited earlier in this report in relation to partnerships in Sao Paulo and the United States. The Bangalore Urban Poverty Platform plays a similar role in India, bringing together academics, third-sector organizations and government to coordinate shelter-related assistance (UNCHS, 1992c, p. 39). These and other similar initiatives were instrumental in making public/private partnership a major theme in India's new National Housing Policy published last year.

Leynes' (1992, p. 113) case-study report on the Joint Venture Program in the Philippines lays

considerable emphasis on the role of government in promoting networking and coordination. A wide range of public agencies are involved in providing licences, clearances, approvals and permits at various stages of the shelter process, and unless these agencies coordinate their activities there is a danger that delays and duplications will act as an obstacle to successful private-sector participation, and hence to the partnerships around which the JVP is built. Coordination is the responsibility of the National Housing Authority, though Leynes (1992, p. 114) concludes that there is enormous room for improvement in this respect despite the encouraging start to the programme. Once again, this implies a strong and efficient municipal administration to ensure an integrated and coordinated framework for public/private partnerships at the local and municipal levels.

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### A. Common factors underlying successful partnerships

#### 4. Ensuring benefits for all the partners involved

The most successful public/private partnerships in low-income shelter are those which bring concrete benefits to all concerned. This is particularly important in relation to the commercial private sector, which (even if it is more philanthropically minded) requires an adequate return on its time and investment. Attempts at partnership which do not recognize this or which have unrealistic expectations of any of the partners are sure to encounter severe problems. But the same principle applies to other sectors too - whenever a partnership requires an outlay of resources there must be a reward for that investment. This may be in kind rather than in cash (for example, land or dwellings), or simply in the form of a right or commodity that the partner wants (such as security of tenure). In practice, however, this is often difficult to accomplish because public, commercial private and third sectors have different needs and objectives which may be impossible to satisfy simultaneously. This is one of the main reasons why public/private partnerships on a significant scale are still a comparative rarity (see below). It is not really true, as some authors claim., that shared objectives are the key to effective partnership (Lanier et al, 1986). Rather, what is important is compatibility of objectives, so that the achievement of one partner's aims (e.g., profit) is not secured at the expense of another partner's aims (e.g., the desire of low-income families to remain in the inner city). Examples of mutual satisfaction of needs do exist though - for example, in land-sharing, where both landlord and tenant (and indeed government, since it may lead to a more efficient pattern of land use in the city) stand to gain. The landlord is able to reap higher returns from commercial uses of the portion of land retained, while the tenants gain secure tenure in their existing residential location, albeit at higher densities.

In this respect, a key task is to find better ways of guaranteeing an adequate return to commercial private investment without harming the interests of the poor - a particular case of the general dilemma highlighted above between "intervention" and "liberalization" in the housing market. If more mechanisms can be found to achieve this difficult goal, it is likely that public/private partnerships will multiply, and there are a number of possibilities in this respect that deserve mention. First, profit-maximization is not by definition the sole objective of the commercial private sector, nor is it always essential to eliminate risk in order to promote private-sector participation in partnerships. In their survey of public/private partnerships in Africa, Lanier et al (1986) conclude that removing or modifying regulations and restrictions may be a more cost-effective strategy for encouraging private involvement than a direct expansion of financial incentives. In Zimbabwe, for example, Central Government underwrites the risks of. default among lower-income borrowers from private financial institutions by bearing at least 20 per cent of the exposure (Lanier et al, 1986, p. 27). Many case studies show that commercial banks can be involved successfully in low-income credit programmes so long as they receive adequate guarantees to reduce the risks involved, usually from government or NGOs (local or international). The banks will often be prepared to assume greater responsibility and risk once they are convinced of the creditworthiness of the borrowers, as in the cases of EVGL, the Chilean NGO cited in earlier chapters of this report, or ASOBUR in Bolivia (Arrossi et al, 1992). ASOBUR also intends to establish a "private guarantee fund" to cover the costs of actions designed to address the restrictions and barriers which militate against private-sector participation in low-income housing (ASOBUR et al, 1991, p. 322).

In the Joint Venture Program, profitability is maintained through a combination of high volume, rapid turnover of investments, and the right product/income group mix, but even so the National Housing Authority has found it necessary to provide a variety of guarantees and "bridging funds" to reduce the risks faced by commercial developers and increase incentives to private investment (Leynes, 1992, p. 113). These funds cover the time lag which often occurs between investment by the developers in joint ventures., and re-financing of the scheme via the (less-efficient) secondary mortgage market. In addition, the NHA sometimes provides development finance to the commercial private sector itself, or acts as a conduit for funds from other agencies.

In Villa el Salvador, Lima, Peru, foreign donor funds have been used to initiate a viable and sustainable credit system accessible to lower-income households. The funds are deposited in commercial banks which add in their own capital, enabling loans to be made at lower rates of interest. Monthly loan repayments must not exceed 35 per cent of the total income of the borrower (UNCHS, 1992b, p. 103). Loan repayments are, however, high, and the banks are assured of an adequate return both by the low default rate and by the infusion of additional capital from donors at no cost to the banks. Municipal credit institutions in Colombia achieve the necessary balance between viability and afford ability in a different way, via "discounting." In this system, financial intermediaries make their profits by charging one rate of interest to borrowers and another to lenders (Garzon, 1992). Commercial private partners may be prepared to defer their returns if they have a guarantee of higher profits in the longer term (as in the example of the Japanese railway system cited in chapter III), or may opt for greater stability of returns and trade this off against a higher but less secure level of returns. Granting security of tenure to low-income households is a good way of increasing the stability of private investments because it ensures a constant income stream over time. High levels of repayment in third-sector credit programmes demonstrate the viability of this approach. Hence, there are many possible ways in which adequate returns to commercial private-sector involvement may be generated so as. to entice private capital into shelter partnerships. The fact that this remains a difficult task should not be a deterrent to finding more imaginative ways of ensuring that each partner receives the concrete benefits that are essential if partnership is to work.

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### A. Common factors underlying successful partnerships

#### 5. The importance of macro-level conditions

No public/private partnership can flourish over the longer term and at a significant scale unless it is supported by the right economic and political environment. Even partnerships at neighbourhood level can be easily blocked or undermined by economic problems (such as price increases) and political issues (such as opposition from the city authorities). In the economic sphere, there is clearly no substitute for growth at national and municipal level in order to create additional resources for investment in shelter by any of the three sectors - public, commercial private or third (World Bank, 1991). In the case of successful public/private partnerships, the wider policy environment is critical: for example, fiscal, monetary and pricing policies should be favourable to private-sector participation. At the Second International Shelter Conference held in Vienna in 1987, the following macro-economic factors were considered essential for effective partnership:

- Ensure that macro-economic policies avoid market distortions and promote growth;
- Encourage domestic savings and promote access to them by the private sector;
- Support pricing policies which permit markets to function effectively;
- Emphasize efficiency in urban management (including security of tenure);
- Restrict the public sector to activities which the private and third sectors cannot undertake effectively (UNCHS, n.d., p. 6).

It goes without saying that privatization will be more effective if a private sector already exists to take over public assets and use them efficiently, but of course in many developing countries (especially in sub-Saharan Africa) this is not the case because the commercial private sector is very weak. As chapter II concluded, the experience of public/private partnerships in the industrialized countries demonstrates that a buoyant economy is essential if the private sector is going to be strong enough to support compensatory programmes and to forgo some of the profits that could be made by concentrating solely on traditional (high-income) housing (Carter and McAfee, 1990). The growing involvement of the commercial private sector in lower-income housing in Bolivia was only possible in the context of economic liberalization introduced in 1986, which also brought with it a significant increase in external funds available for social expenditure (ASOBUR et al, 1991). The important caveat to be remembered here is that policies oriented solely towards liberalization and economic growth do not necessarily promote the interests of partnership, and certainly not the interests of the urban poor. Adequate safeguards must be put in place to ensure that the balance between liberalization and intervention (or between viability and affordability) does not move too far in the direction of commercial private interests.

For the poor and their organizations, the political environment is as least as important as the economic, and perhaps more so. This is because low-income groups lack economic power and depend for their access to resources and security on support from the State. Successful partnerships in low-income shelter (especially those between the public and third sectors) require a supportive political

environment if they are to continue. For example, the recent upsurge in NGO activity in land sharing and resettlement in Bangkok could not have occurred had it not been for wider political developments which permitted the emergence of greater democracy and popular participation in decision-making (UNCHS, 1991 d, p. 42). Third-sector organizations require "political space" in which to operate, and this environment can only be guaranteed by the State. Strong government support for enabling shelter strategies is a key factor in their implementation, and the State must give a strong lead if public/private partnerships are to develop. Colombia and India provide two examples of countries in which the third sector has been closely involved in debates over housing policy as part of a wider movement towards decentralization and citizen participation. As a result, partnerships are more common in these countries than elsewhere (UNCHS, 1991d, p. 65). Like effective shelter policies in general, partnership requires an "efficient, liberal, open, pluralist, literate, economically-successful and egalitarian society" (McAuslan, 1985, p. 66). One of the reasons why partnerships are still comparatively rare is that these conditions are not met anywhere in the world. However, democracy and accountability are not always essential for successful NGO-government partnerships. The example of FUNDASAL in El Salvador shows that third-sector organizations can achieve significant results (albeit backed by substantial foreign funding) even without support from the State (UNCHS, 1992a, p. 21).

Finally, many partnerships depend for their success on economic, political and cultural conditions which cannot be replicated. For example, land-sharing in Bangkok has been successful on a small scale because of the particular combination in Thai society of a culture which favours compromise (between landlord, tenant and government), a relatively open democracy, and a high degree of public landownership to facilitate resettlement (Hardoy and Satterthwaite, 1989, p. 124). "Workable elements of enabling shelter strategies will be more successful if they are compatible with deeper social, political, economic and cultural elements of the country in which they are implemented" (Boonyabancha, 1990, p. 33). This applies particularly to the role of women in the shelter process, which is still all-too-often ignored in shelter policy. Cultural and social attitudes toward gender are important factors in promoting or retarding women's participation in the shelter process, and women's participation is a crucial factor underlying the success of shelter action and of public/private partnership. Effective partnerships recognize the particular contribution that women have to make, and the particular needs that they have in regard to shelter, and tailor the programme accordingly. Thus far, examples of this approach in public/private partnerships are rare. The importance of contextual factors, and the uniqueness of successful public/private partnerships, should not be underestimated.

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### A. Common factors underlying successful partnerships

#### 6. Sustainability and the program approach to partnership

Sustainability is clearly a crucial factor in successful public/private partnerships, since it is of little use if partnerships depend on external support which is transient. The goal must be partnerships which last, in which the benefits of partnership can be carried forward over time and spread across the city. Most partnerships have consistently failed to achieve this, a theme which is taken up below in section B.1 . Access to external funding (usually foreign aid) has been crucial to the success of many of the partnerships reviewed in this report, including (for example) the Bolivian Social Fund, the reconstruction of central Mexico City, housing co-operatives in Turkey and the Housing Finance Development Corporation in India. But if it is used well, donor funding can create the conditions required for sustainability, as when an NGO credit scheme is integrated into the commercial banking system, or when a housing cooperative begins to deal directly with commercial contractors. Integration into existing systems which are not dependent on external support is one of the best ways of improving sustain ability (Arrossi et al, 1992).

In chapter III, what was called the "project approach" to public/private partnership was criticised on the grounds of limited impact and sustainability, in contrast to the "programme approach II which aims to change the framework within which shelter action takes place. Project partnerships, in which action is directed exclusively to a particular neighbourhood, incur heavy administration costs which are unsustainable even in industrialized countries. Programme partnerships, on the other hand, aim to change policies, attitudes, laws and regulations so that their potential impact is far greater, and the ratio between costs and benefits is dramatically different. This is "scaling-up" in the best sense of the term - widening the impact of an investment or partnership by disseminating the lessons of experience through wider systems and structures. Into this category fall partnerships which facilitate the supply of inputs into the low-income shelter process (especially land and finance), and which encourage investment by the commercial private and third sectors by removing unnecessary regulations and granting security of tenure. Even successful partnerships which seem at first sight to be project-based (such as Kent Koop in Ankara), on closer examination concentrate on developing a framework within which third-sector organizations and commercial developers can operate more effectively. In the Batikent example (Kent Koop), the role of government is to ensure access by housing cooperatives to land and finance, and to bypass the many legal obstacles to shelter action involved in Turkey's complex squatter legislation.

Partnership with Kent Koop made it possible to bypass these regulations because co-operative members could be allocated land expropriated by the state without further involvement in the legal process (Tokman, 1992, p. 20). In addition, the success of the Batikent-experience led to the development of similar partnerships with other cooperatives, both within Ankara and in other municipalities. In turn, the positive public image and high degree of political support that was generated by these partnerships contributed to the passing of a new Collective Housing Bill in 1984 and the establishment of a National Housing Fund to which cooperatives had access. These measures have made it easier for new public/private partnerships to develop along the lines of Kent Koop in other Turkish cities (Tokman, 1992, p. 21).

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### A. Common factors underlying successful partnerships

#### 7. The commercial private sector and decision-making over shelter policy

One final conclusion to emerge from the experience of successful public/private partnerships over the last decade is that (at least in regard to low-income groups), the commercial private sector has a limited role to play in making decisions over shelter policy. This role is played more effectively by government, since government is accountable politically and can ensure that the poor retain their access to land, housing and services and that their interests are protected (J. Turner, 1992, p. 11). When commercial interests are allowed too much of a role in making decisions over shelter policy and urban planning, there is a danger that speculative activity will be encouraged, and the impact of the partnership on the lives of the poor will be damaging. This is why commercial developers are used as contractors in the provision of basic services (e.g., in West Africa), land and housing (e.g., the Joint Venture Program in the Philippines, or the Batikent experience with housing cooperatives in Turkey), while government retains an overview and overall authority over the processes involved. The real comparative advantages of the three sectors can then be utilized more effectively, with private developers concentrating on producing shelter at the lowest unit cost (i.e., making efficient operational decisions), rather than on making decisions about the framework of urban planning.

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### B. Common barriers to successful partnership

While many useful lessons can be learned (as above) from the analysis of the factors which seem to underlie the success of public/private partnership, it can be equally instructive to examine the barriers which have retarded progress, and the factors which have led to failure or disappointment. Action can then be taken to address these barriers, to build on the strengths identified and to minimize the impact of weaknesses. What, then, does experience have to teach about the less successful aspects of partnership in the low-income shelter process?

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### B. Common barriers to successful partnership

#### 1. Scale and replicability

Undoubtedly, there have been some public/private partnerships which have achieved results on a significant scale. For example, with government and international backing, FONHAPO (the Mexican Fund for Popular Housing) financed the construction or improvement of over 245,000 low-cost dwellings between 1983 and 1988 (UNCHS, 1992a, p. 17), mostly in the form of core housing or serviced lots, and therefore accessible to a significant proportion of the urban poor. Sadly, FONHAPO's role declined drastically after 1990 (for reasons which are given below). In Sri Lanka, the Million Houses Programme, though not directed only at urban areas, has provided cheap credit to approximately 50,000 low-income families each year for the last decade, 'with third-sector organizations channelling loans from government and external donors to individual families and thrift societies (UNCHS, 1990, p. 14). In El Salvador, the example of FUNDASAL shows that large-scale partnerships can be undertaken effectively even when domestic political conditions are unfavourable, with over 15,000 dwellings constructed with World Bank finance (Arrossi et al, 1992, p. 92). Some 13 years after the, inception of the partnership, almost 65,000 people have benefited from the Batikent experience with housing cooperatives in Turkey, with a further 130,000 projected beneficiaries in the target population (Tokman, 1992, p. 29). Indeed, the problems identified by Tokman (1992) with regard to delays and inefficiencies in the implementation of Kent Koop's work can be attributed to the fact that the project tried to scale up too quickly, rather than too slowly. These and other examples show that it is possible to reach significant numbers of poor households through public/private partnerships, with links between government, third-sector organizations and international finance proving to be particularly important.

However, these examples remain the exception rather than the rule. In the great majority of public/private partnerships (and especially in partnerships which include a significant commercial private-sector component), the number of low-income (or even middle-income) households reached has been disappointingly small. In aggregate, the contribution of partnerships to meeting the shelter needs of the urban poor has been very limited, and their importance should not therefore be exaggerated. This applies as much to partnerships in the industrialized countries as to the cities of the developing countries. In Canada, public and third-sector housing together constitute only around 4 per cent of the total housing "stock (Mishra, 1990, p. 107). In the United States, the only successful partnerships that have been created have been small in scale, with the number of dwellings built or refurbished being counted in thousands rather than millions. Most of the North American partnerships analysed in a recent survey by the Urban Land Institute had a target output of between 1000 and 4000 units (Suchman et al, 1990). The largest non-profit developer in the United States (the Bridge Housing Corporation in San Francisco) is currently building around 1000 units a year.

In developing countries the situation is the same, or perhaps even less optimistic. By and large, the poor are left to cope as best they can with a hostile environment, which they do with remarkable skill. Occasionally, they are assisted by NGOs and/or by government, and very occasionally by the commercial private sector, but these examples of partnership are still rare, and where they do exist their size and reach are limited. The much-quoted Joint Venture Program in the Philippines, for example, has produced less than 4000 units since its inception in 1989, and the long-term objective is only just over

33,000 (Leynes, 1992, p. 29). As chapter IV pointed out, most of the units that have been produced have not been affordable to the bottom 30 per cent of the urban income distribution (see also below). This compares with a total of "7583 units upgraded under the Community Mortgage Program in the Philippines, which is a more relevant partnership for the urban poor but is still very limited in scale when compared with the level of housing need (Leynes, 1992, p. 76). Most of the NGO-government partnerships described in this report cover a single neighbourhood, or a couple of neighbourhoods, and they have found it difficult to scale up their operations beyond the local level.

In part, this is because scaling-up has been approached at project rather than programme level (see above), and this is extremely difficult to accomplish because of variations in context and shortages of resources. Whenever public/private partnerships require heavy administration by NGOs and/or government, they also incur sizeable costs, and this limits their replicability. A reasonable level of replication has been achieved in some partnerships (such as the Batikent experience in Turkey), but often scaling up the impact of partnerships has come about more effectively through policy reform and the dissemination of experience rather than simple project replication. In Turkey, the experience of the Batikent housing cooperatives has been disseminated around the country by a consulting firm established in 1983 - as a subsidiary of Kent Koop, which provides technical advice and expertise to other cooperatives who wish to follow a similar approach (Tokman, 1992, p. 33). Thus far, 27 municipalities (with a target of 134,000 dwellings) have taken up this offer. At the other end of the spectrum, third-sector organizations like the Orangi Pilot Project in Pakistan have attempted to share their experience of partnership with other NGOs in Karachi, with local universities and with the municipal government. They have had some success in this, with the OPP approach to low-cost sanitation now being used in other irregular settlements in the city (B. Turner, 1988, p. 88). If public/private partnerships are to be scaled up in resource-poor environments then this form of activity may be a more effective route than project replication. Overall, however, partnerships have yet to make a significant impact on the implementation of enabling shelter strategies and the shelter options of the urban poor.

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### B. Common barriers to successful partnership

#### 2. Cost, sustainability and access among the poorest

Project-based partnerships are expensive to administer and manage, requiring a considerable bureaucracy to handle negotiations between the partners. Clearly, this creates problems for poorly-resourced administrations and makes the partnership more difficult to sustain. However, the more important cost implications of public/private partnerships apply to afford ability and access, especially again where commercial interests are involved. The real comparative advantage of low-income families is their unique ability to produce and improve their own shelter at apace and cost they can afford, and to the highest standards possible given their incomes and resources. Neither the public, private nor third sectors can compete with the poor themselves when it comes to construction and refurbishment, though of course poor people need the support of these other actors if they are to play their role in construction effectively. All public/private partnerships, however, have implications for the cost of land, finance, materials, dwellings or services produced or supplied by the partners. Generally, the higher the level of commercial private-sector involvement, the higher the unit costs of the product or service, and the less affordable it will be to the low-income population. This is the result of the needs/demand gap cited at regular intervals throughout this report, and the need for commercial interests to make an adequate return on their investments. The difficulty of preserving both profitability and afford ability is a consistent feature of public/private partnerships, and very few partnerships have managed to preserve the right balance between the two in order to promote access among the poor on a significant scale. This means that successful (viable, sustainable) partnerships have rarely been affordable, while affordable partnerships have rarely been viable (in terms of private investment) or sustainable (in terms of the local resource base). This conclusion applies right across the board, regardless of context and housing submarket, and is true of services as well as housing finance, inner-city rehabilitation as well as upgrading in the urban periphery, and renting as much as home ownership. There are no easy answers to this problem. If government over-regulates the housing market in an effort to prevent profiteering and speculation, then severe damage may result, as in the case of the Urban Land Ceiling and Regulation Act (ULCRA) in India cited in chapter IV. Supply constraints are increased and housing conditions can actually decline. On the other hand, if the government under-regulates the market, low-income groups can be exposed to more powerful interests and can easily be displaced, particularly from the inner city. In the absence of new forms of commercial enterprise which try to combine the best characteristics of both private and third-sector institutions (a possibility examined in brief in the Conclusion to this report), it is difficult to see how this issue can be resolved.

In the Batikent programme in Turkey, affordability has been a consistent problem despite a continuous supply of subsidized land from the State and the determination of the 'municipal authorities to maintain the original focus of the partnership on the low-income population. As the programme evolved, the original target group were gradually replaced by middle-income households and the provision of cheap land became an "undeserved subsidy" for the better-off (Tokman, 1992, p. 22). The cause of afford ability was not helped by poor cost control during the construction phase, resulting in variations of as much as 50 per cent in the price of dwellings built by different cooperatives using the same basic plans. Average monthly repayments in the Batikent programme now exceed the value of the monthly minimum wage, sometimes by a factor of two or three. The Head of the Co-operatives Section in Kent Koop

estimates that at least 50 per cent of the original beneficiaries of the programme have left, while Tokman (1992, p. 15) puts the figure even higher, at around 70 per cent. This is almost inevitable in cities where the demand for adequate housing from middle-income groups outstrips supply.

In the Joint Venture Program in the Philippines, a similar process has occurred, though here the target population was never the urban poor. The JVP caters primarily for households within the fiftieth percentile of the urban income distribution. Although the figures vary considerably from project to project, Leynes (1992, p. 83) estimates that only around 50 per cent of the units produced thus far are actually accessible to this income group, while less than 15 per cent of families in the thirtieth percentile of the income distribution would be able to afford the cost of the loans. Of course, there are other housing partnerships in the Philippines (primarily the Community Mortgage Program) which are accessible to these households, but they are small in scale. The inability. of the JVP to reach even its own higher-income target group provides a good indication of the difficulties faced by partnerships between the public and commercial private sectors even in an innovative arrangement such as this. Affordability in the JVP is not helped by the method chosen to allocate units, which is by public lottery or raffle, though some groups (primarily government employees and members of the State social security system) receive preferential treatment. The need for applicants to produce a range of certificates, income tax returns and other documents makes it even less likely that informal-sector workers will be able to qualify. According to Leynes (1992, p. 68), approximately 65 per cent of beneficiaries in the JVP are government employees, teachers or members of the police and military, while the remainder are "privately-employed."

Similar experiences have been reported from other public/private partnerships in upgrading, housing finance and service provision. In the Aguablanca upgrading project in Cali, Colombia, for example, only 50 per cent of beneficiaries came from the original target group (UNCHS, 1991d, p. 67). The poorest tenants were driven out of *bustees* in Calcutta during the improvement process there, and the same thing has happened in the land-sharing schemes implemented in Bangkok (UNCHS, 1991d, p. 67). Partnerships in the supply of housing finance experience similar problems because of the difficulty of guaranteeing an adequate return to private institutions, though as chapter III pointed out, this becomes less of a problem over time in some partnerships as the commercial banks are convinced of the creditworthiness of low-income borrowers. Neither the Indian Housing Finance Development Corporation nor the Nigerian Federal Mortgage Bank (to name but two public/private partnerships often cited in the literature) have managed to reach the poor. In services, the picture is the same. Even with the use of cross-subsidies it is difficult to preserve access to services provided by the commercial private sector in the cities of West Africa.

Of course, exclusion of the poor is not inevitable in public/private partnerships, but the successful partnerships which have preserved afford ability (such as the Grameen Bank in Bangladesh and the Self Employed Women's Association in India) have not involved the commercial private sector, at least not in their early stages. Equally, these large-scale successes are comparatively rare; most of the partnerships that do involve the urban poor are small in scale, exemplified by the NGO credit schemes described in chapter III. The need to achieve a better synthesis of afford ability and viability is one of the key challenges facing public/private partnerships in the years ahead.

## Chapter VI. Common factors underlying success and failure in public/private partnerships

### B. Common barriers to successful partnership

#### 3. Politicization and public-sector capacity

Successful public/private partnerships in low-income shelter require a high degree and sensitivity of support from government, yet in most developing countries the municipal authorities are poorly resourced and urban management is weak. This has proved to be a serious problem in many partnerships and must be resolved if partnership is to make more of a contribution to enabling shelter strategies. Municipal government has a key role to play in mediating between the different and often conflicting interests of people and their organizations, the commercial private sector and political factions of one form or another. However, this is a difficult task even in well-resourced economies with a strong bureaucracy and adequate reward systems; in poorly-resourced economies it must seem well-nigh impossible. The rust set of problems that have affected the success of public/private partnerships arise from the politicization of the shelter process which distorts the aims and objectives of these joint ventures.

The Batikent programme in Turkey provides an illustration of this problem, with Kent Koop suffering from increasing political divisions within the cooperative as the programme unfolded, and also entering into an adversarial relationship with elements of the municipal administration. At the inception of the programme, Kent Koop established good relations with the labor unions in Ankara, but after the military intervention into politics of 1980 the unions began to establish rival cooperatives or to use Kent Koop as an alternative route to political power (Tokman, 1992, p. 32). Between 1980 and 1989, opposing political factions came to dominate Kent Koop and the Municipality, and the project (because it dealt with valuable commodities such as land and finance) became a "political battleground" and source of political patronage. Consequently, the Municipality refused to allocate all the land it had promised to Kent Koop at the start of the project, handing 'it over instead to anew and rival cooperative (Turkkonut) supported by the local authority (Tokman, 1992, p. 32).

According to Ascher (1987 p 268) the contracting out of functions and services to the commercial private sector and other forms of public/private partnership work most effectively in "non-political environments." The problem is, of course, that such environments rarely exist anywhere, and certainly not in the highly-politicized climate of developing-country cities. There are many other examples of this form of politicization, and the negative effects it can have on the operation and impact of partnerships in low-income shelter. For example, the San Miguel Teotongo partnership in Mexico City cited in chapter IV was very nearly derailed by competition and disagreement within the municipal administration. Different arms of the Mexico City administration saw the project as an opportunity to garner political support; refused to cooperate and delayed the signing of. the partnership agreement (HIC, 1992). On a more significant level, the withdrawal of the Central Government in Mexico from low-income housing after 1990 as a consequence of economic liberalization and structural adjustment dramatically curtailed the role of FONHAPO (the National Fund for Popular Housing) and rendered government-NGO partnerships much more difficult (UNCHS, 1992a, p. 17). In San Salvador, FUNDASAL (a local NGO ) assisted Comunidad Lupita to negotiate with the municipal authorities over the regularization of tenure in the settlement. Shortly before the municipal elections of 1985, the Council agreed to sell land to FUNDASAL at a notional price, but after the elections the new Mayoress insisted that the land should instead be used for a market intended for middle-income groups. The community, with support from

FUNDASAL, ignored this request and re-developed the land. Six months later, the Municipality ratified the original decision (Stein, 1989).

A second set of problems relate to weak government capacity. It is tempting to say that lack of "political will" is a major factor behind the slow implementation of enabling shelter strategies, yet "political will" is an inadequate description of what is really needed. Developing the right framework for partnership which will protect the interests of the poor while increasing incentives to the private sector is an immensely delicate task which requires the constant balancing of different social interests. However, municipal governments in most developing-country cities are notoriously weak, partly because their revenue base is undermined by poor property-registration systems, and partly because of the reluctance of Central Government to decentralize financial authority as well as authority over planning and decision-making (World Bank, 1991). As Hardoy and Satterthwaite (1989, p. 55) put it, "too much local government is fragmented, confused about their functions and all too often either invisible or largely ceremonial." In Argentina, for example, the trend overall is still towards greater centralization of government, and municipal authorities have been unable to carry out the one function that they have been given - municipal rate collection (Herzer, 1992). Short-termism is rife, management is weak, and accountability is very low. This is a crucial factor, since as Herzer (1992, p. 33) concludes: "the crux of the matter ... lies in the decision-making process - the destination and application of resources and therefore the kind of political relationships prevailing in those cities." It is very difficult to envisage an effective government response to the demands of public/private partnership in conditions like these. In Ankara, Tokman (1992, p. 32) cites the lack of a "project approach" at both central and municipal government level as a significant barrier to success in the Batikent cooperative housing programme. In other words, there was no overall coordinating mechanism in government that could have ensured that all the different elements of the programme worked together effectively.

A third area which is relevant here is the attitude of government staff towards partnership, and especially their attitudes towards NGOs and community-based organizations. A recent report on NGO -government cooperation for UNCHS (1992c) concluded that attitudinal change throughout government is essential if government and NGOs are to work together effectively, as required by public/private partnership. Partnership requires attitudes of openness (to new ideas and ways of working) and flexibility (to respond to different interests and organizations), but these are not the attitudes of many government bureaucrats. These attitudes need to be changed if partnerships are to gain more ground, but this is bound to be a slow process. Of course, it is not only government that has to change - this applies equally to the commercial private sector (in developing a more philanthropic outlook) and the third sector (in adopting a more realistic attitude towards commercial interests). At root, this is a reflection of differences in ideology at a deeper level over the real meaning of the "enabling approach ", and the real purpose of public/private partnership in low-income shelter. This theme is taken up in the Conclusion to this report.

In summary, there is much to be learned from analysing the common threads which underlie the success and failure of public/private partnerships in shelter. Bearing in mind the difficulty of generalization and the importance of context, the most important factors leading to successful partnership are strong national and local government (to oversee the terms of engagement and prevent excessive gains); strong mediating organizations (usually NGOs, to manage the difficult relationship between people, government and the commercial private sector); a high level of coordination between the partners and integration among different aspects of the shelter process; concrete benefits to all the partners in the relationship; the right macro-level conditions; and a programme- rather than a project-based approach which concentrates on creating the right framework for partnership across the city.

In contrast, the following factors undermine public/private partnerships and need addressing if NGOs, government and commercial interests are to cooperate more effectively: problems of scale and

cost (most partnerships are very small in scale and are often too expensive to be sustainable or replicable); problems of access (since many partnerships, particularly those involving the commercial private sector, are not affordable to the poorest 30 to 50 per cent of the urban population); and problems of politicization and weak government capacity at both central and municipal levels.

## Chapter VII. Conclusions and recommendations

What, then, can be concluded from the rich diversity of experiences presented in this report? Given the preliminary nature of much of the evidence, and the youth and comparative rarity of public/private partnerships in most developing countries, conclusions and recommendations must necessarily be fairly speculative. Chapter II emphasised the value of partnership in combining the comparative advantages of public, private and third sectors in enabling shelter strategies. What is needed, and this is an uncontroversial point, is anew and more creative synthesis of State, market and people which enables the three sectors to relate to each other in a mutually-supportive way, and in the process enables the "whole to be greater than the sum of its parts." But the precise nature of the partnership and the balance between the three sectors changes from one situation to another, and varies according to both context and objectives. Some forms of partnership seem to be more suited to particular aims and objectives than others; some to particular income groups; and others to particular contexts. In reality, all partnerships are unique, and one clear conclusion of all the experiences reviewed in this report is that there are no "magic formulae" which enable successful public/private partnerships to be expanded or replicated.

However, in developing countries it remains the case that (by necessity, if not choice) poor people themselves are best equipped to produce and improve their own shelter to a standard they can afford, at a pace they can sustain, and to a higher level of quality than could be attained by either public provision or commercial development. None of the partnerships described in this report contradict this established conclusion. However, it is well known that the process of shelter development by the poor themselves has to be supported and facilitated by other actors and institutions if it is to be successful on the necessary scale. This is a key element in the enabling approach to shelter - the creation of the right frameworks within which the resources and energies of people can be harnessed most effectively. Support is required in three key areas: shelter inputs, services and infrastructure, and mediation. It is these areas which the poor cannot address solely through their own efforts, because they lack the economic and/or political power to develop every aspect of their own shelter. Public/private partnerships provide a mechanism for assisting the urban poor in dealing with these aspects of the shelter process, areas which almost by definition require joint action. Hence, the most important partnerships from the viewpoint of low-income groups are those which facilitate the supply of essential inputs into the shelter process (especially land and finance); which develop basic services and infrastructure that the poor cannot develop for themselves; and which enable low-income families to interact effectively with the wider political and economic environment so that they can secure lasting improvements in their shelter standards. Therefore, the key relationships in most of the partnerships affecting low-income shelter are those which develop between people, third-sector organizations and the public sector. NGOs and CBOs playa key role in mediating between people and state, while government is the only institution capable of ensuring access to shelter inputs on the scale required. In terms of returns to investment, public/third-sector partnerships are likely to yield many more benefits than any other form of partnership, and it is. here that governments and donor agencies should focus their attention.

Where, then, does this leave the last of the three sectors - the commercial private sector, or market? Although there are examples of successful partnerships involving commercial interests at higher levels of income (such as the Joint Venture Program in the Philippines, and the Batikent experience with housing cooperatives in Turkey), and occasional examples of effective interaction between low-income

groups, NGOs and the commercial private sector (particularly in the areas of credit-provision and land-sharing), by-and-large there is little scope for extensive collaboration between these sectors at low levels of income. The reasons for this rather depressing conclusion are fairly obvious: it is extremely difficult for the commercial private sector to generate the returns on investment it requires at such low levels of income, unless it resorts to behaviour or conditions which are exploitative (as for example in the private rental markets of Nairobi or the inner cities of North America). Clearly, this is not to be encouraged. The "needs/demand gap" which lies behind the problem of low returns means that, unless exceptional conditions apply, there is little to be gained for the commercial private sector from partnerships with the poor. Among these conditions are competition for land occupied by low-income groups in areas of the city which are attractive to private capital (this is why land-sharing works on a small scale in cities such as Bangkok); guarantees from government and/or international donors of a minimum level of return and a maximum level of risk (as in many credit schemes for low-income borrowers which are taken up by commercial banks); and coercion so that commercial private developers are forced to act, or allowed to act only in return for some concessions to the poor (as when a private company is only allowed to undertake redevelopment on condition that a proportion of dwellings are destined for a particular income group). In addition, there is a small number of partnerships which are made possible because private companies adopt a more philanthropic attitude towards the poor, as in the case of the Carvajal. Foundation in Colombia. At the very least, this should encourage an attitude of realism in relation to public/private partnership and ensure that partnerships are not seen as a panacea for shelter problems around the world.

Of course, partnerships involving the commercial private sector are extremely important at higher levels of income, and should be encouraged wherever possible because of their contribution to the shelter process overall. By expanding the housing stock at this level, partnerships can alleviate pressures lower down the income distribution and help to prevent shelter destined for the poor from being infiltrated by the better-off. As is the case with public/third-sector partnerships among the urban poor, partnerships at higher levels of income (such as the Philippines' Joint Venture Program) operate most effectively when they respect the comparative advantage of the commercial private sector in producing housing. The most successful approach used in the JVP (and in the Batikent cooperative housing programme in Turkey) is when government provides the land and the commercial developer undertakes all other aspects of the shelter process (Leynes, 1992, p. 111). It is worth re-stressing, however, that partnerships involving the commercial private sector are rare at low levels of income because there is a tendency (driven more by ideology than good sense) to think of partnerships as a' proxy for promoting "free markets" in shelter. This is not, of course, what is meant by the enabling approach, and is a very limiting definition of the objectives of partnership. If partnership is seen only as a way of increasing commercial private-sector involvement in housing then it is likely to lead to a reduction in the housing options of the poor, for the reasons given above. These worries are echoed by John Turner (1992, p. 17) when he writes that "in high-income industrialized countries, as well as in those still undergoing rapid urbanization, supra-local, corporate interests appear to be gaining more from enabling policies than those they are meant to support." In other words, without strong links with NGOs and government, the urban poor are likely to lose out to more powerful interests in housing markets which are liberalized under conditions of large-scale inequality. This is why public/third-sector partnerships are critical to the poor, and why partnerships with commercial interests are much less important.

Some conclusions are, however, common to all types of partnership at every level of income. First, the great majority of public/private partnerships are small in scale and face difficulties both in scaling up and in ensuring sustainability. Secondly, some of the most successful partnerships have focused on changing laws, regulations, policies and attitudes so that change is effected above and beyond the confines of a particular neighbourhood or area of the city. In this way, the flow of inputs (especially land and finance) into the shelter process can be increased and the commercial private and third sectors can

concentrate on what they do best - the production and improvement of shelter - in a more supportive framework. In this sense programme-based partnerships are more effective than project-based partnerships. This is not to say, however, that partnerships which restrict their attention to a particular neighbourhood should be discouraged; in many cities (particularly in developing countries) they may represent the only realistic option. However, the costs to the State (in the form of subsidies, lost revenue or management) incurred in heavily administered partnerships need to be evaluated carefully in relation to the benefits derived.

Thirdly, macro-level conditions are all-important. Partnerships cannot work effectively unless the political, economic and cultural framework in which they are situated is favourable. There is no substitute for economic growth (to generate an increasing flow of resources into the shelter process), liberalization (with adequate government safeguards to prevent speculation), and democratization (to promote popular participation and protect the role of third-sector organizations). Decentralization is also vital to the health of municipal government, which plays the key role in overseeing the development of successful public/private partnerships. Strong government and effective NGOs are key elements in most effective partnerships. Having said this, it remains the case that all partnerships are unique and that context is always important.

A number of recommendations emerge from these conclusions about how to strengthen public/private partnership in developing countries. Because of the preliminary nature of much of the evidence on partnerships, these recommendations are necessarily limited in scope.

1. Attention must be focused on strengthening different levels of government so that they are able to play their role in facilitating public/private partnerships more effectively. Government roles should emphasise greater efficient coordination at all levels within and across sectors and functions, and enable government to interact more effectively with communities at the grassroots level. Strong government is essential if partnerships are to work in away which is genuinely beneficial to the interests of the poor. The level of sophistication required to maintain the right balance between intervention and liberalization in the housing market is very high, yet this balance is the key to the enabling approach to shelter. Donor support to initiatives such as the UNDP/UNCHS/World Bank Urban Management Programme is therefore essential.

2. It is not sufficient, however, to strengthen one of the partners in a relationship without also supporting the others. There is nothing wrong in promoting commercial private interests so long as government can prevent speculation and profiteering. But this should not be done without also strengthening NGOs and community-based organizations, since without them partnerships involving poor people themselves will be very difficult to operate effectively. Third-sector institutions play the mediating role which is central to partnership, but government needs to guarantee their "political space" and allow them to work freely.

3. Consideration of the potential of the third sector leads on to an intriguing possibility which is beyond the scope of this report, but deserves mention anyway. This is the potential of new forms of organization which move beyond the limitations of public and commercial private sectors as currently defined, to create a fresh synthesis of the two. Underlying discussions about partnership and the factors which work for and against successful cooperation are a deeper set of questions about the future of market, State and people. What possibilities, are offered by the transformation of current institutions into new arrangements which enable the traditional goals of markets (to create wealth) and of states (to distribute it) to be combined together? Some commentators see this as a realistic option, indeed as the only option capable of securing adequate shelter for all in the long term. John Turner (1992), for example, contrasts the objective as he sees it of the World Bank and other donors to "incorporate community-based initiatives into the corporate market" with the radical alternative of "transforming the

market through community initiative." Turner uses the example of the Grameen Bank in Bangladesh to illustrate the possibilities of developing a new system which builds on the strengths while neutralizing the weaknesses of the private market - viable, sustainable, yet affordable to the very poor and controlled by them. Whether this is an accurate assessment of Grameen is another matter, but the point remains that partnership offers the potential of blending the strengths and weaknesses of public, commercial private and third sectors together in anew way, instead of merely facilitating cooperation between them. This is a possibility which deserves more attention in the shelter research agenda.

4. Public/private partnership is a subject in which ideology sometimes threatens to outweigh the evidence. It is vital, therefore, that different forms of partnership in different contexts are monitored effectively, so that their real impact can be assessed and the lessons of experience recorded and fed back into shelter policy. At present, the subject of partnership rarely appears on research agendas, yet this is an issue of vital importance to the future of the enabling approach to shelter.

In summary, public/private partnership is not a panacea for the shelter problems facing the urban poor. In the right circumstances, it can provide an effective mechanism for improving the shelter options of low-income groups, but so far partnerships have been limited in scale and reach. Nevertheless, their potential for the future is huge, and the challenge for the international community is to ensure the right environment within which partnerships can flourish. Governments, with support from international donors, must ensure the flow of shelter inputs and generate the legal and regulatory framework required to release the resources and energies of the poor in developing their own housing. It is in this sense that public/private partnerships represent the key to the Global Strategy for Shelter to the Year 2000.