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SOCIAL AND ECONOMIC BENEFITS

OF THE DEVELOPMENT OF HUMAN SETTLEMENTS

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Executive summary

This discussion paper reviews the role of human settlements development in the broader socio-economic development context of the UNECE region, with particular focus on the countries of Eastern Europe, the Caucasus and Central Asia (EECCA) and South Eastern Europe (SEE). It reviews the main elements of the current global development strategy through focusing on three Millennium Development Goals (MDGs): poverty reduction, environmental sustainability, and partnerships for development. It traces human settlements and the impact of their development on the ability to achieve the MDGs with particular focus on the three pillars of the UNECE Committee on Human Settlements work: (a) housing, (b) land (real estate) administration, and (c) spatial planning, and their interaction.

With regard to poverty reduction, the paper recommends a new focus in human settlements development, with improved utilisation of existing urban infrastructure and housing assets, and improved targeting. Financial sector, land management and spatial planning constraints should also be addressed. These elements should be present in a national poverty reduction strategy.

It is further argued that the above new human settlements development focus will also support efforts towards environmental sustainability, in so far as it leads to improved utilisation of existing land and housing assets, energy efficiency and reduced environmental degradation (water and air quality), particularly in urban areas, as it results from industrial and vehicles emissions, and from inefficient patterns of spatial consumption.

Institutional and governance reforms are critical in ensuring that these potential gains are actually realised. Public/private partnerships will be a central element. The paper argues that the public sector needs to focus on its role of enabler, with local governments bearing the brunt of making markets work, and with households, communities and the non-profit sector being the major primary actors along with the commercial private sector. A major capacity-building effort will be required to ensure that all parties, particularly in the EECCA and SEE countries, will be able to play their proper roles.

Neglecting human settlements development leads to continuation of market imperfections, particularly in the EECCA and SEE countries, that the public sector has generally not been able to redress. Areas singled out for urgent remedial action are the hasty and massive privatisation of the housing stock and the lack of its management, as well as the emergence and growth of informal/illegal housing, and other problems, such as corruption in the construction sector, lack of viable housing finance systems and land supply constraints, all of which increase transaction costs and prices for land and housing services. The drag on economic growth, constraints on social equity and potential for social unrest resulting from such neglect are serious policy considerations for policy makers.

Introduction

1. The discussion on the importance of human settlements development for the national economy and social cohesion is timely for the purpose of enhancing the understanding of the relationship between housing production and consumption, and land administration and spatial planning on the one hand, and socio-economic development, on the other hand. In recent years, these issues have not been reviewed by the UNECE Committee on Human Settlements in detail, and therefore it was seen as timely to have such comprehensive discussion. Moreover, in 2005 the official UN-HABITAT theme for World Habitat Day is “The Millennium Development Goals and the City”.

2. Out of the eight MDGs three are broad-based, with significant scope for human settlements development, and address the following areas of concern:

Goal 1: To eradicate poverty (or at least reduce it);

Goal 7: To ensure environmental sustainability; and

Goal 8: To develop partnerships for development.

The paper addresses each of these three areas of concern by reviewing its human settlements dimension. Each section ends with a series of issues for discussion.

I. POVERTY REDUCTION

A. Regional setting

3. The UNECE region is characterized by several features that set it apart from the other regions in the world in terms of options for poverty reduction: it is a relatively wealthy region split in the middle, with high per capita incomes and mature social support systems in the most advanced countries, and much lower per capita incomes and social support systems in flux in the other countries of the region, particularly in the EECCA and SEE countries.

4. The population of the UNECE region has slowly grown during the second half of the 20th century, has stabilised since the turn of the century, and is projected to gradually decline to 1970s levels by 2050. The population is rapidly ageing, with a median age of 39 in 2005, estimated to increase to more than 45 years by 2030. The region is highly urbanised with 73% of the population presently in urban areas, increasing to 80% by 2030 according to projections.

5. Employment has witnessed a dramatic decline in primary sector share over the period since the second world war, a rise and then decline in the secondary (industrial) sector and growth in the service sector. Unemployment levels have remained persistently high in most ECE countries since the early 1990s, ranging on average from 9 – 12 % of the labour force in EECCA countries, to 15 – 16 % in SEE countries. This in spite of an encouraging real per capita GDP growth for the EECCA and SEE countries in recent years: an annual average growth was, in fact, registered here in the period 2002-2004.

6. Consequently, poverty levels in EECCA and SEE countries have remained high, particularly in the EECCA region. It is estimated that between 30% and 60% of the population live below the poverty line and that income inequality has worsened since the late 1990s in a number of countries. According to recent estimates 50 million people remain in severe poverty (Economic Survey of Europe, 2004).

7. Social support systems in Western Europe have cushioned the adverse impact of unemployment for decades, but these systems are now seen to be inflexible and unsustainable, given the ageing of the population. In EECCA and SEE countries the social safety net has by and large unravelled in the transition period, providing very little effective protection against joblessness and disability. Expenditure on housing, health and education remains low by international standards, and in some cases has actually fallen despite the recent improvements in economic growth.

B. Poverty reduction and past role of human settlements development

8. Poverty is defined not only in terms of below poverty-line income, but also in terms of lack of access to social services, housing, community facilities, land tenure and justice. Poverty is often accompanied by inequality and social exclusion, and the poverty eradication agenda therefore strongly identifies with a social inclusion agenda.

9. Traditionally, economic growth, employment creation and redistribution of income have been seen as the mainstays of any poverty reduction strategy, and the human settlements sector has played a major role in that in post-Second World War Europe, particularly through the large post-war social housing programmes. These programmes, fed by relatively abundant public sector resources, played a major role, both on the demand and the supply side:

- (a) On the supply side, the relatively high income and employment multipliers of investment in housing construction (labour-intensive and with low import contents as compared to most other sectors) generated significant low-income jobs in the construction industry, the building materials industry and other supporting sectors;
- (b) On the demand side, the massive public and semi-public social housing programmes constituted a major instrument of redistribution of wealth to assist those segments of society that could not access socially acceptable levels of minimum housing provision on their own and needed public support.

C. Revitalisation of existing housing stock and urban infrastructure

10. By and large the rationale of the above approach is still valid today, even though construction is not such an outstanding creator of jobs as it was in the 1950s and 1960s. With an employment multiplier of about 1.9, investment in (residential) construction remains relatively attractive from an employment-generation point of view. However, the regional setting and nature of poverty described above has dramatic implications for the present options for poverty reduction in the ECE region, and for the role of human settlements development in that context:

- (a) Large scale social housing programmes are less attractive today in the face of declining populations, limited public-sector budgets, and privatisation of the housing stock in the countries in transition as well as the social housing stock in Western countries (e.g. in the Netherlands and the UK);
- (b) Such programmes are also more difficult to implement on a large scale, given scarcity of buildable land for new housing within spatial planning land utilisation constraints;
- (c) In addition, in the EECCA/SEE context the rapid, large-scale housing privatisation and impoverishment of the new owners has limited the ability to properly maintain sizeable segments of the housing stock at acceptable standards or renovate them.

11. In light of that, a focus on investing in improved utilisation of existing assets may be more appropriate, rather than investing in the development of new assets. Investments with high potential socio-economic return comprise the following:

- (a) Inner city revitalisation to reunite housing and employment opportunities – there are often opportunities for refurbishing existing apartment buildings in central locations close to employment opportunities;
- (b) Rehabilitation and upgrading of housing estates, particularly where hasty privatisation has led to serious maintenance neglect, and declines in asset values;
- (c) Legalisation and upgrading of informal settlements, which are rapidly growing in many countries in transition as a result of public sector failure in enabling land supply, land management, and land registration. In the absence of adequate public sector support, many people, particularly the poor, have not had any option but to house themselves informally/illegally, i.e. without planning and building permits, and mostly on under-served public land.

12. Focusing on urban revitalisation programmes should not be dominated solely by physical orientation. In fact, the main objective should be to improve the living conditions of the population, as inner cities and dilapidated housing estates are typically areas where a significant proportion of the new poor live, as noted above. Another important aim should be the preservation of invested capital as well as the promotion of economic development by supporting the building sector.

D. Improve targeting

13. Given the socio-economic transformation in the EECCA and SEE countries and the limited public sector resources, there is an urgent need to better target poverty reduction interventions to the new poor. This include: the elderly, the handicapped and other groups that are victims of social exclusion, such as Roma, HIV/AIDS victims, drug addicts, asylum seekers and other migrants who find it difficult to adapt to their new surroundings and to obtain access to basic services. The need for such targeting applies to all poverty reduction measures, including those in the area of human settlements development. Many of the new poor in the EECCA and SEE countries are inadequately housed, either in the decaying public housing stock or in informal settlements. In many ECE countries (including Western Europe), homelessness in the urban centres has been on the increase over the past decade, and this phenomenon is pronounced among some of the above-mentioned social groups.

14. It is often politically not easy to target these groups because of their stigmatisation by an inward-looking electorate. However, it is imperative that such short-term considerations be overcome and replaced by attitudes stimulating social inclusiveness and practical measures to provide such disadvantaged groups with access to basic facilities and services. This must not be perceived as an act of charity, but as poverty-reduction measures, which will benefit the non-poor as well as the poor.

E. Constraints on financial sector support interventions

15. In Western Europe much investment, including residential investment, is financed through borrowing. Over time, credit facilities have increasingly been extended also to the poorer segments of society. The situation in the EECCA and SEE countries is radically different: credit financing of investment is much more limited, and where this occurs, loans are

usually short-term. Financial sector constraints, along with inadequate property registration and alienation processes and procedures, limit the possibility of utilising existing fixed assets as collateral for the financing of their upgrading and modification. Such limitations in capital financing opportunities are obviously felt most by the poor, who often have no other significant asset than the house they live in or the land they live on.

16. Financial sector constraints on long-term investment in fixed assets are primarily determined by the sources of funds flowing into the financial sector. In those countries where long-term sources of funds such as pension funds and/or life insurance companies are lacking, the financial sector will only be able to put a limited proportion of its resources into long-term investment, unless this can be done under government guarantee schemes and/or discrete project financing schemes through public bond offerings, which mitigate the risk of lending long-term for property investment while borrowing short-term.

17. Another possible direction for the financial sector is to reinvent a (group-wise) non-collateralised savings-and-loans approach. Such approaches are not new, as they have been used to finance farming investments in a range of European countries since the early 1900s. The approach is used in a variety of sectors in very different country settings, which all have one feature in common: restricted access to collateralised long-term loans. There is no reason why such non-collateralised (character) lending approaches cannot be used for housing/home improvement, as it is already happening to a limited extent. The essence is that a group member can only borrow if he/she is known to have saved for several years; peer pressure will suffice to ensure timely loan repayment. Governments may fiscally stimulate participation in such schemes or provide incentives to co-operative banks to establish such schemes.

18. In addition, there are significant human settlement-related constraints, which tend to limit investment financing opportunities, and these are primarily related to unclear land and property titles, limiting their use as collateral, as noted below.

F. Land management and spatial planning constraints

19. Local governments in the EECCA and SEE countries have not had adequate capacity to ensure planned development of new residential areas, servicing those with infrastructure, register land titles and ensure compliance with building standards through a functioning building permit system. Therefore, informal (technically illegal) settlements have grown in and around major cities without an overall development plan. In many cases residents in these settlements do not have recognised titles to the land on which they live, which is often public land gradually encroached over time, and on which there are sometimes restitution claims dating back to pre-socialist days. Even where land titles are clear, as a matter of principle, these titles may not be negotiable or collateralised in the absence of clear, transparent and accessible plot measurements and cadastral registration arrangements. Such informal settlements often suffer from inadequate social and physical infrastructure and facilities, aggravating living conditions. This points to public sector failure in spatial planning, provision of infrastructure and urban land management, all typically local government functions, the performance of which is often seriously hampered by significant capacity constraints in countries in transition.

20. Moreover, a sizeable proportion of the population in countries in transition (sometimes as high as 30% nationally) lives in illegally built houses (i.e. built without a building permit) in either regular or informal settlements. Types of illegal housing (including the addition of an extra floor on top of existing apartment buildings) and its causes vary significantly. One cause is the failure of the public sector to establish an effective system for issuing and enforcing

building permits. Another cause is social exclusion, which hampers access of the new poor to such systems. However, a sizeable segment of illegal buildings has nothing to do with poverty, but has simply emerged because of the inability of governments to enforce building codes, leading to profiteering.

21. It is clear, however, that particularly the poor and other disadvantaged group are often pushed to build in environmentally sensitive locations (e.g. close to water sources, or in natural disaster prone areas), due to shortage of suitable building land in appropriate locations. This points, once again, to public sector failure in spatial planning, provision of infrastructure and urban land management, all typically local government functions, which are often hampered by capacity constraints.

22. Enhancing local governments capacity in these areas not only helps to set up better land management and planning systems, but it also indirectly supports the reduction of poverty, as it enables the poor to make better use of their existing assets, while deflecting their investment decisions away from unsuitable locations or land.

G. Issues for discussion

- (a) In the UNECE region, poverty needs to be redefined in terms of specific vulnerable groups amenable to targeting for specific poverty reduction interventions, i.e. through human settlements development;
- (b) Given the situation of the new poor and the overall socio-economic environment in the ECE region, a new investment approach is required in human settlements development to support poverty reduction, focusing on improved utilisation and upgrading of existing assets, rather than on construction of new ones. This could include revitalisation of inner cities, rehabilitation and upgrading of social housing, and (for countries in transition) legalisation and upgrading of informal settlements;
- (c) Financial sector interventions in support of human settlements development are constrained by the level of maturity of the financial sector itself (the ability to lend long-term); by human-settlements related limitations in land title registration and marketability, by limited, appropriately designated land supply and by constraints on a well-functioning building permit system;
- (d) Land management, spatial planning and building control are typically areas of local government concern, and local capacity constraints in this regard are significant in many ECE countries, particularly in the countries in transition. Overcoming these constraints is, in any event, imperative as indirect human settlements support action in poverty reduction;
- (e) The international community must support the countries in the region, particularly countries in transition, in their efforts to reduce poverty through human settlements development along the above lines.

II. ENVIRONMENTAL SUSTAINABILITY

23. Under MDG 7, three Millennium environmental sustainability targets have been agreed. One (target 9) is to integrate principles of sustainable development into country policies and programmes and reverse the loss of environmental resources. The other two (Targets 10 and 11) are clearly human settlements development targets:

- (a) Target 10: To halve, by 2015, the proportion of people without sustainable access to safe drinking water and the proportion of people without access to basic sanitation;
- (b) Target 11: To achieve by 2020, a significant improvement in the lives of at least 100 million slum dwellers.

24. While these targets have obviously been formulated with the developing regions of the World in mind, they are also of importance for the UNECE region. Although urban areas have higher levels of services, close to 3 million people in European cities lack access to safe drinking water and 8 million to adequate sanitation. Moreover in countries in transition drinking water frequently fails to meet the required standards.

A. Environmental concerns

25. Environmental concerns relating to human settlements can be categorised in several subsets. One is environmental degradation (water and air quality), particularly in urban areas, resulting from industrial and vehicles emissions, due to spatial patterns of human consumption. These emissions represent direct health hazards and have adverse effects on the global environment, i.e. through their negative impact on the ozone layer and the resulting global warming. In the ECE region, several large cities and conurbations straddling national boundaries are subject to fine particle emissions, resulting in significant health hazards and loss of life, which could be avoided through improved environmental management. National boundaries are irrelevant in this case, and tackling these problems therefore requires a supranational approach, through international agreements and co-ordination of emission standards and their enforcement. This concerns not only the most advanced countries. In countries in transition pollution from vehicle emissions has increased disproportionately, due not only to the rapid increase in the numbers of vehicles, but also to their age and maintenance conditions as well as to inadequate tax structure, poor inspection requirements and persistent use of leaded fuel.

26. Another major environmental concern related to human settlements development is the generation and utilisation of energy. Fossil energy resources are finite and their utilisation contributes to the kind of emission issues noted above. Of the total energy consumption, about 40% is absorbed by the housing sector, particularly heating and cooling equipment, often in an energy-inefficient manner.

B. Land use, spatial planning and environmental considerations

27. Apart from establishing and enforcing industry and vehicle emission standards, decisions on location have a fundamental impact on levels of emissions and energy use. At national and city-region level, spatial planning and land use zoning decisions have an impact on the design of the modal split between public and private vehicular transport and related infrastructure requirements. Compact cities are potentially more environmentally friendly, but may be more energy-intensive than dispersed human settlements, due to air condition systems, underground rail systems, parking lots, etc. Conversely, the way household mobility evolves (e.g. daily trips to work, school and shopping facilities) and is influenced by government environment policies, will have a major impact on the spatial pattern of human settlements and housing demand. Such considerations have dominated, and will continue to dominate, national and regional spatial planning guidelines and their potential for implementation and adoption. The highest level of spatial planning hierarchy (i.e. the national level) is particularly important in that regard, since it can stimulate and influence national policy debate on these issues.

28. Similar considerations are at issue at town and neighbourhood level, but more from the point of view of implementing, promoting and enforcing national spatial planning and land use policies and guidelines, and translating these into local plans to enable compliance with environmentally friendly and compatible land uses.

C. Energy saving in human settlements development

29. During the past decades, major innovations have been introduced in the UNECE region with regard to energy saving devices and generation of clean, sustainable solar energy in homes. Further improvement in water and home heating and cooling systems in housing units (and other buildings) will be required to make them more energy-efficient, as technological advances increasingly bring such systems within reach of the consumers.

30. A major issue is the introduction of such technologies to consumers and the establishment of financial mechanisms and incentives to encourage their adoption. This is particularly important in the EECCA and SEE countries, where there is often no link between the energy costs payable by the housing consumer and the amount of energy consumed.

31. In the context of the above-mentioned noted approaches to improve the utilization of existing assets, a focus on energy saving in renovating inner city areas and rehabilitating housing estates is therefore particularly important. Simple techniques for measuring and charging for energy use will need to be introduced, as well as ensuring that actual energy use in housing units can be determined (or in the case of city heating, at least regulated) by the individual households themselves.

D. Environmental hazards in the construction industry

32. Such hazards partly comprise emission issues, for which industry emission standards have been defined and are upgraded from time to time such as in the EU context. The main problem is one of adoption and enforcement, particularly in the EECCA and SEE countries. The same applies to the issue of energy utilization in construction and use of energy-efficient building techniques and building materials.

33. Dissemination of information on technological developments and cost of technological improvements is an important contribution that the international community must continue to make through the various international building information centres' networks.

34. Similarly, codes of conduct for working conditions in the construction industry to reduce occupational risks and unsafe working conditions must be applied and promoted.

E. Sustainability appraisal and strategic environmental assessment

35. In order to translate the above environmental sustainability concerns into practical actions at different levels of government, environmental sustainability appraisal and strategic environmental assessments may be used with regard to specific projects, local operational plans and investment programmes. This will ensure that such projects, plans and programmes will be scrutinized not only from socio-economic perspectives, but also from a clear and explicit environmental sustainability perspective prior to their approval.

36. The level of sophistication of such assessments will vary depending on the nature of projects and programmes, and their sizes. In an increasing number of countries environmental impact assessments have become standard and mandatory tools in the preparation and appraisal

of feasibility studies for capital investment, but this is less common at the strategic programmatic level. A range of international environmental support programmes have provided tools and guidelines for such assessments. In the EECCA and SEE countries particularly, there is a major need for dissemination of information and training in this area, in conjunction with broader programme and project appraisal techniques.

F. Issues for discussion

- (a) Environmentalists and policy makers often do not fully appreciate the environmental impact of spatial planning decisions, which means that macro spatial planning is not getting the policy attention it deserves. Consequently, national and regional spatial plans or strategies are mandatory policy instruments only in a limited number of countries in the ECE region, and in those the environmental trade-offs of different spatial planning scenarios are often not well articulated;
- (b) There is an urgent need for awareness-raising with regard to such linkages, with the objective of making spatial planning strategies more environmentally sensitive and mandatory throughout the region, particularly in EECCA and SEE;
- (c) The potential for energy saving in new housing development, and more importantly, in housing stock rehabilitation, has not received sufficient policy attention, particularly in EECCA and SEE. An energy saving section should be incorporated in all national and local housing policy action plans and programmes to ensure that this element will be a priority housing policy agenda item;
- (d) Energy saving measures in housing will have most impact, particularly in EECCA and SEE if they go hand in hand with reforms in energy consumption measurement, energy pricing policy and billing arrangements. Persistent public information campaigns are essential. Fiscal incentives related to the purchase of energy-efficient housing and household heating and cooling devices will have a major impact in countries with well developed fiscal systems.

III. PARTNERSHIPS FOR DEVELOPMENT

A. The role of government in human settlements development

37. The appreciation of the role of government in human settlements development has gone through cycles during the last few decades. During the 1960s and 1970s significant reliance was generally placed on a strong leadership from central government. In the former socialist countries central government lead role was unquestioned as a key element in the social system at that time. In Western Europe, after the Second World War, central government was generally seen to have pre-eminence in policy making, as well as in programme and project development and implementation. This was partly due to the perception that most human settlements development inherently comprised the provision of public goods (infrastructure delivery and planning) or of “merit” goods (housing, housing finance and land development). In addition, the central government resource base was buoyant, and in the wake of the government-led post-war reconstruction the role of central government remained prominent.

38. During the 1980s the State reduced its involvement in the housing market, with increasing emphasis on decentralising roles and responsibilities in human settlements development to local and provincial governments. Around the turn of the century institutional responsibility for human settlements development was largely in the hands of local

government, with several notable exceptions: in the case of social rental housing, a lead role was given to private non-profit housing associations, as Western European governments disengaged from direct development and management of such housing – although local government continued to play a significant role in this sub sector. In other segments of the housing market and in housing finance, government influence had always been more indirect through regulatory measures and fiscal incentives. Since the early 1990s a more varied picture has gradually emerged, with significant public-private partnerships (PPP) in major infrastructure works, public utilities development and management, and area development and redevelopment.

39. In planning, and in infrastructure and land development, local government's role increased significantly, and central government's role declined. While central government's policy-making role continued, this was no longer backed up by the same amount of financial resources as in previous decades, even though new policy concerns emerged, such as inner city renovation, housing rehabilitation and environmental concerns related to human settlements.

40. When countries in transition opened up in the 1990s, similar tendencies emerged, albeit less planned. The government's role was rapidly redefined in a relatively short period of time, also with a cyclical tendency: after a highly centralised system of government, a desire for minimal government control followed in the early to mid 1990s, accompanied by rapid, haphazard privatisation of public rental housing sold to sitting tenants, and in most countries prices were set very low. New regulations were introduced to strengthen the decision-making power of local governments: currently their role is better recognised although their capacities require significant strengthening. The housing privatisation scheme described above is increasingly being acknowledged as a mistake in terms of housing policy.

41. What appears to emerge in the UNECE region as a whole is a convergence in terms of letting market parties do what they are good at within a policy and regulatory framework set by the interplay of central and local government.

B. Public-private partnership

42. There are two prerequisites for a well functioning market system in human settlements development:

- (a) The private sector, including the financial sector, must have the entrepreneurial capacity and interest to deal with major housing, infrastructure, land and property development projects and programmes;
- (b) The government, particularly local government, must have the capacity to establish and enforce the policy and regulatory framework within which the private sector is to operate.

In practice these conditions are often not fulfilled.

43. In the EECCA and SEE countries, both the public and private sectors need to develop and mature further to ensure a balanced development pattern along these lines. The inadequacy of the private financial sector and limited local government planning and supervisory capacity are areas of considerable concern, while central government is not yet accustomed to elaborating an overall policy framework. Municipal finance systems are also underdeveloped, while central government has only limited capacity to provide fiscal incentives for housing and property development. Transparency and accountability of local government processes, such as

public land sale, public works and housing tenders, still fall short of international standards and need to be improved.

44. In Western Europe the public-private partnerships in housing, land and property development, and utility management have not been an unqualified success, primarily because the public sector (often local governments) has generally not been strong enough to adequately defend the public interest, and has not always understood which incentives, checks and balances were required for such partnerships function well.

C. Community-driven development and the non-profit sector

45. Throughout the region there is an interest in community-driven development to support the empowerment of particularly poor communities and provide them with citizen rights and responsibilities. Such development is demand-driven and therefore more responsive to community needs, but the consultative processes required to make this work in practice are by and large new to the EECCA and SEE countries. In Western Europe, conversely, community participation in local planning and development priority setting has been practiced extensively, even though community indifference vis-à-vis processes and procedures has emerged, given the often complex and tedious regulatory framework within which this is taking place.

46. Social housing in Western Europe is by and large developed and managed by non-profit housing institutions and local governments. These non-profit housing institutions have existed for a long time, generally established by labour unions, church groups, industry and neighbourhood associations. These institutions have increasingly been entrusted with using public funds to develop social housing, without direct government intervention and without restrictions to their acting as developers. In some cases these have merged and become large institutions managing tens of thousands of units, often in different towns: this has led to loss of identity and roots in the community. While ultimate motives may be different, social housing institutions have de facto assumed the functions of property developers, and some times have not managed to fulfil their prime purpose: developing and managing low-income rental housing. This is partly due to difficulties in accessing land in appropriate locations, to non-recognition of the new target groups, and also to a tendency to concentrate on new construction rather than on rehabilitation of existing housing.

47. In some countries in transition, the non-profit social housing sector existed until the early 1990s, e.g. through housing co-operatives, while in other housing provision took place through major (industrial) employers. After privatisation of the public and semi-public housing stock, the demand for rental housing is presently almost exclusively met through informal arrangements in regular housing areas and in informal settlements, as public housing for rent is now almost non-existent. Institutional arrangements for social rental housing are still in their infancy. In the privatised housing stock, meanwhile, major deferred maintenance problems, particularly of common spaces and facilities (corridors, roofs, elevators), have led to large scale dilapidation of apartment buildings. To overcome this and to avoid having to tear down such units on a massive scale, effective community-based, condominium-type management arrangements must be put in place, in conjunction with major repair and rehabilitation.

D. Capacity-building

48. The history of public-private partnerships in Western Europe, the evolution of the role of local government and of the non-profit institutions in human settlements over the last

decades demonstrate that capacities must be developed for such partnerships to succeed, and that this requires a major and sustained effort in terms of human and financial resources.

49. Given the more radical changes underway in the EECCA and SEE countries, major efforts are needed in building the capacity of all stakeholders in the human settlements development agenda. This applies to ministries dealing with housing, planning and the environment, to local governments not yet equipped to play their legitimate role, to the non-profit institutions, and to the emerging private sector players, who are equally not yet equipped to play their role in the social market environment: contractors, consultants, surveyors and financial institutions.

50. Training and research institutions, educational institutes, local government academies, planning, architecture and engineering faculties in universities in the EECCA and SEE countries are not geared to preparing their graduates and trainees for this changed environment. There is therefore an urgent need to invest in specific curricula, training materials, internships, exchanges of best practices and other learning tools to accelerate their comprehensive knowledge.

E. Issues for discussion

- (a) In human settlements development, the government should continue to play the role of enabler. This applies particularly to the national government whose main focus should be policy setting and policy implementation monitoring, along with its responsibilities for national spatial and environmental planning. Local government should play an operational role through support actions related to land supply, local spatial planning and infrastructure delivery, as well as through a conducive regulatory framework;
- (b) Individual households, private sector agents and not-profit institutions will continue to determine the way human settlements will evolve. Public-private partnerships have obvious potential benefits, which are not easy to reap in practice, as they require understanding of each of the partners' role;
- (c) Capacity constraints are a major obstacle in countries in transition. Practical programmes to overcome such constraints must be developed.

IV. THE ECONOMIC AND SOCIAL DEVELOPMENT COSTS OF NEGLECTING HUMAN SETTLEMENTS DEVELOPMENT

A. West European perspectives

51. In most Western European countries human settlements development has generally been seen as an integral part of socio-economic development. The relative importance of the different aspects of human settlements development has varied over time. For instance, the housing sector was a very high priority in the post-World War period until the late 1960s, when it was felt that quantitative housing shortages had been overcome. Subsequently, more attention was given to overcoming qualitative housing shortages, to integration of housing finance in financial sector policies and to providing fiscal incentives. Something similar has happened with planning, although this has always been from a perspective of the social and economic benefits of a well-integrated human settlements sector as part of the overall social fabric.

52. Recently, limited integration of vulnerable groups and immigrants has become a central policy concern in many West European countries, and it is clear that spatial planning, land administration and housing policies have a major role to play in this area. Neglecting an inadequate response would reinforce the formation of ghettos, which is potentially explosive both socially and politically.

53. In the context of European integration, human settlements development is not yet seen as a major policy area of concern and a vital element for the accession of the next group of aspiring EU members. However, some elements of human settlements, such as the environmental footprint of conurbations that spread across national boundaries, clearly have a supranational character. Differences in social housing policies, fiscal treatment of housing and housing finance also cause friction, particularly in the Euro zone, and this calls for a European approach to such issues with a view to gradual harmonization of policies.

B. The EECCA and SEE perspective

54. Seen from the EECCA and SEE perspective, the human settlements situation is much more alarming. With very rapid social and economic transformation taking place during the last decade, very little attention has been paid to the need to replace the former centrally driven human settlements development policies and programmes with alternative policies in the emerging social market environment.

55. The tendency has been to leave this sector to the emerging, very imperfect, market forces and in some countries the social and economic consequences of that have already become evident:

- (a) The hasty privatization of the former public housing stock has left unclear responsibilities in the management of sizeable segments of the housing stock in many countries, particularly with respect to the management of common spaces and facilities, such as roofs, staircases and elevators in multi-storey apartment buildings. A sustained process of decay has resulted, which will ultimately damage the buildings concerned beyond repair. It goes without saying that the socioeconomic costs of this neglect are huge, and immediate remedial action through introduction and enforcement of condominium legislation is essential to stem further decay.
- (b) This privatization has also wiped out the rented segment of the housing stock; those whose preferred housing option, for whatever reason, is rental housing, now largely depend on informal arrangements with all the attendant social costs.
- (c) An increasing share of the urban population now lives in under-serviced informal settlements (in some countries housing as much as 30% of the urban population), where inadequate infrastructure and lack of secure land tenure stifles socioeconomic participation of their inhabitants in development. Moreover, even though developing infrastructure after buildings have been erected, and regularising land use and land tenure post-facto, is undoubtedly more efficient than demolishing and reconstructing those buildings, it is still more costly than if such settlements had been developed in a planned fashion, and in consonance with established policies and programmes.
- (d) The proportion of illegally constructed housing has grown rapidly, primarily because planning, land management and building regulations have not been updated and cannot be enforced adequately – the social and economic costs of demolition of such illegal buildings in case of structural or environmental hazards is significant.

- (e) Malfunctioning of the market has led to corruption in the construction sector (which reduces the quality of construction and increases construction costs), and to the absence of viable housing finance mechanisms. Similarly, inadequate land management systems have led to very limited land supply in the market and high transaction costs. All this results in very expensive accommodation which most of the population cannot afford: people are therefore driven to look for informal solutions.

56. Considering that human settlements development typically absorbs two-thirds of national investment (in fixed assets, as against movable assets such as machinery, vehicles and stocks), the problems described above represent a major obstacle to economic growth and to more equitable distribution of social and economic opportunities. Consequently, the social and economic costs of neglect in this area are high; it is therefore in the national economic interest to rectify these debilitating constraints on the proper functioning of markets. Moreover, failure to address the deterioration of the existing housing stock and municipal services can lead to social unrest.

C. Issues for discussion

- (a) Lack of housing and urban development policies and programmes at national level in countries in transition, have led to major neglect in the human settlements sector with dangerous consequences. Human Settlements policy development is urgently required to identify priority actions and initiate remedial actions;
- (b) Informal settlements upgrading and legalisation is inevitable in a number of countries in transition, as the only realistic way to rectify the past failure of public policy in this area. Such action will have to be accompanied by large-scale, new development to provide alternatives to informal settlement development;
- (c) Improved land management, urban planning, infrastructure development, and building control efforts are essential to address the problem of illegal buildings in countries in transition and to support the options described above. A major capacity-building effort, primarily at local government level, is required to make this happen;
- (d) Introduction, enforcement and implementation of condominium legislation is a matter of urgency in most countries in transition, along with major rehabilitation programmes, in order to arrest decay in privatised former social housing estates;

Conclusion

57. Despite the notable economic success of major urban centres in the UNECE region, today, globalization has exacerbated social polarization and urban poverty. It is however acknowledged that problems associated with environmental degradation, and social and economic polarization are concentrated in cities. There is also growing recognition that reforms to address these challenges need to focus simultaneously on economic and social issues. This implies new models of governance with decentralization of responsibilities from the State to the local level, democratization of the decision-making process and effective public consultation.

58. In countries in transition, the move from centrally planned to market-based economies has added another layer of complexity to the development of cities. The integration of these economies within UNECE markets has offered significant opportunities for greater economic prosperity and social well-being of urban residents. Cities of countries in transition have remained centres of economic growth, technological innovation and cultural diversity.

However, in many countries social security has declined considerably and fiscal constraints have eroded the quality of the social infrastructure and social services. These challenges have become particularly significant in large urban centres where the decline in living conditions is accompanied by rapid social polarization and increasing poverty.

59. The rise in urban poverty is one of the most serious concerns in the region. While poverty, social exclusion and inequality are much more pronounced in the countries in transition, they have become an integral part of the social landscape of large metropolitan areas across the UNECE region. These problems jeopardize efforts to achieve prosperity and improve the quality of life. The urban poor are especially vulnerable to economic shocks; they lack access to services, safety nets and political representation. Recent experience suggests that the best way to meet their needs is through new patterns of democratic governance that are people-centred and socially inclusive. In the urban arena this reorientation implies a new generation of municipal policies – spatial planning, housing, transport and delivery of urban services – that promote social equity and community bases.

60. In spite of increased policy legislative and institutional reforms, housing policy in countries in transition has failed to keep up with the market. For instance, there is a lack of comprehensive programmes and incentives for maintenance and renewal of the existing stock, which leads to further disinvestment and lower standards. Furthermore, social housing is low on the political agenda. Given the climate of fiscal constraints and concerns about budget deficit, there is a growing preference for market solutions. Future housing policy makers need to develop strategies that are both workable and financially viable. Subsidies need to be better targeted and transparent. The justification behind government involvement is the need to encourage investment in this sector, enable markets to work more efficiently and help marginalized groups access affordable housing.

61. The opportunities for the public sector to provide social housing have been limited as a result of massive privatization. Local authorities are left with the worst part of the stock. Most countries have discontinued the provision of new social housing. Experience during the past decade indicates that governments have failed to integrate social housing reforms into the wider process of welfare restructuring. It is difficult to maintain social services during fiscal austerity but, at the same time, it should be perceived as critical for the reproduction of social capital, for the quality of life and economic growth.

62. Furthermore, the transition has impoverished the population and increased income inequalities. One of the reasons for the poor maintenance of multi-family buildings is the difficult financial situation of tenants and owners. In most cases, the cost of housing-related services has increased faster than incomes, which has resulted in accumulated arrears. Governments need to assist lower-income groups by better targeting demand-based assistance and providing financial incentives for investments in energy-efficient renovation.

63. Urban land privatization also continues to be a challenge: land prices in most urban markets have become more fragmented, reflecting differential opportunities for development and profit. The normal urban administration of physical planning, zoning and land registration to adequately manage a dynamic process of ownership transformation is rarely in place.

64. The housing sector should be seen as a key component of the productive sector of the economy and used as a tool to drive economic growth. The justification for government involvement is the development of a strategy which encourages investment, enables markets to function efficiently and helps marginalized groups in society to access affordable housing

65. In order to achieve those objectives a new approach is required. This should include assessments of available resources (e.g. what the nation, consumers and local government can afford in terms of land, finance and infrastructure) and housing needs both in terms of quality and quantity of accommodation. Local housing agendas need to be developed to address local priorities, mobilize resources and assign responsibilities to various parties in the provision process. However the reality proves to be more complex. .

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