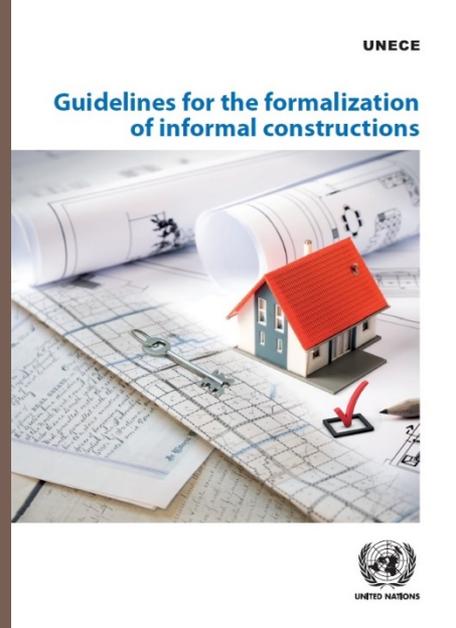




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FORMALIZATION OF INFORMAL CONSTRUCTIONS AS A TOOL FOR POVERTY ALLEVIATION & SECURITY

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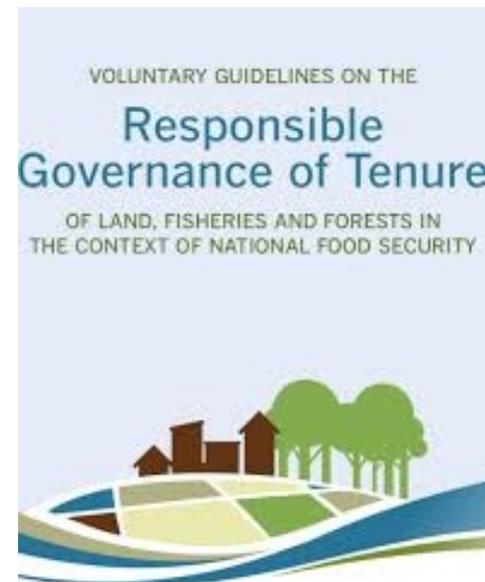
How to deal with informal development

- Governments are challenged with **the problems of informal urban development** and **preventing future informal construction**.

Ignore, demolish or formalize?

Existing informal settlements, if possible, need to be quickly formalized and integrated into the economic circle affordably and inclusively, for reasons directly related to the SDGs.

The challenge of eliminating their **future informal recurrence** is complex, requiring comprehensive land policy and economic reforms and good land management. These include *property registration, pro-growth planning, flexible permitting, planning for affordable housing, property valuation, funding mechanisms, professional education, professional standards and ethics, an inclusive role for the private sector and other measures to establish a well functioning and transparent real estate market.*



Why Formalize & the Impact of Doing Nothing

- *A stable and transparent framework for transactions is vital for any national economy, bringing greater economic growth and economic freedom to its inhabitants.*
- *One major step in achieving the UN SDGs by 2030 is the promotion of greater formalization rates of real estate thereby improving livelihood and alleviating poverty.*
 - *a. Direct economic loss*
 - *b. Indirect economic loss*
 - *c. Social impacts*
 - *d. Environmental impacts*
 - *e. Health safety risk*



THE GLOBAL PROCESS FOR FORMALIZATION



Prepare the Strategy for Formalization



- Build political will
- Analyze informalities
- Carry out cost-benefit analysis study
- Agree on fit-for-purpose strategy
- Develop communication plan
- Draft a strategy report
- Get approval from government



Prepare the Framework for Formalization



- Define areas and categories of constructions
- Determine the legal and regulatory issues
- Define the appropriate actions for formalization
- Define the registration process
- Design the draft formalization process
- Determine levels of penalties and fees
- Determine the involved institutions
- Determine and implement the administrative system



Formalization of Constructions



- Prepare inventory of informal properties
- Accept and process the submitted documents
- Register informal constructions
- Impose legal action as required
- Impose and collect penalties
- Monitor formalization



Actions parallel and following Formalization



- Improve the land and building registers
- Revise urban planning process
- Revise permitting of construction procedure
- Introduce a monitoring and inspection process
- Improve the land and building code
- Improve formalized housing
- Improve utilities and infrastructure
- Introduce property taxation
- Prevent new informality

The Strategy Phase



This phase
gathers support,
analyses the problem,
proposes the solution,
and communicates the plan
for the formalization
process.

Prepare the Strategy for Formalization

- The *Strategy Phase* includes the following steps:
 - (a) Organize the necessary support and political will;
 - (b) Analyze the existing informality within the local real estate market;
 - (c) Community Consultation;
 - (d) Carry out cost/benefit analyses and determine the consequences of no action;
 - (e) Agree on an appropriate formalization strategy;
 - (f) Develop a communication plan;
 - (g) Draft a strategy report.

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Guidelines for the formalization of informal constructions



Cost / Benefit Analysis within the Strategy Phase



A cost / benefit analysis is a critical first step in determining what if a formalization process should be undertaken, its form and scope, and if this is the right time for it.

A detailed study for estimating “The Cost of a Lack in Real Property Market Formalization on a National Economy” was made by the authors in 2016 for 2 countries. A study for Greece and Albania was performed. (NYSTROM and POTSIU, May, 2016)

This study focused on developing a methodology for the quantification of the economic cost of the lack of market formalization on a national economy. In particular a review of the overall property market, national assets, economic interactions, character and scope of the informal sector, and real estate values is made, then the impact of a continued lack of market formalization on this economy is estimated within a DCF using economic inefficiency and inutility factors for all identifiable inefficiency sources related to informal status of the asset, relative to an efficient land market.

Sample Cost Benefit Analysis of a Specific Factor

Limited ability to mortgage or sell informal development, Greece, January 2016 (in \$);
Nystrom & Potsiou 2016

Asset Sector	% of Population Affected	% Loss in Efficiency	Economic Multiplier	Annual Return	Effect Years 1-5	Effect Years 6-10	Effect Years 11-25
Human Capital	15.00%	1.00%	1.50	\$144,257,500,000	\$64,915,875	\$162,289,688	\$324,579,375
Private Formal RE	15.00%	0.20%	1.50	\$14,700,000,000	\$1,323,000	\$3,307,500	\$6,615,000
Total Public RE	15.00%	0.20%	1.50	\$2,205,000,000	\$198,450	\$496,125	\$992,250
Informal RE	80.00%	40.00%	1.50	\$787,500,000	\$75,600,000	\$189,000,000	\$378,000,000
Corporate Equities	15.00%	2.00%	1.50	\$2,229,000,000	\$2,006,100	\$5,015,250	\$10,030,500
Broad Money and Government Reserves	15.00%	0.20%	1.50	\$8,955,555,000	\$806,000	\$2,015,000	\$4,030,000
Tangible Personal Property	15.00%	0.20%	1.50	\$2,370,000,000	\$1,066,500	\$533,250	
Intangible, Small Business & Other	15.00%	2.00%	1.50	\$4,582,200,000	\$4,123,980	\$10,309,950	\$20,619,900
Annual Totals Qtr 1 2016 (in Real United States Dollars)				\$180,086,755,000	\$150,039,905	\$372,966,762	\$744,867,025

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Conclusions and Recommendations

Keep it Simple

Make it Fit for Purpose

Do it Fast, Do it Right

Do it Cheap

Do it Fairly



This guide aids the process of bringing informal assets back within functioning land markets and help protect the vulnerable groups that live and work in them.

We hope that peace and prosperity for all members of society, especially the most vulnerable groups, can be enhanced as the functioning land market broadens to include what was formerly informality but has now been titled, registered, and formalized with the root causes of informality greatly decreased.

