

# Sustainable Development Zones (SDZs) as a Response to Informality that Masters the Challenges of Desperate Migration and Rapid Urbanization

by Joachim Rücker & Michael R. Castle-Miller (for the SDZ Alliance<sup>1</sup>)

Migration today encompasses hundreds of millions of people who have left their homes to look for better livelihoods in big cities, driving rapid urbanization, especially in the Global South. At the same time, tens of millions of people, refugees and internally displaced persons (IDPs), who have left their homes for reasons of extreme poverty, violent conflicts and climate change, are also drawn to the big cities, especially in the Global South, adding to the dynamics of rapid urbanization. In most cases, return is not realistic, so local integration becomes the only option. However, local integration has proven to be very difficult and migrants have become trapped in slums or more generally in the “informal sector” in the big cities or, mutatis mutandis, in camps, the latter ideally run by humanitarian agencies.

Addressing migration for all these people means accepting a new threefold paradigm:

1. They should be perceived as citizens, consumers, and producers rather than as objects of care.
2. They need to be well connected with existing cities for mutual benefit, while, inversely, isolated camps should become cities.
3. They must have special legal and administrative institutions that allow for a qualitative leap in residents’ access to the formal sector (housing, work and business permits, financing, IDs etc.).

Why are special institutions that allow for a qualitative leap in residents’ access to the formal sector so important? First, urbanization is predicted to continue and grow and consequently the world will see more megaslums. In these slums informality poses economic, but also social and security risks. Second, informality is mostly a regulatory artifact – sub-optimal regulations actually create the informal economy. Most of the activity that takes place informally – whether it is informal settlements, informal business, or even informal society – is a natural response to regulatory barriers that prevent low-income people from legally building homes, working, or operating businesses.

And this is where Sustainable Development Zones (SDZs) come in. SDZs are a unique response to informality that enables cities and countries to cope with, and even benefit from, rapid urbanization and desperate migration.

## THE PROPOSAL

In line with the UN’s Global Compacts on Migration, the program of Sustainable Development Zones localizes the UN Sustainable Development Goals (SDGs). The primary mechanism for achieving these goals is to introduce new institutions within a limited geographical area. As such, an SDZ is a type of Special Economic Zone (SEZ), but with a distinct social and SDG aim, and (therefore) usually a brownfield as opposed to a greenfield development in a peri-urban area with a rapidly growing informal settlement. It introduces new regulations and practices for land use, development, business regulation, and public services that are currently most responsible for informality.

## THE PRIMARY INSTITUTIONAL FRAMEWORK OF AN SDZ

SDZ governance adheres to the principles of good governance and good local governance. In particular, it adheres to the key principles of accountability, transparency, and (inclusive) participation. For instance, SDZ residents are shareholders in the SDZ, have voting rights in addition to supervisory and policy setting responsibilities for the SDZ through a Citizens’ Assembly. Another example is an Oversight Commission overseeing the SDZ Administration and including all relevant stakeholders.

SDZs will work within the country’s legal framework. As decentralized innovations in governance, they necessarily require exceptions to the legal and administrative status quo within their boundaries. The country brings the SDZs into existence as its tool for innovating new approaches to management and implementing best practices in pilot areas of its territory.

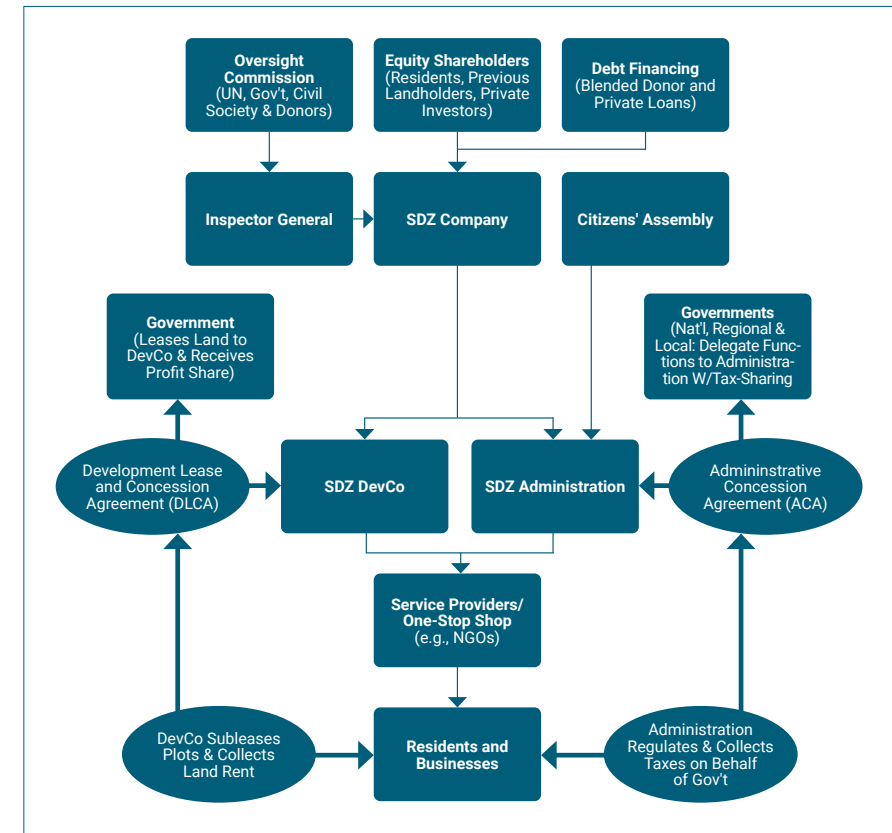
An SDZ would address several important issues for developing countries in fields such as the housing market, labor market and finance. Furthermore, SDZs could

provide durable solutions for migration, sustainable urban expansion and help foster more ethnically inclusive societies. States/regions would tend to compete for economic development rather than for scarce resources.

The governance of a fully formed SDZ primarily rests upon the following institutions:

- An *SDZ Company* structured as a social enterprise corporation with blended finance, including social impact investments. This organization includes an *SDZ Development Company (DevCo)* leasing land and developing the basic infrastructure, and an *SDZ Administration* performing responsibilities ordinarily performed by the national/regional/local governments. Over time, residents of the SDZ take up a larger and larger proportion of the equity of the SDZ Company. As shareholders, the residents receive dividends from the SDZ Company, which help supplement their incomes.
- An *Administrative Concession Agreement (ACA)* consisting of:
  - A temporary assignment of responsibilities from government to the SDZ Administration.
  - A revenue-sharing arrangement between the SDZ and the different layers of government over the SDZ.
- A *Land Development Lease and Concession Agreement (DLCA)* between the SDZ DevCo and government, which allows the DevCo to develop and collect rent from subleases. This agreement could be set to expire after, for instance, 25 years unless renewed by the government under a buy-operate-transfer (BOT) or similar arrangement.
- An *Oversight Commission*, which offers high-level oversight of the SDZ via an *Inspector General*, and consists of representatives of UN, government, civil society, and donor organizations. The *Inspector General*, which is an organization contracted by the Oversight Commission, monitors the SDZ institutions and holds the SDZ Company accountable for violations through legal proceedings and fines if need be.
- A *Citizens' Assembly*, which helps integrate residents' input and adds another layer of accountability by having advisory and decision-making responsibilities. It consists of SDZ residents, at least some of which are chosen by *sortition* (random selection) in order to avoid ethnic- or ideology-based political power struggles. Some decisions might also be placed with all residents participating through a blockchain-based e-voting application or as a decentralized autonomous organization.
- *Service Providers*, which are NGOs, government agencies, and private organizations that deliver public services accessible to residents via a one-stop shop. Examples include public safety and security, job training and skills development, education, healthcare, SME support, architects, legal aid, need-based services, and utilities providers.

Figure 1: SDZ Institutional Framework



These institutions come into existence once the SDZ has a significant resident population. Once that happens, residents will own a significant portion of the shares in the SDZ Company.

The ACA temporarily delegates the administrative functions most relevant to ease of doing business to the SDZ Administration to carry out on the government agencies' behalf. This includes:

- Adopting special regulations and procedures for starting and operating a business within the SDZ
- Handling business registration, licensing, certificates, and all other procedures necessary for starting and operating a business
- Adopting special zoning and building regulations for constructing homes and businesses within the SDZ

- Issuing construction permits under the special zoning and building regulations
- Issuing identity cards and work authorizations
- Improving access to finance through institutional streamlining and digital finance applications
- Administering tax collection, processing, and enforcement on behalf of the government
- Sharing tax revenue collected from the SDZ with the government
- Providing access to justice and optional channels for dispute resolution for businesses and individuals
- Addressing other remaining major barriers to doing business in the country
- Providing social services including needs-based humanitarian aid

The central goal of the SDZ Administration is to reduce the difficulties that low-income people have in operating a business, finding employment, and building housing in the formal sector. In some cases, this may mean removing the ordinary requirements to obtain certain licenses or permits altogether, and in other cases, to make the procedures much more streamlined.

Overall, the SDZ Company has a direct financial incentive to promote the social, environmental, and economic wellbeing of the SDZ through better governance. Better governance stimulates both the economy and demand for land within the SDZ, which increase the SDZ Administration's tax revenue and the SDZ DevCo's rental income, respectively. These financial returns will be shared with government, with SDZ residents, and with private investors. Therefore, the SDZ Company aspires to meet the ESG (Ecological, Social, Governance) criteria for investment.

## LAND FAIRNESS

Land rights is often a highly sensitive political and cultural issue that an SDZ must handle carefully. Therefore, it is critical that the land arrangement for the SDZ clearly benefits all stakeholders involved – including all levels of government, existing farmers and other formal residents, and informal settlers.

The SDZ DevCo builds basic infrastructure and subleases plots of land to SDZ businesses and individuals to build homes and business facilities. At first it issues subleases to all informal settlers for the plots they already occupy and forms service agreements with existing formal residents.

The legal interests in the plots are divided between land and the buildings and other improvements on top of the land. People own title to the homes and other buildings, but have a sublease to the underlying land. The SDZ DevCo retains the primary lease on the land. Land value will naturally appreciate as the SDZ DevCo invests in infrastructure and services, and therefore making the SDZ more attractive.

## PHYSICAL DEVELOPMENT

The SDZ's masterplan is integrated with regional plans but allows the urban form within the zone to evolve organically. Other than an obligation to pay rent and abide by all zoning and building regulations established for the zone, SDZ subleases are very flexible (e.g. transfer of subleases, sale of homes...). Residents can build on the plots they lease and can sell or rent out space in their buildings to help them afford increasing rents as the land value rises over time. The SDZ Administration will also provide rental subsidies to people who cannot afford housing in the SDZ.

The SDZ developer provides for a basic road grid that is integrated with major highways outside the zone. Within the grid, there are areas for public spaces. This includes space for parks, utilities, SDZ Administration offices, a one-stop-shop public service center, police, hospitals, schools, etc. Plazas are built in a few areas with frontage for businesses and restaurants.

The majority of land consists of small, flexible-use plots of around 60sq. meters each. These plots are available for sublease to residents for any of a variety of uses – including commercial, residential, or light industrial. Most plots are undeveloped, allowing the residents who lease them to build their own facilities.

The master plan may include an industrial park in one part of the SDZ. The industrial park includes pre-built, fully serviced factory sheds catering to larger businesses, especially foreign investors. The SDZ might seek to have the park designated under the country's existing free trade zone or special economic zone legislation if such legislation exists and is not already applied to the entire SDZ.

The building code allows low-income residents to start by building homes not too different (or more expensive) than the type of construction that typically takes place in informal settlements, except to the extent necessary to ensure basic public health and safety and to ensure development doesn't interfere with public utilities or transportation. The masterplan encourages residents to incrementally improve their homes over time, such as by building stronger foundations, using better materials, and adding additional stories above the ground level as they acquire the resources to do so. The SDZ Administration ensures that professional architects are available to assist residents and construction crews.

Generally, all plots are leased with direct electricity connections. The SDZ DevCo builds an electric substation and distribution network to service these plots, with power generated in or near the SDZ in a decentralized context using renewable sources. Some plots have their own direct water and sewage connections, while others have access to water, sewage, and garbage collection via designated points that service clusters of around 4-5 plots each. As residents earn money, they begin to pay for water and sewage connections directly to their homes.

Just as the residents incrementally improve their homes, so does the SDZ DevCo and SDZ Administration incrementally improve their infrastructure and services as the SDZ fills up. Roads are go from gravel to cobblestone or asphalt. Pit latrines are

replaced with a sewer system. Public transportation improves and becomes more regularized. The SDZ DevCo tends to rely on local labor and local contractors to carry out much of this work in order to boost the SDZ's internal economy.

### WAY FORWARD

As regards the new threefold paradigm as described above, it should be recognized that national and international humanitarian and development cooperation actors have made significant progress on perceiving especially refugees as citizens, consumers and producers rather than as objects of care. In the same vein, there is also progress on connecting especially refugees to the host cities surrounding them or, vice versa, turning camps somewhat more into cities. There is, however, still a "humanitarian – development divide", as without a qualitative leap in the institutional framework many people remain trapped in the informal sector, and private sector investment remains limited.

The paramount role of good governance, of good institutional frameworks for sustainable development, is well understood by policy makers who follow the tradition of institutional economics. It is, for instance, at the heart of the G 20's "Compact with Africa".

However, while the role of institutions has informed interventions at the national level, it has been insufficiently applied to policy making at the sub-national, decentralized, local level, which is where SDZs come in. SDZs should be seen as a decentralized innovation in the field of public policy and administration, similar to the decentralized innovations in other fields, such as renewable energy, finance, communication, circular economy and even currency.

<sup>1</sup> Online available at: <https://sdzalliance.org>

## From Refugee Storage to Living Spaces – Why it is Imperative to Move Away from the Aid Paradigm

*by Kilian Kleinschmidt*

Aid Agencies report a record number of people forcibly displaced since WWII with 84 million (including 48 million Internally Displaced People). Contrary to common belief most of those are not living in designated spaces such as camps or refugee reception centers.

Ninety percent of displaced people are on their own and either unable or unwilling to join those spaces labelled "refugee" or "displaced camps" and mostly end up living in slums and informal settlements near or in urban centers where they mix with rural-urban movers and other migrants seeking new opportunities.

Formal refugee camps are spaces mostly allocated by governments and often situated in remote and hostile environments – managed by the UN or NGOs together with the security forces and civil administration of the country. They are considered temporary holding spaces for people seen as a burden and so destitute that they will require free assistance for the years to come until they leave and ideally return home.

Probably some ten million refugees and displaced people are accommodated in more or less formally established camps mostly in tents or containers or simple huts. If lucky they are supported by humanitarian assistance until the money and international attention fades away and the place degrades into a dump and lastly a slum. Seventeen years will be the average stay for a refugee in a camp as that is the time protracted crises last in average according to UNHCR. In reality it takes longer and longer until a solution is found and most of the time people will not return. At least one generation will grow up in each camp, reason enough to invest in its people and their future.

The reality, proven by history and statistics, is that only few will ever voluntarily return to the place of origin. The erroneous narrative that a "good" refugee should