



World Urban Forum

Cities: Crossroads of Cultures

Inclusiveness and Integration?

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Dialogue On Urban Resources

Mobilizing financial and technical resources for slum upgrading

Adequate mobilization of financial and other resources for investment in slum upgrading and basic urban services would give developing countries and the international community a better chance of achieving the Millennium Development Goals (MDGs). Innovative and co-operative attitudes could enable financial institutions and development partners to make more capital available to improve shelter, services and the productive capacities of the urban poor.

From today's 900 million, the number of slum dwellers across the globe will more than double to two billion by 2030. The figure dwarfs the 100 million whose living conditions MDG 7/11 is committed to improving by 2020. Beyond adequate housing, sanitation and basic services, financial resources would also help restore the morale of the urban poor, who see the social fabric, trust, basic human rights and urban citizenship deteriorating around them.

Weak growth, poor governance

Sub-Saharan Africa still features the world's largest rural population (70 per cent on average), but is urbanizing at an alarming rate. Capital and secondary cities are doubling in population every 15 to 20 years. However, accelerated urbanization is not going hand in hand with strong economic growth - a major cause of urban poverty in Africa, and to a lesser extent in Asia.

A number of structural shortcomings also account for slum expansion. They include failed policies, bad governance, inappropriate legal and regulatory frameworks, dysfunctional land markets and unresponsive financial systems. These problems come down to a lack of political will and not just in the developing world, as the international community has been slow to recognize the realities of urban poverty and to channel resources accordingly.

What is slum upgrading?

Slum upgrading primarily refers to improvements in shelter and basic infrastructure. In a broader sense, upgrading includes enhancements in the economic and social processes that can bring about these physical improvements on the way to achieving MDGs concerned with poverty. However, the process of upgrading slums requires broader policy and legislative reform, community mobilization and institutional capacity building. The objective is to improve employment opportunities for slum dwellers, increase their participation in planning, strengthen the capacity of local authorities, and integrate slums into the wider urban political-economy.

Who is involved?

National governments, municipal authorities, communities and their organizations (CBOs), private industry, professional associations, and non-governmental organizations (NGOs) are all involved in slum upgrading in a variety of ways.

Governments' national slum upgrading programmes are large-scale initiatives that rely on policy and legislative reform as well as demonstration pilot projects. The programmes guarantee the rights of slum dwellers (e.g., outlawing violent and forced evictions) and promote local self-governance. They also enact legislation that will enable local authorities to involve CBOs, NGOs and business in the delivery of basic services.



Typical NGOs provide services directly to slum dwellers, or support strategies that empower the poor to participate in, and negotiate, the delivery of services. NGOs do so with support from bilateral development cooperation agencies and or foundations. Their services include health, education, housing, water, sanitation, business training and electric power.

Many slum-dwelling, low-income households regroup to address their needs independently from public authorities and NGOs. They are most effective when they come together to address specific issues such as schools, roads and sewerage systems.

Commercial property developers often invest on the fringes of slums, either independently or on contract for public programmes. Some slum dwellers rent out basic shelter in slums for income, and wealthier individuals or syndicates rent out property for commercial purposes.

Meagre international funding

In developing countries, total investment in housing and related infrastructure represents 3 to 8 per cent of GNP. On aggregate, these investments amount to only \$300 billion. This will not enable developing countries to curb slum growth as mandated by MDGs. Multilateral and bilateral assistance for housing and urban infrastructure comes short of five billion dollars annually, with less than 20 per cent for slum upgrading. By contrast, achieving MDG target 7/11 will cost between \$70 and \$100 billion. As for improving the lives of the world's prospective 1.5 billion slum dwellers by 2020, the cost is estimated at one trillion dollars. A doubling of official development aid (ODA) to \$10 billion would contribute only 10 per cent towards the cost of meeting MDG target 7/11.

Banks and other institutions

Commercial lenders in both developed and developing countries offer the largest potential source of domestic capital for urban upgrading. However, banks and housing finance bodies are reluctant to lend to low-income households for lack of security. Municipal development banks help city authorities build financial capacities, but are under-capitalized. Micro-finance institutions are efficient but the needs dwarf their capacities. Subsidized community development financial intermediaries (CDFIs) combine finance and empowerment, as do accumulated savings organizations/cooperatives and daily saving schemes.

Move down market!

Overall, domestic capital in developing countries can supplement ODA and direct foreign investment to improve the conditions of slum dwellers. The problem is that mobilization of domestic capital for slum upgrading runs into many bottlenecks. In order to tackle these, banks and financial institutions in developing countries must meet three main challenges.

- They must move 'down market' and adjust their offer to the circumstances of the urban poor.
- Banks and financial institutions must mainstream the innovative products that alternative lending institutions have developed for the 'urban poor' segment of the market.
- Financial service providers (at all levels) must co-operate much more closely with conventional development partners (governments, slum dwellers, NGOs, local authorities and the private sector), through common projects, cross-governance and a national advisory board.

International assistance

UN member countries can and should honour their pledge to reach the MDG target of "cities without slums" by increasing ODA to levels that are more commensurate with needs and requirements. ODA should help leverage domestic capital in favour of slum upgrading through grant support, equity investments and loan guarantees. The international community must provide technical assistance to those at the receiving end of such support; this should take the form of capacity building, finance packaging, and/or policy/regulatory reform. After all, adjusting the supply of financial mechanisms to the needs of the urban poor is the best way to upgrade their conditions.

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