THE 2008 AFRICAN DEVELOPMENT BANK GROUP ANNUAL MEETINGS

MINISTERIAL ROUND TABLE DISCUSSIONS AND HIGH LEVEL SEMINARS

CONCEPT NOTES

1. Ministerial Round Table Discussions – Fostering Shared Growth: Urbanization, Inequality and Poverty in Africa.
2. High Level Seminar 1: Cities as growth poles: Implications for Rural Development.
3. High Level Seminar 2: Financing Urban Development.
4. High Level Seminar 3: Decentralization and Urban Governance.
5. High Level Seminar 4: Upgrading Informal Settlements in African Cities.

Maputo, Mozambique – 13 May 2008
Centro Internacional de Conferências Joaquim Chissano (CCJC)

INTRODUTION TO THE CONCEPT NOTES

The Concept Notes for the 2008 Annual Meeting Seminars (AMS) are crafted around the theme: *"Fostering shared Growth: Urbanization, Inequality and Poverty in Africa*. They are set around the challenges posed by rapid growth of the urban population in Africa, and divided into four specific topics to be examined in more detail during the Seminars, and emphasize the importance of economic growth as a development strategy.

Growth can and should be shared by all people, whether rural or urban based. Urbanization should not be viewed as a threat but seen as providing an opportunity to foster economic growth and to achieve national development. The theme emphasizes the interdependence of and strong linkages between urban and rural areas as a key factor for development. Understanding these complex economic and social linkages and strengthening their positive impacts will help to "foster shared growth".

The Seminars are organized into a **Ministerial Round Table**, which will be followed by **High Level Seminars**. The Ministerial Round Table is intended to articulate the prevailing urbanisation challenges and the prospects of turning these into opportunities for sustainable economic growth and poverty reduction in both urban and rural areas. The discussions at the Ministerial Round Table will be guided by a general Concept Note on '*Fostering shared Growth: Urbanization, Inequality and Poverty in Africa'*, which will highlight and briefly introduce the key sub-themes. These High-Level Seminars are intended to delve further into each sub-themes each of which is informed by 4 concept notes on the following four sub-themes:

- High Level Seminar 1: Cities as growth poles: Implications for Rural Development.
- High Level Seminar 2: Financing Urban Development.
- High Level Seminar 3: Decentralization and Urban Governance.
- High Level Seminar 4: Upgrading Informal Settlements in African Cities.

The concept notes provide general guidance to the discussion, highlight key issues under each theme and conclude with critical questions for consideration by the panellists. They are deliberately intended to be brief exposés, which set the tone for the Seminar discussions, without limiting it to issues raised in the notes. The expectation is that the Seminar will benefit from the wealth of experience and lessons to be shared by participants, drawn largely from their work in dealing with these issues and challenges in their countries.

MINISTERIAL ROUND TABLE DISCUSSIONS

FOSTERING SHARED GROWTH: URBANIZATION, INEQUALITY AND POVERTY IN AFRICA

Concept Note

Date: *13 May 2008*
Venue: *Plenary Hall*
Centro Internacional de Conferências Joaquim Chissano (CCJC)
Time: *9:00 am to 12:30 pm*

Executive Summary

A Strong urban economies form the base of the wealth of many nations. Yet over the last half century, Africa has experienced rapid urban growth, even as long-term economic growth has remained stagnant, and even declined in some decades. It is estimated that the continent's cities and towns will absorb another 12-13 million people in 2008, with the urban population outpacing rural population from about 2035. While inequality between cities and the countryside appear to be narrowing, the differences between the rich and the poor in urban areas are becoming more conspicuous as unhealthy, overcrowded slums grow. More than 250 million people—or around 60% of the urban population—live precariously in these settlements, and, if present trends continue, the number of slum dwellers will grow to over 350 million by 2020.

Urbanisation in Africa is perceived to be driven mainly by rural-urban migration with agriculture representing the key linkage between urban and rural populations. A widespread perception is that neglect of agriculture "pushes" farmers off the land and into the cities, although the economic reforms implemented by many countries over the last two decades have reduced this urban bias, especially in public expenditures. Indeed, there are strong indications that the fiscal system redistributes tax revenues from urban to rural areas.

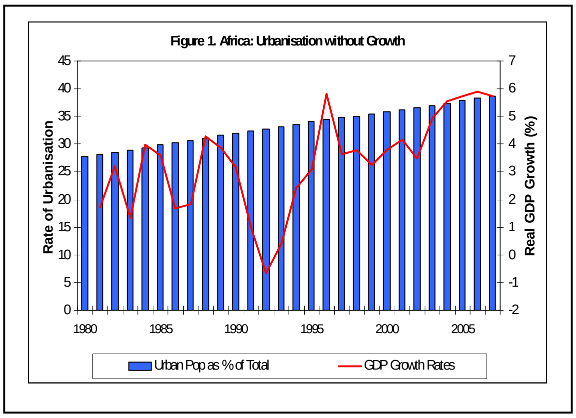
A precondition for shared economic growth and beneficial urbanisation is that central government maintains sound macroeconomic policies and a conducive economic environment. Even if efforts to promote agriculture and rural development are successful, at least two-thirds of economic growth will originate in the continent's cities and towns. This implies that urban development should be given a more prominent role in policy and economic planning processes. Strategies and programmes for addressing rural-urban linkages and management of the urbanisation process need to be incorporated into poverty reduction strategies

For the African Development Bank, designing an urban development policy is important. While not financing only basic infrastructure and slum upgrading programs, the Bank could also help in creating an environment where municipalities can mobilise the financial resources needed through enhanced revenues and access to capital markets and also help in expanding the role of public-private partnerships to mobilise additional resources and improve the management of urban infrastructure service delivery. The main themes for discussion at the Annual Meetings will include issues surrounding urbanisation, infrastructure, decentralisation and governance, financing municipal activities and investments.

Fostering Shared Growth:
Urbanisation, Inequality and Poverty in Africa

1. Introduction

1.1 Over the last decades, Africa has experienced rapid urban growth, even as long-term economic growth has remained stagnant, and even declined in some decades. In practical terms this urbanisation process means that the continent's cities and towns will absorb another 12-13 million people in 2008 alone. In the context of stagnant growth and hard budget constraints, most African governments have, understandably found it difficult to cope with this unprecedented growth in urbanisation. The most visible sign of this urbanisation without economic growth is the mushrooming of slum areas that permeate the larger cities on the continent; poor public amenities in most urban areas; and declining public safety. Perhaps less visible—but not less real—is how inadequate infrastructure and inappropriate policies and procedures have reduced the productivity and growth of urban enterprises. This has weakened the symbiotic relationship between urban and rural areas and, thus, slowed down overall growth and hampered poverty alleviation efforts.



1.2 Economic growth is an important policy objective of nations, and strong urban economies form the base of the wealth of many nations. Most of the rich nations have strong urban centres and have more of their populations living in cities. The reason for this is not far to see. Economic growth is fostered by many of the activities that mostly take place in the cities, such as industry commerce and financial services. However, most evidence suggest that a more inclusive and shared economic growth is necessary for reducing poverty. With Africa's high poverty levels that are largely rural based and rapid urbanisation, the challenge facing most governments on the continent is to ensure improved management of the urbanisation process to avail the basic needs of people, and ensure that enterprises located in urban areas generate employment and livelihood opportunities. The recipe for achieving this is good policies and enterprise related programmes that promote agriculture and rural development. This concept note examines and outlines a broad set of actions that will enable Africa's cities and towns to play a more positive role in the development process. The concept notes for the High Level Seminars[1] contain a deeper analysis of these issues and elaborate on the recommendations made in this note.

2. Is Africa's Urbanisation Increasing Inequality?

2.1 Most studies have concluded that the gap between urban and rural incomes have been narrowing since the 1970s. However, this narrowing of the gap has largely been the result of declining urban incomes rather than improving incomes from farming. Thus, the general

[1] The concept notes for the High Level Seminars cover four different topics: (i) *Cities as Growth Poles: Implications for Rural Development;* (ii) *Financing Urban Development;* (iii) *Decentralization and Governance;* and (iv) *Upgrading Informal Settlements in African Cities*.

trend has been that urban poverty has increased more rapidly then rural poverty. Today, about one-third of all poor people live in cities and towns, which can be compared with about one-quarter in the early 1990s.[2]

2.2 On average, people in urban areas have better access to various types of public services like health, education, clean water, etc. However, the gap is narrowing and the averages hide wide variations. Indeed, some health surveys find more problems in urban slum areas than in rural areas.

2.3 While inequality between cities and the countryside appear to be narrowing, the differences between the rich and the poor are becoming more conspicuous as unhealthy, overcrowded slums grow. More than 250 million people—or around 60% of the urban population—live precariously in these settlements, and, if present trends continue, the number of slum dwellers will grow to over 350 million by 2020. The problem is most severe south of the Sahara, where some 72% of the people live in what is charitably called "informal settlements."

2.4 Urban slums are not only eyesores; they also pose multiple threats to the health and safety of their inhabitants. Lack of the most basic infrastructure makes the provision of social services, such as health care, ineffectual. Thus, health indicators in urban slums are typically much worse than those found in rural areas. In Nairobi's Kibera settlement—by many regarded as the worst slum in Africa—almost one in five children die before the age of 5. Similarly, the lack of infrastructure increases the cost of necessities, such as drinking water or fuel for cooking, to the urban poor and reduces their productivity and economic opportunities. Last, but not least, because of their social and economic exclusion, slum areas are volatile places and pose a threat to political stability.

2.5 While urban poverty certainly is one factor contributing to the growth of slums, they are also the product of failed policies, bad governance, inappropriate legal and regulatory frameworks, dysfunctional land markets, unresponsive financial systems, and—last but not least—a lack of political will. Addressing this multi-faceted problem requires not only the concerted effort of governments, enterprises and civil society in the developing world, but also financial and technical assistance from the international community.

2.6 In most cities in Africa, it is difficult, if not impossible, for many poor urban dwellers to own or rent with any reasonable degree of tenure security. The reasons for this lack of security are many and depend, to a large extent, on the process through which the poor or their landlords have taken possession of the land and erected their dwelling, such as: spontaneous squatting on public land; organized large-scale invasions of public land; illegal conversion of agricultural land bought from the former owners; failure to record the purchase due to too high transfer taxes; and construction that does not meet building codes and zoning regulations. Insecure tenure and the associated risks of eviction and demolition reduce the incentives for the urban poor or their landlords to invest in housing improvements.

[2] Due to the difficulties in measuring the differences in the cost of living in rural areas, small towns and large cities, caution should generally be exercised when comparing urban and rural poverty data. However, it is believed that the above estimate (as well as the more detailed estimates presented in the concept note for the seminar on *Upgrading Informal Settlements in African Cities)* is properly adjusted for the differences in the cost of living.

2.7 Although some cities face physical constraints, in most cases there is ample land available to accommodate the growing urban population. However, the process of converting agricultural fields to developed urban land is an impediment to the development process. The population of Dar es Salaam, for example, grew by more than 900,000 between 1990 and 2001. During this period, the various authorities in the city received 243,473 applications for "planned" plots, but only 8,209 were surveyed and allocated.

2.8 These problems are compounded by inappropriate regulatory framework that pushes up the cost of land and housing for the poor. Minimum legal plot sizes are typically several times larger than what exist in informal settlements. The building codes specify minimum sizes and require that house are built of permanent material. Thus, the traditional way of incremental construction (the only way of building that is affordable to the urban poor who do not have access to long-term housing finance) is not possible. These problems are compounded by cumbersome procedures for approval of sub-division of plots and obtaining building permits—a process that can take many years.

3. Is "Urban Bias" Driving this Development?

3.1 Urbanisation in Africa—and especially in Sub-Saharan Africa—has long been seen as a negative phenomenon. Although migration contributes less to the growth of cities and towns than natural population increase, rural-urban migration is usually seen as the main cause of the problem. A widespread perception is that neglect of agriculture "pushes" farmers off the land and into the cities. According to a recent survey by the United Nations (2008) showed that 83% of African governments had a policy that sought to reduce rural-urban migration.

3.2 The central theme in Michael Lipton's influential book *Why Poor People Stay Poor: A Study of Urban Bias in World Development* was that government policies and programs were unduly influenced by urban elites and pressure groups. As a result, rural areas were disadvantaged in the provision of education and healthcare and in other public spending decisions. This urban bias was amplified by what Lipton termed "price twists." These price distortions were due to overvalued exchange rates (that made it hard for local farmers to compete with imports or to earn enough from exports) and due to implicit taxation through public sector purchasing monopolies (usually marketing boards) that in effect taxed agricultural products to the benefit of urban consumers or the Treasury.

3.3 The structural adjustment programs during the last two decades have basically removed the "price twists" that worked against agricultural producers: exchange rates have been realigned, marketing boards have been abolished and both internal and external markets have been liberalized. There are also some clear indications that the previous urban bias in public expenditures has largely been corrected. Indeed, there are strong indications that the fiscal system redistributes tax revenues from urban to rural areas.

4. Mobilising Resources for Urban Development

4.1 The provision of basic services and local infrastructure is usually seen as the domain of municipal governments that are closer to the inhabitants and, thus, better understand their needs. In reality, local governments have typically failed to keep pace with rapid population growth and to meet the needs of the urban poor. In Sub-Saharan Africa (with the exception of South Africa), municipalities are marginal actors. Central governments control all major revenue sources. Municipalities are left with a few rather inelastic revenue sources, often best described as “nuisance” taxes. In Senegal, for example, municipalities levy more than 300 different fees and business taxes. The central government often limits the local governments’ freedom to set tax rates, thereby further reducing their ability to mobilise resources.

4.2 Many countries have sought to decentralise service delivery to local governments, but this increase in their responsibilities has often not been associated with a commensurate increase in their revenue sources. Thus, local governments are dependent on transfers from central governments. In spite of the importance of such transfers, most countries do not have a rational, transparent system for allocating funds to municipalities. Rather, transfers tend to be determined based on political considerations and vary from year to year, which make it virtually impossible to plan large-scale infrastructure investments that may require several years of capital outlays.

4.3 For the reasons described above—and with the noticeable exception of South Africa and, while its economy was still in order, Zimbabwe—local governments in Africa generally account for less than one-twentieth of all public expenditures.

4.4 In Sub-Saharan Africa, the amount of public sector infrastructure investments appears to have dropped drastically from over 4% of GDP in the early 1980s to less than 2% of GDP in 2000. In comparison, Straub (2007) reports that China and Vietnam are investing around 10% of GDP in infrastructure (and are growing at 9.5% and 7.5%, respectively).

4.5 Given how dependent Sub-Saharan Africa is on aid flows, this might be a reflection of the fact that official development assistance for infrastructure has declined drastically since the 1980s, while the share of social sectors has increased.

5. Exploiting the Opportunities

5.1 A precondition for shared economic growth and beneficial urbanization is that the central government maintains sound macroeconomic policies and a liberal economic environment. This must be complemented by legal and regulatory reforms to improve the investment climate to enable firms, big and small, to expand and generate jobs. Central governments must also make major efforts to upgrade national infrastructure networks. As the High Level Panel for the African Development Bank (2007) noted: “*Investing in infrastructure is the best way… to increase African competitiveness and capacity across a range of productive sectors.”*

5.2 Even if efforts to promote agriculture and rural development are successful, at least two-thirds of economic growth will originate in the continent’s cities and towns. While governments all over the world, at one time or another have sought to induce or force industries to locate in rural areas or small and medium sized cities, such attempts have generally been ineffectual and costly—both in terms of direct fiscal costs and reduced growth. Similarly, efforts to stem the flow of migrants to urban areas have been unsuccessful. Thus, the challenge is not to reduce the rate of urban growth but to strengthen the positive linkages between urban and rural development and to remedy any potential negative social and environmental effects of the urbanization process. This implies that urban development should be given a more prominent role in policy and economic planning processes. Strategies and programs for addressing rural-urban linkages and management of the urbanisation process need to be incorporated into poverty reduction strategies (as the Government of

Ethiopia has done; see Box 1). Urbanization is a cross-cutting subject that tends to be neglected in the policy formulation process. There are good reasons to argue that it deserves to be elevated to cabinet level rank on par with environment, water resources and rural development.

Box 1: Urbanisation in Ethiopia's Poverty Reduction Strategy

With 16-17% of its population living in cities and towns, Ethiopia is one of the least urbanized countries in Africa. Still, in it recent Poverty Reduction Strategy Paper titled *A Plan for Accelerated and Sustained Development to End Poverty* (PASDEP), the Government states:

> *"While the focus of much of pro-poor development must inevitably remain rural-based, urban areas will play a more central role in the next phase of Ethiopia's development, and in the PASDEP, than they have been in the past. There are a number of reasons for this which include:*
>
> - *The concentration of people, infrastructure, and services that take place in urban areas (including small towns) are an essential ingredient for modern sector development and economic activity;*
> - *Urban areas provide the essential market and demand for rural production, and the essential source o f skills, services, innovation and investment that need to spread out to rural areas;*
> - *An inevitable shift in demographic patterns is taking place, as people move from saturated rural areas; and*
> - *Urban poverty is a growing concern.*
>
> *In response to these concerns, a number of actions have been taken. Firstly, there is an increasing focus on urban and regional issues throughout the [poverty reduction] strategy—both in terms of growth and of poverty alleviation."*

5.3 Urban management is complex. It is often useful to think about programs and policies as falling into two broad categories:

- ***Make cities more inclusive and livable***. This involves tackling the factors that cause the growth of slums: insecure tenure, dysfunctional land markets, inappropriate regulations and cumbersome administrative procedures. Actions in this area will include low cost, large scale, incremental upgrading programs with the associated trunk infrastructure as well as actions to make jobs in the informal economy more productive. Last, but not least, "softer" issues related to health and environmental sustainability, participation, gender, crime and security need to be tackled in a systematic manner.

- ***Enhance the productivity of cities***. This will require actions in several areas: improving (and speeding up) the access to serviced land for enterprises; improving the quality of infrastructure—both national networks for telecommunications, electricity and transport as well as local services for water, sanitation, road network and public transport. There is also a need to reform local government rules and regulations that unnecessarily impinge on the operating conditions for large and small enterprises.

5.4 There are three cross-cutting areas in which central and local governments need to work together:

- ***Empower urban managers and improve governance***. Decentralization is a pre-requisite for competent management of the urbanisation process. However, it is not enough to give urban managers responsibility for implementing various programs, they also have to have the financial resources needed to implement them, i.e. there has to be fiscal decentralisation. The urban managers should be accountable for how well they conduct their duties. While there has to be strong fiduciary controls (audits, etc.), the most important question is: do the citizens get value for their money? The prime instrument for achieving this is political decentralization. The urban managers also need to be able to carry out their tasks in a businesslike manner, i.e. without any unreasonable administrative constraints imposed by the central government. However, there is a risk that both politicians and local technocrats are "captured" by various vested interests or disconnected from the "grass roots." Thus, there is a need for participative planning and budgeting processes that include various stakeholders, both from civil society and the local business community.

- ***Mobilize financing***. It is essential that local governments have the resources to carry out their assigned tasks in a competent manner, which rarely is the case at present. In most countries there is a need to carefully review the revenue sources available to municipalities and to design transparent, objective systems for transfers of resources from central to local governments. In general, there is a need to increase the funding available for urban infrastructure investments—from both central and local sources. The capacity for financial management needs to be strengthened. After municipal finances have been put on a sound footing, there is a need to develop approaches (e.g. bonds) to enable local governments to tap local capital markets.

- **Urban Environmental Problems**. Insufficient access to clean drinking water, sanitation, and solid waste disposal cause severe health consequences for urban residents, and especially the poor. Pollution originating from cooking with traditional fuels, productive activities and traffic also impacts negatively on human health. Natural resources in the urban areas, from the ambient air to the waterways to the soil itself, are often contaminated. Global emissions originating from intensive energy use in the urban areas and from fossil fuel consumption contribute to climate change. In turn, climate change exacerbates the frequency and intensity of natural disasters, many of which affect cities with increasingly high human and economic costs. Addressing many of these issues require action at the national level in cooperation with local authorities.

6. The Role of the African Development Bank Group

6.1 The Bank is in the process of preparing a new urban development policy. The Bank's support will be aimed at making African cities and towns healthy environments for their citizens to live and work in; and places that are increasingly globally competitive and, above all, well governed.

6.2 The policy will underscore the importance of infrastructure services for promoting sustainable economic growth and poverty alleviation and for achieving the Millennium Development Goals. Thus, it is anticipated that the Bank will not only finance basic infrastructure and slum upgrading programs but also help to create an environment where municipalities can mobilise the financial resources needed through enhanced revenues and access to capital markets. The Bank will also help expand the role of public-private partnerships to mobilize additional resources and improve the management of urban infrastructure service delivery.

6.3 The policy will stress the importance of secure tenure for low income households and the need to reform land and housing policies and regulatory frameworks. The Bank will support the emergence of adequately regulated housing finance systems serving both the formal and informal housing markets.

6.4 The policy will underline the critical role of good governance at the local level and the need for enhanced financial transparency. It will also emphasize the need to effectively empower municipalities, through viable decentralisation processes. Thus, the Bank will encourage reforms for fiscal decentralisation; assist in capacity building for urban planning, financial and administrative management as well as support the fight against corruption.

6.5 The policy will highlight the need to create an environment that enhances city competitiveness and attractiveness in order to boost private investments, improve enterprise productivity and encourage employment generation. This will involve, inter alia, reform of legal and regulatory frameworks to provide incentives and reduce transaction costs for business development as well as improved infrastructure services.

7. Discussion Topics

7.1 ***Urbanisation***. What are the main unwanted consequences of rapid urbanisation? How have these negative effects been addressed in the past? How are RMC governments addressing the problem of growing urban poverty? How can urbanisation be turned into a positive force for economic development and poverty alleviation?

7.2 ***Infrastructure***. Most observers agree that inadequate infrastructure reduces growth and hinders poverty alleviation in Africa. While there are indications that the donor community intends to increase its support for infrastructure, this financing is likely to fall far short of what is needed. What priority do RMC governments place on extending and improving infrastructure services? What constraints do they face in trying to mobilise the required financing? What should the balance be between urban and rural infrastructure? What are the factors that limit the use of public-private partnerships?

7.3 ***Decentralisation and Governance***. Over the past decade, many RMC governments have undertaken various decentralisation reforms. What has been the experience so far? Have the expected benefits materialised? If so, what are the main advantages with decentralised urban management? What were the main problems encountered during implementation? Given that many municipal governments were unprepared for their new and expanded roles, which actions did the central government take to help strengthen governance at the local level? What roles do and should intermediate (provincial/district) governments play?

7.4 ***Financing Municipal Operations and Investments***. What are local governments' main revenue sources? How important is the property tax? Which are the main constraints faced by municipalities in their efforts to mobilize resources? Are there any potential revenue sources that have not been adequately tapped? What is the system for determining transfers to local governments?

7.5 ***The Role of African Development Bank/Fund***. Given that the Bank's financial and staff resources are limited, which are the priority areas for Bank support, in terms of lending, research and policy advice?

HIGH LEVEL SEMINAR I

CITIES AS GROWTH POLES: IMPLICATIONS FOR RURAL DEVELOPMENT

Concept Paper

Date: *13 May 2008*
Venue: *Room 1*
Centro Internacional de Conferências Joaquim Chissano (CCJC)
Time: *2:30 pm to 5:00 pm*

Executive Summary

African cities face many of the challenges that confront cities elsewhere. According to the "*Cities Alliance*" these include responding to increasing globalisation; managing the process of decentralisation; and responding rapid urbanisation and providing basic services to the burgeoning urban poor, whose contribution to the economy is not usually matched by their access to basic services. Many cities in Africa, however, have limited capacity, both administrative and financial, to adequately respond to these trends. The key challenge for African policy makers and donors is, thus, to get the most benefits from the urbanisation process and to find ways of strengthening rural-urban linkages to help accelerate economic growth and reduce poverty. When compared with other regions such as Asia, urban based economic activities in Africa (i.e. industry and services) have performed poorly and the essential growth link between urban incomes and increased demand for agricultural goods has remained weak. Three policy areas stand out as critical for promoting cities as growth poles. These include ensuring overall macroeconomic stability; improving the investment climate and especially increasing investment in infrastructure and provision of services; and promoting agricultural productivity growth and rural livelihoods

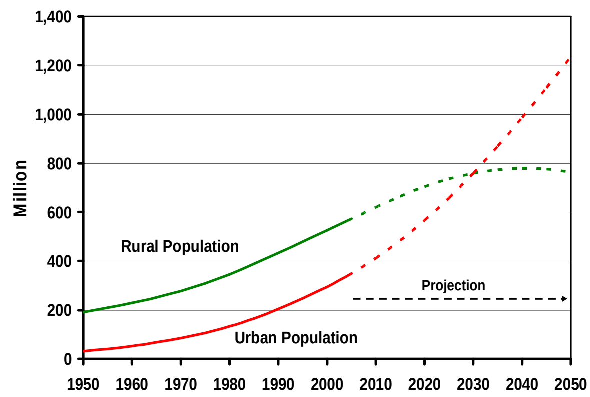
The African Development Bank has a critical role in promoting cities as growth poles. The Bank's strategic orientation is anchored on supporting delivery and expansion of basic infrastructure services; improving municipal finance and facilitating access to capital markets; building capacity for maintenance of public infrastructure assets; and promoting viable Public Private Partnerships (PPP) schemes for infrastructure projects and public service delivery programmes. The Bank will also put emphasis on strengthening the corporate governance and managerial capacity of cities by providing, appropriate policy-based assistance; supporting fiscal decentralisation reform processes; and promoting a culture of transparency; strengthening anti-corruption safeguards in the management of cities.

Cities as growth poles:
Implications for Rural Development

1. Introduction

1.1 Over the past half century, Africa has experienced an unprecedented rate of urban growth that far outpaces other regions. The United Nations projects that this process will continue and that by 2030, 50% of the African population will be living in urban areas (see Fig. 1). This development will have some serious implications for the quality of service delivery and facilities required to meet the needs of a growing urban population.

Figure 1: Urban and Rural Population in Africa 1950-2050



1.2 According to the "*Cities Alliance*" (2005) cities worldwide face the same three major trends: (i) increasing globalisation, which puts pressure on them to develop the necessary infrastructure to attract investments; (ii) they have to manage increasingly decentralised responsibilities without the requisite delegated authority to address them; and (iii) they face a constant inflow of the poor, whose contribution to the economy is not usually matched by their access to basic services. The challenge for cities is thus to become more proactive and take innovative steps in developing and financing infrastructure as well as providing basic services. African cities face these same challenges, but often lack the capacity both financial and administrative, to take adequate and appropriate action to address them.

1.3 Throughout history, in rich as well as poor countries, urbanisation has been closely associated with economic development. In this context, this Concept Note explores the role of cities and towns in the development process, with special emphasis on the symbiotic relationship between urban and rural development. It examines the nature of rural-urban linkages and suggests how these linkages can be strengthened so that urbanization in Africa can be a driver for rural development and overall economic growth. The Note also sets out the implications of these rural-urban linkages for Government Policy.

2. Is "Urban Bias" Driving the Urbanisation Process?

2.1 Different schools of thought have influenced the view of urban growth and rural-urban migration over the last half century. For Nobel Prize laureate Arthur Lewis (1954), the key to economic development was to move people out of agriculture, where their marginal productivity was close to zero, into more productive and better paying jobs in towns and cities. Permanent rural-urban migration is thus a good thing for the society: the migrants would contribute positively to overall economic growth while improving their own standards of living.

2.2 However, experience on the ground pointed to different results. While there was indeed a rapid urbanisation in Africa, the growing labour force in cities and towns completely outpaced the creation of new jobs in the formal (i.e. modern) economy. In response to this phenomenon, Harris and Todaro (1970) described a situation where the migrants joined the ranks of urban unemployed in search of a formal sector job. The result has been increased poverty for the majority of the urban and rural populations, while the quality of service provision has fallen, especially in urban areas.[3]

2.3 Others have focused on the growth of the informal sector as a result of rural-urban migration. This has increased pressure on the existing infrastructure. Most of the informal sector operators do not contribute significant amounts to local authorities' revenue flows, leading to the failure by local authorities to expand infrastructure due to inadequate funds. At the same time, the great majority of the migrants in the informal sector are underemployed, hence their productivity is very low. Although the informal sector in many African countries contributes almost as much to the GDP as the agricultural sector (in North Africa the contribution is greater), low investment levels in the sector makes graduation into formal activities very difficult.[4] The result has been that informal sector activities have not contributed to significant poverty reduction, regardless of the fact that in most countries labour productivity in this sector is higher than that in agriculture.

Table 1: The Contribution of Agriculture and the Non-Agricultural Sector in Africa

Country	Agriculture	Non-Agricultural Informal Sector
	(----------- Share of GDP in %	-----------)
North Africa		
Algeria	9	39
Morocco	14	39
Tunisia	12	44
Sub-Saharan Africa		
Benin	37	27
Burkina Faso	34	24
Burundi	40	26
Cameroon	39	26
Chad	42	26
Cote d'Ivoire	24	23
Ghana	35	38
Guinea-Bissau	56	13
Kenya	32	17
Mali	42	25
Mozambique	26	29
Niger	38	34
Senegal	19	33
Tanzania	45	24
Togo	34	36
Zambia	22	19

Sources: Agricultural GDP in 2000 from World Development Indicators (2007)
Informal sector share (late 1990s) calculated from ILO (2002) and WDI (2007)

[3] While rural areas might still remain under-served, in recent years public investments have generally favored rural areas over urban areas. For example, the WHO-UNICEF Joint Monitoring Programme for Water and Sanitation reports that, in Sub-Saharan Africa, the percentage of population with access to improved water supply in rural areas increased from 36% to 42% between 1990 and 2004 while the corresponding figure for urban areas declined from 82% to 80%.

[4] See ILO (2002) for comprehensive data on employment in the informal sector and the sector's contribution to GDP. See Table 3 in Concept Note 4 on *Upgrading Informal Settlements in Africa* for some data on employment in the informal sector.

Cities and Towns Are More Productive Places

2.4 There is a well-established relationship between urbanisation levels and income: rich countries are more urbanised than poorer ones. Economies of scale and agglomeration effects make enterprises—and people—in large cities more productive than those located in small towns or rural areas. Agglomeration economies are founded on a large number of factors, such as: a large and diversified pool of labour; a greater local market making it easier to reap the benefits of scale in production; easier access to suppliers and specialized services; lower information and transaction costs; and, because of easier face-to-face meetings and more diversified contact networks, an environment that encourages innovation. For example, due to these agglomeration economies, Nairobi with a little over five percent of the national population produces over 20 % of Kenya's GDP (Table 2). Similarly, other cities and towns in Kenya are more productive than rural areas. Thus, urban centres are in fact "engines of development." Table 2 also shows that the same pattern can be found also in the countries at different income levels in other regions.

Table 2: Cities and Towns Are Productive Places

Country/City	Share of Population	Share of GDP	Relative Productivity
Mexico			
Mexico City	14.20%	33.60%	465%
Other Urban Areas	45.90%	46.10%	197%
Rural Areas	39.90%	20.30%	100%
Haiti			
Port-au-Prince	15.10%	38.70%	458%
Other Urban Areas	9.10%	18.90%	371%
Rural Areas	75.80%	42.40%	100%
Kenya			
Nairobi	5.20%	20.10%	489%
Other Urban Areas	6.70%	10.20%	192%
Rural Areas	88.10%	69.70%	100%
India			
All Urban Areas	19.90%	38.90%	256%
Turkey			
All Urban Areas	47.10%	70.10%	263%

Note: Relative productivity is GDP per capita in the urban centers compared with GDP per capita in rural areas, which has been set to 100 per cent.
Based on Freire, Mila and Mario Polèse (2003): *Connecting Cities with Macro-economic Concerns: The missing Link*

3. Dissecting Rural-Urban Linkages

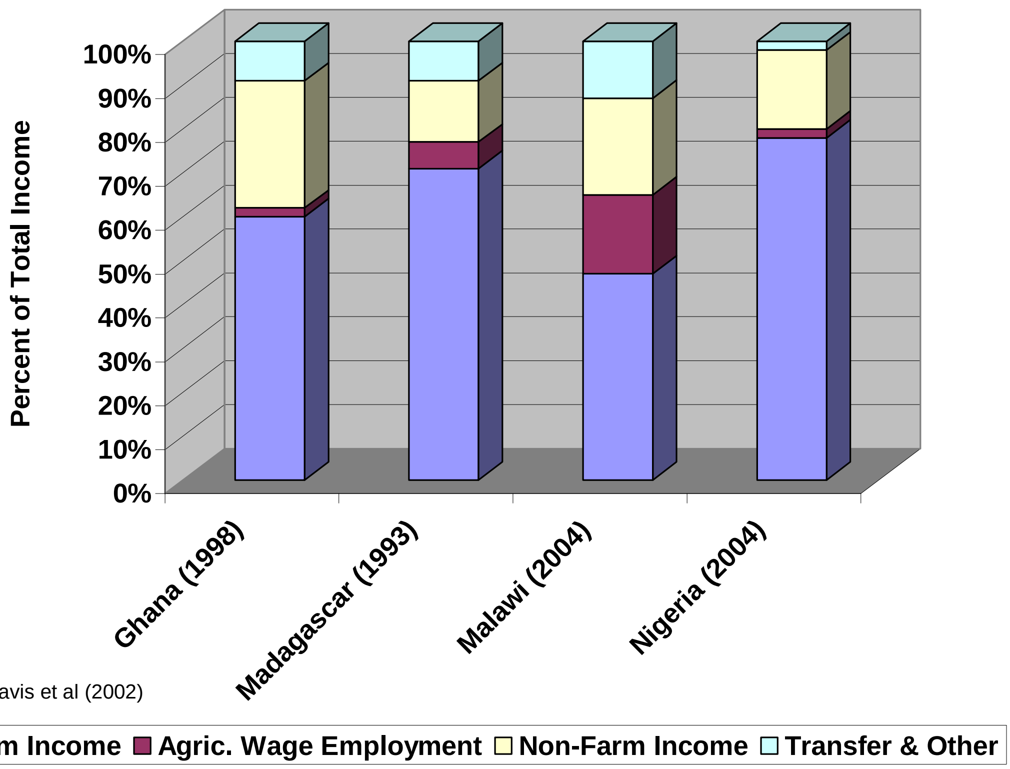
3.1 If African cities have the same potential to support economic growth as in other parts of the world, why has rapid urbanisation on the continent not led to faster economic growth and declining rural poverty? To understand this, we need to examine the economic and social linkages between rural and urban areas.

3.2 Rural Livelihood strategies

3.2.1 Farming is a risky business, susceptible to market fluctuations and exposed to the vagaries of weather. Recent research has amply demonstrated that farm families respond to this by diversifying their sources of incomes and branching into non-farm activities. For most of Africa, in the past, the result has been temporary migration where rural people move to the cities and towns after harvesting their crops and come back to the rural homes at the start of the farming season. In recent years, however, pressures on land and accentuated poverty in the rural areas have resulted in the rural population moving permanently to the urban areas where they engage in informal activities.

3.2.2 Some studies (Tacoli (2006) and Ellis (1998)) show that typically between 30 and 50% of the incomes of rural households in Sub-Saharan Africa are derived from non-farm sources (including remittances), reaching as high as 80-90% in some regions, such as southern Africa (see Figure 2).

Figure 2: Income Sources for Rural Households



Source: Davis et al (2002)

3.2.3 The extent of off-farm work varies significantly from area to area, as do the income sources. The work ranges from handicrafts, temporary construction jobs and small scale trade to public sector jobs and employment at tourist resorts. Another related strategy, especially for the wealthier farmers, is to invest in urban property—a house, a restaurant, etc—that will produce a steady income and also a cushion against bad harvest (see Baker, 2006).

3.3 Rural-Urban Migration

3.3.1 Migration is indeed a key element in the livelihood strategies of many rural families. A study of rural-urban linkages in Mali, Nigeria and Tanzania suggests that about 50 per cent of rural households in the study areas have at least one migrant member, with peaks of up to

80 per cent in drought-prone areas of the Sahel (Bah et al., 2003). Traditionally, rural-urban migration has been seen as the young (mostly men) leaving their families and the hard and tedious village life for the “bright city lights”—or at least for a better future in town. However, various studies show that a growing proportion of migrants are young, single women.

3.3.2 Recent research also shows that migration is not an individual decision but part of the family’s livelihood strategy, with families seeking to maximize the returns on their human capital. Thus, the household members with better education are more likely to migrate to towns and cities, where the returns to education generally are higher than in farming. Indeed, as a general pattern, the better educated tend to move further and end up in bigger cities.

3.3.3 Migration can take many forms and can be temporary or permanent. For example, it can be a seasonal move to the nearest big town when no or few crops are growing. It can often be a step-wise process from a village to a town and a few years later to the capital city. There is also a lot of return or “circular” migration. To a large extent, migration to rural areas is a stage-of-life phenomenon (e.g. moving back to the village in old age or to get married) but also reflects difficulties in finding an urban job. As Zambia’s economy declined, for example, many workers and their families returned to their villages and the share of urban population declined from 40% in 1980 to 35% in 2000.

3.3.4 Rural-urban migration also yields remittances, which are important for reducing rural poverty. The main share of remittances is used for consumption expenditures by the receiving household, but a significant part is usually used for education and a minor part for on-farm investments. In some cases, remittances are also used to set up small-/micro-enterprises in rural areas, which sometimes supply basic goods and services for rural people.

3.4 Rural Market Towns

3.4.1 Market towns play an important role in the social and economic life of rural areas. They are often the administrative centres where various government departments (including the police) are represented. Secondary schools are often located in the small towns as are health clinics or small hospitals. These small towns provide access to a whole range of consumer goods, repair services, as well as veterinary services, grain mills and supply stores. In many respects, they are also the interface between the local rural population and the national (and global) markets.

3.4.2 Planners have tended to stress the importance of small market towns in the agricultural logistics chain, providing inputs and buying outputs. Many rural development strategies have tried to increase the supply of farm services in the market towns. Small and intermediate towns have also been seen as potential “growth poles” that would divert migrants from the major cities and various attempts have been made to locate industries in these towns. The results have been mixed.

3.4.3 This is because the fate of rural market towns, not only as agricultural service centres, but also as providers of personal services and employment, is primarily dependent on the local farm economy. For example, in Ghana’s cocoa-producing Central Region, the collapse of international prices for this commodity in the 1980s triggered out-migration from small towns (Songsore, 2000).

3.5 Cities as Markets

3.5.1 Although some urban households engage in farming activities ("urban agriculture"), city dwellers are primarily consumers of food. With the urban population growing, there is a growing market for agricultural products that benefit farmers—unless exchange rates and the trade regime are biased in favour of imported food stuff.

3.5.2 While migration per se does not increase the consumption of food products, the move of workers to cities has two noticeable effects. First, it increases the amount of food bought and sold for cash and, thus, accelerates the transition from subsistence to commercial farming. Second, by removing some workers from farming while keeping demand more or less constant, the productivity and income per agricultural worker will increase. If the move to the city also leads to higher income for the migrants, aggregate demand for food will also increase.

3.5.3 However, in most countries, the role of towns and cities as markets is yet to reach its full potential. First, the possibility of using staple crops as "drivers" for agricultural development is limited. The price elasticity of staples tends to be low and increased production depresses prices. Further, the income elasticity of basic staples is also low. Thus, growing incomes in cities will not increase the market size significantly. The opposite tends to be true for fruits, vegetables, milk, poultry, etc. Thus, while rising urban incomes may, for example, do little for cassava growers in Ghana, they are likely to have a major impact on the demand for higher value, labour intensive crops and animal products, raising farm incomes and employment—that in turn feed back to the market town linkages described above.

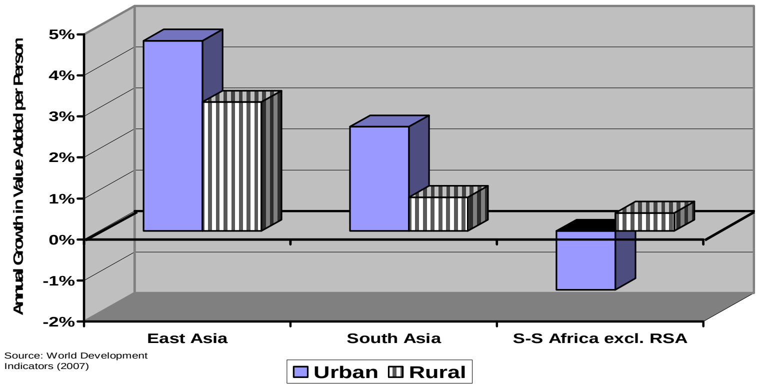
3.5.4 Second, significantly increasing the production of Africa's traditional export crops is also limited. While an individual country might be able to expand exports of cocoa or tea, a broad based increase in production and exports is likely to be hampered by the low price elasticity of demand on the world market. The collapse of international coffee prices after Vietnam entered the export market clearly demonstrates the limited possibility of using these crops to significantly raise the incomes of small holders in Sub-Saharan Africa. While there might be some niches that can be exploited in the horticulture field, the success of Kenya's flower exports is likely to be hard to replicate. (It should also be noted that these growers are hardly small holders: they employ thousands of workers in large greenhouses.)

3.6 Why Have African Cities Not Been Engines of Growth?

3.6.1 By all indications, urban incomes in Sub-Saharan Africa have been declining. Contrary to common perceptions, it appears that rural incomes have recorded a modest increase over the 1970-2005 period[5] (see Figure 3 next page).

5 Because there are no real surveys that systematically tracks urban and rural incomes, the figure is based on measures that are closely linked with urban and rural incomes. Agriculture value added (in constant 2000 US$) per rural person is used as a proxy variable for rural incomes. Value added in industry and services per urban person is the proxy variable for urban incomes. Since there are some industrial and service activities in rural areas and as well as agriculture in urban areas, these are only approximate measures. Furthermore, the definition of urban and rural varies from country to country. Thus, the resulting incomes should not be compared, either between urban and rural areas within a country or across countries. However, the trend for the two proxy variables should be fairly close to the real trend in urban and rural incomes.

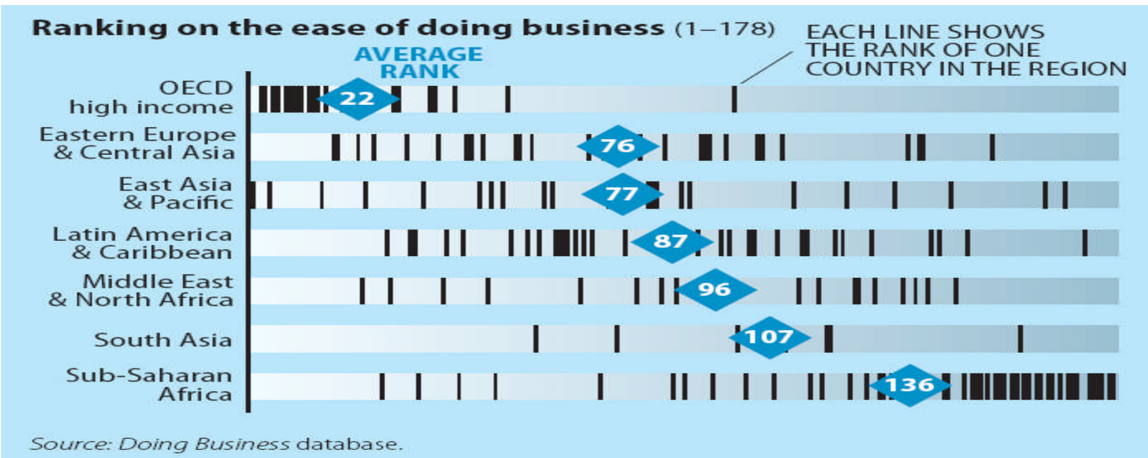
Figure 3: Indicative Changes in Rural and Urban Incomes 1970-2005



3.6.2 The fall in urban incomes has implications for increasing urban poverty, linkages with urban agriculture, the environment and infrastructure provision, among others. When compared with Asia, urban based economic activities in Africa (i.e. industry and services) have performed poorly and the essential growth link between urban incomes and increased demand for agricultural goods has been missing. Especially, the declining incomes in urban areas has meant that the market for high value agricultural products such as fruits, vegetables, milk, eggs and meat has been very sluggish. This is in stark contrast to India where about 40% of the growth in agriculture output between 1982 and 1998 came from high value products (Parthasarathy Rao et al. 2004).

3.6.3 Three areas of economic policy stand out as constraints to more rapid growth of urban economies: macro-economic instability, poor investment climate and inadequate infrastructure[6]. However, over the last decade or so, progress has been made in addressing many of the past macroeconomic policy failures. Macro-economic policies are now more sustainable and promote stability. Nevertheless, weaknesses in the provision of infrastructure and the investment climate still have to be addressed in a systematic manner. It is much more difficult for firms—both domestic and foreign—to do business in Africa than in other regions (see Figure 4).

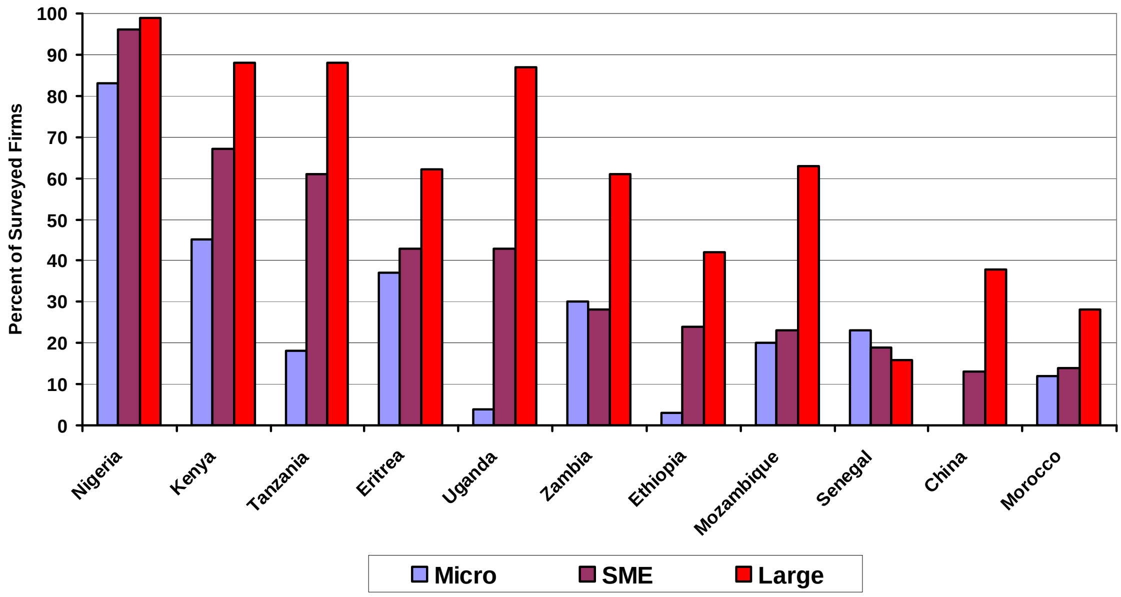
Figure 4: It is Difficult to Do Business in Sub-Saharan Africa



6 Some other factors influencing urban and rural development are political instability, conflicts and wars as well as HIV/AIDS.

3.6.4 What is emerging in many surveys is that African business managers regard infrastructure deficiencies as major constraints. It is not surprising that the quality and coverage of Africa's infrastructure lag behind richer-regions. However, even when the countries in Sub-Saharan Africa are compared with countries in other regions at the same income levels, they lag behind in terms of roads network, access to power, telecommunications and water. A key response to public sector failure is for firms to make costly investments in their own facilities. Thus, most medium sized and large firms in Africa have their own standby generators (Figure 5).

Figure 5: Use of Standby Generators



3.6.5 Indeed, poor infrastructure puts firms in Sub-Saharan Africa in a poor competitive position. Eifert & Ramachandran (2004) notes that:

> *"…if Kenya's poor electricity system were improved to the quality of China's, the resulting cost savings and productivity increases for Kenyan firms would be financially equivalent to the near-total elimination of their labour costs."*

3.6.7 The inadequate provision of basic infrastructure facilities has several causes:

- Underinvestment in basic infrastructure;
- A system of governance in cities and towns that make Government projects and programs unresponsive to local needs;
- Poor management of land and the urbanization process—a problem that manifests itself most visibly in the mushrooming slums that permeate African cities.

4. Role of the African Development Bank

4.1 The African Development Bank has a critical role in promoting cities as growth poles. The Bank's strategic orientation is anchored on supporting delivery and expansion of basic infrastructure services; improving municipal finance and facilitating access to capital markets; building capacity for maintenance of public infrastructure assets; and promoting viable Public Private Partnerships (PPP) schemes for infrastructure projects and public service delivery programmes. The Bank will also put emphasis on strengthening the corporate governance and managerial capacity of cities by providing, appropriate policy-based assistance; supporting fiscal decentralisation reform processes; and promoting a culture of transparency; strengthening anti-corruption safeguards in the management of cities.

5. Conclusions

5.1 The preceding analysis has demonstrated that there is a symbiotic relationship between rural and urban development. This symbiotic relationship is reflected in the livelihood strategies of individual households, in the close linkages between market towns and their rural hinterlands as well as in the interdependence between urban consumers and agricultural producers. The choice is not between urban or rural development; programs and projects to promote agricultural growth and alleviate rural poverty need to remain in place. However, they will become more effective if governments pursue a sound urban development policy. Thus, the key challenge for African policy makers and donors is to get the most benefits from the urbanization process and to find ways of strengthening rural-urban linkages to help accelerate economic growth and reduce poverty.

6. Issues for Discussion

6.1 In addressing this overarching question, the participants in the High Level Seminar may want to give special emphasis to the following questions:

- Although migration contributes less to the growth of cities and towns than natural population increase, a survey undertaken by the United Nations (2008) showed that 83% of African governments had a policy that sought to reduce rural-urban migration. Do such policies promote economic growth, equity and rural development?
- Are Africa’s main cities too big (in terms of population)? Or are they too small?
- How important is high quality infrastructure in a globalizing world?
- Are macro-economic policies still biased in favour of urban residents? In favour of urban enterprises? If so, how does this urban bias manifest itself?
- What role do small and intermediate towns play in supporting agricultural growth and poverty alleviation?
- What is the proper balance in terms of infrastructure investments in big cities, small towns and rural areas? Slum upgrading versus rural feeder roads? Better fixed line telephone system or electrification of small towns? Etc.
- What role could and should ADB play in supporting urban development in Africa?

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HIGH LEVEL SEMINAR II

FINANCING
URBAN DEVELOPMENT

Concept Paper

Date: *13 May 2007*
Venue: *Room 2*
Centro Internacional de Conferências Joaquim Chissano (CCJC)
Time: *2:30 pm to 5:00 pm*

A big push is required to close the infrastructure and service gaps in urban Africa. This big push calls for large investments and a different way of doing business. Urban development can be financed by tax revenue, user fees or donor assistance. While there is a role for the government to be an active agent in the provision of some urban infrastructure and services, because of their non-excludability and non-rivalry characteristics, the large resources required implies creating an enabling environment for the private sector to invest and manage those infrastructure and services. Governments must change the way they do business. Decentralization of government services, accompanied by increased accountability, can generate faster and better infrastructure and services in urban areas. Municipalities should be given more powers to tap into the credit market provided this does not make debt unsustainable. Such municipalities must be made accountable both to the beneficiaries and to the central governments. The technical expertise of municipalities must be improved. As for the private sector, an appropriate regulatory environment is required for investors to feel secure and provide the services at competitive prices.

Financing Urban Development

1. Introduction

1.1 *Financial Needs*: According to the UN Millennium Project, Africa must significantly improve the lives of at least 31 million slum dwellers by 2020 if it is to meet its share of target 11 of MDG-7 (i.e., ensure environmental sustainability). This would translate into investments of the order of $16 billion (UN Millennium Project, 2005, page 128, Table 8.3). If the more ambitious objective of eradication of African slums is pursued, then the costs jump to $167 billion for the population of 250 million African slum dwellers. In addition, rapid urbanization is putting increased pressure on African local governments to meet the services required by expanding populations with limited or no capacity to pay for even basic services. Resources are needed to extend water and sanitation services so as to reduce water-borne diseases, to build roads, schools and hospitals. Financing is also required to develop mass transportation so that cities can develop and sustain their economic potential. Hence, the financing requirements to close the infrastructure and service gaps in urban Africa are large, growing and urgent.

1.2 *The Challenge*: The poor state of urban infrastructure and services is a reflection of past economic stagnation and institutional failures. The poor economic performance of the 80s and 90s, and political instability in a number of countries, precluded public and private investments. Migration from rural to urban areas compounded the problems. However, for the past 5 years Africa has turned the corner and its GDP has been growing at around 5 to 6 percent every year. Africa's challenge now is to capitalize on its current good performance and find appropriate financing solutions to upgrade its urban infrastructure while planning for the future. These solutions need to draw from the lessons of the past and take into account the diversity of African urban areas. Some cities (e.g. Johannesburg, Tunis) have well functioning institutions and decent urban infrastructure, while others (e.g. Freetown) are emerging from civil conflicts. These conflicts not only destroyed almost all their urban infrastructure but also reduced their financing options for urban development.

1.3 *Outline*: This Concept Note explores options that Africa faces in mobilizing resources for urban development. Section 2 assesses the nature of investments required in urban infrastructure and services and identifies what financing options are available to the public sector. Section 3 discusses how private sector can complement the public sector and what actions need to be taken to facilitate public-private investments and partnerships. Section 4 provides some issues for discussion.

2. The Public Sector Rationale

2.1 *Characteristics*: All urban infrastructure, and almost all services, which are required as urban centers develop are characterized by large investments, high technical contents, long lag time between conception and delivery, and in many cases their public good and high externalities nature. An example is the implementation of a mass transit system, construction of an airport or hospital to service one or more cities.[7] These characteristics have a number of

[7] Algier's Houari Boumediene Airport, which opened in 2006, cost an estimated $327 million (Oxford Business Group, volume 54, available at http://www.oxfordbusinessgroup.com/weekly01.asp?id=2183).

implications. The large investments which must be made before revenue is earned, means that few private businesses are willing to engage in those projects. The high technical contents of the projects require many experts. In most African countries, even in those which are the most developed, such expertise is rare. Finally, the imbedded externalities of many of those goods and services mean they cannot be efficiently priced by the market.[8]

2.2 *Public Domain*: As a result of these unique characteristics, the financing, delivery and maintenance of urban infrastructure and services have long been viewed as the reserved domain of governments. However, this rationale has been questioned. In many instances governments have not been able to provide new and maintain existing urban infrastructure and services. Most of them have not been able to plan for future needs. Such planning failure, for instance in the energy sector, can have very adverse effects on economic growth. The reasons are numerous and include shocks (internal and external) which reduced economic growth and, as a result governments' resources, poor management, low human capital, and rapid urban growth.

2.3 *Level of Government*: Nowadays it is clear that the urban financing requirements cannot be met solely by the public sector. Both public and private investments are essential to restore existing urban infrastructure and build new ones to meet the current and future population needs. The public sector can be a catalyst by promoting an enabling environment for the private sector to confidently invest in large urban infrastructure projects, and also by being a partner of the private sector. However, an important issue is which level of government should be supplying urban infrastructure. The provision of basic services and local infrastructure is usually seen as the domain of municipal governments as they are closer to the inhabitants and, thus, in a better position to understand their needs.

2.4 *Decentralization*: Many countries have sought to decentralize service delivery to local governments so as to improve the delivery of urban infrastructure and services. However, this has often not been associated with better outcomes. One possible explanation is that local governments are still relying on central governments for most of their revenue. Most countries do not have a transparent and accountable system for allocating funds to municipalities. Rather, transfers tend to be unpredictable. This makes it impossible to plan large-scale infrastructure investments that require several years of capital outlays.

2.5 *Autonomy*: In most of Africa, central government ministries and agencies tend to finance and build all major infrastructure facilities. With the noticeable exception of South Africa, local governments in Africa generally account for less than one-twentieth of all public expenditures. Most of these limited budgets are spent on recurrent cost, with little left for investments. Local governments are left with responsibility for few activities, such as solid waste collection and disposal, bus terminals and slaughterhouses. In addition, municipal budgets are typically approved by the central government. By implication, the central government would need to approve any long-term borrowing by municipalities and its approval is often perceived as a guarantee that sufficient funding would be available for debt service.

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8 For instance, a good sanitation system gives private benefits to the households which use it. However, the benefits are not exclusive to the household that uses the sanitation: diseases are less likely to spread to other households who therefore benefit when modern sanitation and waste water treatment is made available to as many households as possible.

2.6 *Land Tenure*: Governments can use taxes or user fees to capture a portion of the value added by their public investments in urbanization such as roads, sanitation, and schools. Local property taxes typically capture 1 to 2.5 percent of property values to fund local public services in developed countries. However, the implementation of such a system assumes that property rights are adequately defined. The absence of well-defined property rules and cadastral system, as well as weak political accountability, mean that property taxes generate very low revenue in many African countries. Herein lies a typical coordination failure. A good cadastral system is required to generate the revenue to finance urban development which will spur economic growth. However, governments need resources to set up the cadastral system, property registry, effective legal enforcement and most importantly the technical skills required to manage the system. Property taxes are also unpopular, especially among the rich and the business community, perhaps because they are more difficult to avoid than income taxes. Thus, even where real estate taxes exist, the assessed values of the properties are rarely adjusted for inflation and tend to be severely outdated.

Box 1: Property Taxes--A Missed Opportunity

Access to infrastructure and the quality of services has a major influence on rents and property values. In Nairobi, for example, the rent for a room increases from $12 per month to around $20 per month if the dwelling has access to basic services such as water, electricity, and a pit latrine. The common way for the government to capture some of the benefits derived from public infrastructure is through real estate taxes. If well managed, property taxation can be an important and buoyant revenue source for municipalities. In many cities around the world, it is the main revenue source. However, with the main exception of South Africa, the property tax is grossly underutilized in Africa. While property tax makes up about 20 percent of the revenues in Johannesburg, the corresponding figure for Lagos is only 1 percent.

2.7 *Fragile States*: When dealing with financing issues of urban areas in Africa there are good reasons to treat fragile and post-countries separately from the rest of Africa. Generally speaking, fragile states are characterized by weak governance, policies and institutions. The term straddles states experiencing state collapse and violent conflict, those emerging from violent conflict as well as those facing the threat of such conflicts. Fragile states face more stringent financing and institutional constraints and more acute urban development needs. The collapse of government revenues is often a feature of state fragility. In conflict and post-conflict countries urban infrastructure, such as roads and bridges, have deteriorated through neglect and destruction. Fragile states have few domestic financing options for urban development or for other expenditure needs – the financial system tends to be dysfunctional and private confidence non-existent. Consequently, fragile states are likely to be dependent on aid flows for their expenditure needs.

2.8 *Post-Conflict*: Countries experiencing conflict are unlikely to prioritize urban development as the imperative of winning the war often takes precedence. Moreover urban development initiatives are likely to have been reversed through destruction brought by fighting. For post-conflict economies there are potentially three major sources of finance – aid, repatriated flight capital, and the diaspora (through remittances and technical expertise). Aid tends to surge in the first few years after a conflict. However, aid management capacity is often weak, sometimes resulting in low disbursement rates. The challenge for municipal administrations is to strengthen their capacity for project management to attract aid. Conflict induces capital flight so that by the end of the conflict a considerable proportion of a country's wealth is likely to have accumulated abroad. Flight capital is therefore a potential source of finance in post-conflict states. The question is how can such flight capital be attracted to urban development? Some of the policies required for flight capital repatriation are macroeconomic in nature – notably low inflation and political stability – and would serve to ensure that flight capital returns to the country but not necessarily be used for urban development. The challenge here is to design policies aimed at attracting flight capital to urban development in particular. The diaspora, whose size tends to increase during conflict, is another source of finance.

2.9 *Remove Private Sector Hurdles*: Private investors often quote six factors that make investments in most of Africa less attractive:

- High level of regulatory uncertainty, which increases project risks and makes mobilization of debt difficult, if not impossible;
- Lack of clarity in the decision making process and resulting implementation delays;
- Lack of government commitment, which often provides vested interests with ample opportunities to effectively block private participation;
- Lack of buyer creditworthiness, or the limited ability and/or willingness of consumers to pay for the service;
- Limited availability and convertibility of foreign exchange, which makes servicing of loans and repatriation of profits uncertain; and
- Shallow domestic financial markets and high costs of local debt forcing developers to raise equity and debt internationally, even if a major share of project revenues and/or construction costs is in local currencies.

2.10 There are donor instruments and facilities that can help overcome the last three constraints. Technical assistance can help overcome the first two problems. This means that, in many countries in Africa, a key missing factor is government commitment. Bearing these constraints in mind, we now turn to how the private sector can contribute to the provision of urban infrastructure and services in Africa.

3. Tapping into the Private Sector and Financial Markets

3.1 Depending on the level of development of the country, and on private investors' confidence, the private sector can play a more or less important role in financing urban infrastructure and services.

3.2 *Getting Prices Right*: A necessary condition for engaging the private sector in the provision of urban infrastructure and services is that tariffs allow investors to earn a good return. Strong political resistance against setting tariffs to cover the full cost of services has made it difficult to mobilize financing for urban infrastructure.[9] However, numerous studies have shown that the poor are not only willing to pay for utilities, but often actually do pay relatively more than middle and upper income households, and often for inferior service,

[9] For example, data from the regulatory authority in Zambia indicate that, in 2005, the tariff revenues of the urban water utilities were sufficient to cover only 70 percent of their operating costs. Similar figures were reported by Otun (2003) for nine State Water Agencies in Nigeria.

whereas subsidies to higher income groups, which typically consume more of the services, enjoy higher benefits.[10]

3.3 *Promote Public-Private Partnerships (PPP)*: Between 1984 and 2006, Africa attracted private participation in infrastructure worth over US$92 billion. However, there are important regional variations. The bulk of these investments took place in South Africa and North Africa. In all of Sub-Saharan Africa, excluding South Africa, the investments amounted to $33 billion. Two-thirds of this amount was for projects in the telecommunications sector, leaving only about US$11 billion for all other infrastructure sectors. Private investments in infrastructure remain a small part of the estimated US$15 billion required annually over and above current investment levels, to achieve the MDGs by 2015. These investment flows come at a time when the public sector investments in Sub-Saharan Africa appear to have dropped drastically from over 4 percent of GDP in the early 1980s to less than 2 percent of GDP around 2000. In comparison, China and Vietnam are investing around 10 percent of GDP in infrastructure. Thus, there is scope for increasing private participation in Africa's infrastructure development.

3.4 *PPP Experience in Water*: In many parts of Africa most people living in the cities and towns get drinkable water from private water vendors but not from the public system. Although small scale entrepreneurs play an important role in water supply, there has been a great reluctance to bring in private enterprises to manage water and sanitation systems. There are however some significant exceptions. In 2005, Algeria contracted with private firms for the construction and operation of three water treatment plants with a total investment cost of US$510 million. South Africa has also been able to attract significant private participation and financing via concession contracts for water and sanitation services, where private operators handle operations and maintenance, the financing of fixed assets and provision of working capital for a period of 15 years or longer. In some parts of Africa, international water companies have been interested in management or lease/affermage contracts where they make few or, more commonly, no investments, i.e. funding for new investments come from governments.

3.5 Besides Algeria and South Africa, 15 countries have at one time or another entered into management or lease contracts for water supply. Two of these have been canceled and six have expired without a new operator having been appointed. Thus, at present, only seven countries have on-going contracts with private operators. On the whole, it appears that the experience in West Africa (especially in Cote d'Ivoire but also in Niger and Senegal) has been more successful than in other parts of the continent. An interesting alternative to seeking an international partner for the utility can be found in Uganda, where water supply in 57 towns with a population of about 750,000 is managed by fifteen local private operators.

3.6 *PPPs at the Local Level*: On the whole, it appears that the potential role of local enterprises has been overlooked, although many private service providers already exist. In South Africa, the Municipal Infrastructure Investment Unit (MIIU) provided advice to local governments on how to structure public-private partnerships in a broad range of municipal activities. The result has been a number of innovative solutions to activities that traditionally have been carried out by the local governments themselves. One area where there is great

[10] Slum-dwellers in Dar es Salaam pay the equivalent of $8 for 1,000 litres of water, bought by the canister. In the same Tanzanian city, wealthier households connected to the municipal supply receive that amount for just $0.34. In the UK, the same volume of tap water costs $1.62 and in the US it is as low as $0.68 (Financial Times, April 3, 2008).

scope for public-private partnerships is land and housing development where access to land and development rights can be conditional upon the provision of infrastructure services. Another option is to promote community-based alternatives and there are many examples of neighborhood water supply systems managed through NGOs and community-based organizations.

3.7 *Credit Constraints*: When few resources are available from the central government to finance urban development, local governments could in theory tap into financial markets to relax their budget constraints. However, if local governments are not accountable, and the system of checks and balances are inappropriate, it is likely they will not be allowed to borrow. The reasons could be the desire to control or limit public sector debt or, more importantly, to prevent moral hazard problems. Indeed, a central government might have an explicit or implicit obligation to bail out local governments that cannot service their debt.

3.8 *Municipal Development Banks*: Given the difficulties that municipalities face in accessing funds on the commercial market, more than 50 countries have established special credit intermediaries, commonly referred to as municipal development banks, to lend funds to local governments. Although some of these institutions have been around for almost three decades, they have largely remained vehicles for channeling funds from international institutions and central governments. Generally, their financial performance has been poor. The exceptions are institutions that have collateralized the loans, generally through the right to intercept transfers from the central government to the borrowing municipality. Thus, if they operate on sound commercial principles, municipal development banks can help local governments gain access to domestic capital markets. For larger cities, a municipal development bank should be regarded as a transitional institution in the phase just before the borrower can access commercial bank loans or the domestic bond market on commercial terms. For smaller municipalities, municipal development banks can be an efficient way of pooling their financing requirements and gain access to long term capital markets.

3.9 *Access Capital Markets*: Commercial lenders tend to impose more stringent criteria than municipal development banks before they extend loans to sub-sovereign borrowers. Sound financial management (controls, audits, procurement reforms, etc.) is a required condition for access to capital markets. However, when the future financial prospects for the municipality are uncertain, lenders typically also insist on some form of security. This has meant that different types of municipal bonds have emerged:[11]

- General Obligation Bonds, backed by the full faith and credit of the issuer and its taxable resources;
- Limited and Special Tax Bonds, backed by the proceeds of a specific tax; and
- Revenue Bonds, backed by the revenues from specific services, e.g. bus terminals, public markets, water, etc.

3.10 General obligation bonds are uncommon in Africa. Where they have been used, as in Zimbabwe in the 1990s, they were assumed to carry an implicit central government guarantee. More frequently, the bonds are backed by an earmarked tax or revenue flow, which is channeled through an escrow account.

[11] Banks adopt similar approaches. To simplify the discussion, the discussion here focuses on bonds.

3.11 *Experience with Capital Markets*: Africa's ability to tap into capital markets to raise private finance for infrastructure is limited by three related factors (Sheppard, von Klaudy and Kumar, 2006). First, most African countries have low or nonexistent sovereign credit ratings. Second, most local financial markets are not able to finance infrastructure projects. Third, infrastructure projects are by nature risky and not very attractive to the private sector. As a result, few African cities can access capital markets through municipal bonds of varying tenors on a non-guarantee basis. South Africa's larger cities are in that league, although thus far only Johannesburg has made use of this mechanism (see Box 2) and Cape Town is in the process of initiating a process to establish a 5-year Domestic Medium Term Note leading eventually to a City of Cape Town municipal bond issuance. Cairo and Lagos could be strong candidates for such financing mechanisms. Africa can learn from the experiences of smaller and medium sized cities in Mexico and India, using the pooling of financing needs to develop credible financing demand for the markets to respond to.

Box 2: Municipalities Tapping into the Bond Market

The City of Johannesburg has in recent years issued several bonds and borrowed from banks. In 2004, it issued a 6-year bond. Later the same year, it issued a 12 year bond with a partial guarantee covering 40 percent of the principal from the Development Bank of Southern Africa and the International Finance Corporation. The bonds were rated AA- by FitchRatings, a three notch upgrade from the City's stand-alone rating of A-. The issue was oversubscribed allowing for spread tightening to 164 basis points above the benchmark. Thanks to the guarantee, the City of Johannesburg managed not only to extend the maturity of the bonds but also lower the interest rate. Outside Africa, other developing countries provide examples which could be emulated wherever the capital market is sufficiently developed. For instance, the Philippine Bankers' Association created the Local Government Units Guarantee Corporation (LGUGC) that guarantees municipal bond issues. The LGUGC charges an upfront fee of 2.5% to 3.5%. In case of a default, LGUGC assumes the debt service obligation. To avoid any moral hazard problem, LGUGC has the right to intercept the transfers from the central government to the municipality.

4. Role of the Bank and Discussion Topics

4.1 This Concept Note has provided evidence that inadequate infrastructure lowers the productivity of urban enterprises and limits their growth potential. Concept Note 4 on Upgrading Informal Settlements in Africa demonstrated that the lack of basic infrastructure has a serious impact on the lives of the urban poor. Concept Note 1 on Cities as Growth Poles showed that the failure of cities and towns to fulfill their potential role in the development process has retarded agricultural growth and rural poverty alleviation.

4.2 The Bank has made investment in infrastructure its key priority. Between 1993 and 2006, the Bank approved about $400 million to infrastructure projects. As a reflection of this new focus the Bank organized and hosted the Africa Water Week in March 2008 which, among other issues, addressed the need to invest in water infrastructure.

4.3 Concerning the Post-Conflict Country Facility, the Bank has also proposed a revised framework to be more effectively engaged in countries in all fragile situations, while focusing particularly on a smaller subset of post-crisis/transition situations. A supplementary financing mechanism aims at providing incremental resources for enhanced engagement in post-crisis/transition situations. A limited pool of additional resources also allows the Bank to provide supplementary targeted support for capacity building, knowledge management, etc. in the full range of fragile countries.

5. Issues for Discussion

Given the need to overcome the infrastructure and service gaps in urban areas, and drawing from the above discussion, the following questions need to be answered.

- What is the role of the different levels of governments in addressing the infrastructure and service gaps in the urban areas of Africa?
- How to guarantee that decentralization and autonomy of municipalities ensure delivery of services to urban areas?
- How to finance urban development in fragile and post-conflict countries?
- Which urban services and infrastructure could be provided by the private sector?
- How to best guarantee access to poor households when urban services are privately run?
- What specific role can the Bank play in financing urban development?

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HIGH LEVEL SEMINAR III

DECENTRALIZATION
AND
URBAN GOVERNANCE

Concept Paper

Date: *13 May 2008*
Venue: *Room 3*
Centro Internacional de Conferências Joaquim Chissano (CCJC)
Time: *2:30 pm to 5:00 pm*

Executive Summary

Urban growth has been and continues to be a largely unmanaged process in many African countries. This is clearly demonstrated by the mushrooming of slum settlements and poor infrastructure that reduces productivity and competitiveness. Admittedly, urban growth is rapid, but the main problem appears to be weak institutional capacity for managing the urbanization process in an efficient, effective and sustainable manner.

The key challenges in strengthening urban management are: restricted political mandates of municipalities; inappropriate legislative and regulatory frameworks; inadequate administrative frameworks; meager financial resources; weak management capacity; and, ineffectual relationships between the municipalities and their citizens.

Public sector programs and projects need to be finely tuned to local conditions and requirements, which can only be achieved by moving decision making down to the lowest possible level. Central governments can not process all the information needed for sound and responsive decisions, as there are certain areas where local governments have comparative advantage. In spite of some progress in recent years, political, administrative and fiscal decentralization is still embryonic in most of Africa. The decentralization scheme must also provide a consistent framework for the operation of governments at different levels and establish mechanisms for coordination and collaboration between governments at different levels and between governments at the same level.

Thus, policies, legal frameworks and governance must be reformed. The private sector and civil society, including community organizations, have to be involved. The Seminar presents an avenue for the Governors of African Development Bank to consider the areas of interventions of AfDB in promoting better governance in the continent’s cities.

Decentralisation and Governance

1. Introduction

Urban growth has been and continues to be a largely unmanaged process in many African countries. This is clearly demonstrated by the mushrooming of slum settlements across many African cities and poor infrastructure that reduces productivity and competitiveness. Admittedly, urban growth is rapid, but the main problem appears to be weak institutional capacity for managing the urbanization process in an efficient, effective and sustainable manner. This multifaceted problem requires action on both national and local levels.[12]

Experience has shown that sustainable urban development depends on political leadership committed to a democratic and equitable vision of urban society, together with transparent and capable urban management systems. Public sector programs and projects need to be finely tuned to local conditions and requirements, which can only be achieved by moving decision making down to the lowest possible level. Central governments can not process all the information needed for sound and responsive decisions. In spite of some progress in recent years, political, administrative and fiscal decentralization is still embryonic in most of Africa. Thus, policies, legal frameworks and governance must be reformed. The private sector and civil society, including community organizations, have to be involved. The key challenges in strengthening urban management are:

- Restricted political mandates of municipalities;
- Inappropriate legislative and regulatory frameworks;
- Inadequate administrative frameworks;
- Meager financial resources;
- Weak management capacity; and
- Ineffectual relationships between the municipalities and their citizens

1.3 This Concept Note provides an overview of how the urban development process is managed in African cities and towns and outlines possible solutions. Related topics are discussed in Concept Note 2 on *Financing Urban Development* (e.g. local government finance and transfers from central governments) and Concept 4 on *Upgrading Informal Settlements in African Cities* (e.g. governance of the land development process for the urban poor).

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[12] Sub-national governments might exist at several levels: state (in a federal system), province/regional, district, municipal and sub-municipal/neighborhood levels. In this paper "local government" generally refer to the municipal level.

2. Patterns of Urban Management

2.1 Overview of Municipal Responsibilities in Africa

2.1.1 There is a great variety in the services that African municipalities are expected to provide vis-à-vis the responsibility of the central governments. However, the general pattern of service delivery appears to be as follows:

- ***Electricity*** and fixed-line ***telephone*** services are provided by national utilities;
- ***Major roads*** are built and maintained by a national highway authority;
- ***Urban streets*** are constructed and maintained by local authorities;
- ***Water supply*** is increasingly provided by national or regional utilities that are outside the direct control of municipal authorities (although in some places it remains a municipal responsibility);
- ***Solid waste*** collection is a local responsibility
- Construction and maintenance of ***public facilities*** like parks, markets, bus stations, slaughter houses, etc. are the responsibility of municipalities;
- ***Primary education*** and ***basic health*** services are increasingly local responsibilities;
- ***Urban planning*** is carried out by municipalities, but with centralized approval;
- ***Land management*** is largely a central government responsibility but with certain powers delegated to municipalities—often contributing to incomplete records and cumbersome approval procedures (and corruption);
- ***Construction of municipal infrastructure*** in Francophone Africa is often carried out by a central public works organization (e.g. Agetip in Senegal) and the cost is charged to the municipalities. (It is not always clear who sets the priorities: the municipalities or the construction agency.)

2.2 Decentralization

2.2.1 Although the list of municipal responsibilities is quite long, local governments in Africa (with the noticeable exception of South Africa and to some extent Zimbabwe and Uganda) play only a limited role in the development process. To understand why this is the case, it is important to look at the different aspects of decentralization.

- Political decentralization means the transfer of policy and legislative powers from central governments to autonomous, lower-level assemblies and local councils that have been democratically elected by their constituencies;
- Administrative decentralization involves placing substantial planning and implementation responsibilities in the hands of locally situated civil servants who fall under the jurisdiction of elected local governments, but also the authority of local governments to hire and fire staff and to set pay scales, etc.;
- Fiscal decentralization entails according substantial authority for revenues and expenditures to intermediate and local governments

2.2.2 Over the last decade or so, as part of the general trend towards more democratic government, there has been a steady movement towards political decentralization in many countries.

2.2.3 With political decentralization, there have also been some moves towards administrative decentralization, but this process has been more limited. Land administration still remains a prerogative of the central government in many countries. The right of municipalities to hire and fire staff and to set pay scales remains circumscribed. Furthermore, local governments find it hard to recruit qualified professional staff. The Lusaka City Council, for example, is severely hampered by this: in the Legal Services Department, one out of eight professional positions were filled in 2002; in the Planning Department, five out of 30; in the Engineering Department, four out of 15. The Department of Valuation and Real Estate Management (which, inter alia, evaluates all properties for real estate tax purposes) had only one registered evaluation officer. The seven unlicensed officers were not allowed to sign evaluation reports and could not appear in court (UNECA, 2002).

2.2.4 Local governments have generally been given more clearly defined and expanded responsibilities for service delivery and for meeting the associated expenditures. However, these expenditures generally must follow certain norms and the budgets must be approved by the ministry of local governments and/or the ministry of finance.

2.2.5 Unfortunately, it is rare that local governments have been provided with new revenue sources. Their tax base remains extremely limited and tax rates are frequently set by the central government, or at least need to be approved by it. Central governments make up, through transfers, some of the gap between what municipalities should spend and the revenues they are able to raise. Most of the adjustments are in the form of reduced investment budgets and neglected maintenance.

2.2.6 Thus, what the Economist magazine (2006) observed about local governments in Britain seems applicable also to most African countries:

> *"The government... allows them [i.e. local governments] a little autonomy over planning, issuing alcohol licences, collecting rubbish and the design of lamp posts, but that's about it. Central government controls how much they tax and what they spend money on."*

2.3 Managing Water and Sanitation

2.3.1 In developed countries, water and sanitation systems are typically managed locally, either as a municipal department or as a financially autonomous entity. These entities may be various forms of public-private partnerships. In much of Africa, however, local governments have little responsibility for water and sanitation. In Francophone Africa, it is common that water supply is the responsibility of a national utility serving the whole country (e.g. Senegal, Cote d'Ivoire and Tunisia). In Eastern Africa (e.g. Kenya, Tanzania and Zambia), the move is towards establishing regional water utilities, some of which may cover only one metropolitan area (such as Dar es Salaam). There is a general conclusion among researchers that the access to water and the quality of service was better in countries with one nation-wide water utility than in countries where the responsibility rested with the local governments. It appears, however, that the regional approach can provide some of the same economies of scale and professionalism as the nation-wide approach.

2.4 Capacity of Local Governments

2.4.1 "Local government" is interpreted quite differently in the region. There are major differences in the size of the area and population local governments serve (Table 1).

Table 1: Average Population and Geographic Size of Selected Local Governments

Country	Average Population	Average Size (sq. km.)
Sudan	293,400	17,400
Côte d'Ivoire	221,769	3,740
Nigeria	204,267	1,206
Kenya	191,916	3,344
Somalia	142,464	7,591
Uganda	86,222	775
Angola	77,822	7,510
Rwanda	76,700	236
South Africa	69,842	1,771
Ghana	26,410	301
Algeria	21,124	1,546
Mali	15,124	1,771

Source: Fox and Gurley (2006)

2.4.2 Also within the country, there can be significant variation between metropolitan municipalities (with millions of people) and rural districts. Especially small, primarily rural municipalities in remote areas can have great difficulties in attracting qualified staff. Fjeldstad *et al*. (2004) in a study of financial management in six local governments in Tanzania observed that they were short of financial staff (a problem made more severe by multiple and sometimes conflicting reporting requirements to central ministries). The study also noted a general picture from the Treasury Departments is that about one third or less of the staff are trained accountants. The remaining majorities of staff have either no formal training in accounting or only certificates…The Internal Auditor's Offices in the case councils are either weakly staffed or not staffed at all.

3. What Are the Key Problems?

3.1 Concept Note 4 on Upgrading Informal Settlements in African Cities analyzes why urban areas do not meet the basic needs and aspirations of the urban poor. In order not to repeat the issues and possible solutions for the problem of slums, this section will concentrate on some of the key problems that limit the productive potential of the continent's cities and towns.

3.1.1 Investment climate surveys show that access to land is not just a problem for the urban poor but also for enterprises. Acquiring land takes around ten to twelve months and can be expensive. In Mozambique, firms pay an average of $18,000 in processing fees to obtain land. In Nigeria, large bribes are usually required and some firms reported having waited as long as ten years for land. Preferential treatment and rationing also arise from state ownership. For instance, in Eritrea there was a clear pattern that well-connected firms get land easily, whereas others obtain land at great difficulty and expense. In Ethiopia, rent costs for private firms are as high as 16-25 percent of total sales, whereas government-owned firms only pay 2 percent of sales (Eifert & Ramachandran, 2004). Kessides (2006) shows that firms in Senegal complained that improvements in tax administration, business registration, and customs were outweighed by the lengthening of the time required to obtain land.

3.1.2 Access to reliable and reasonably priced electricity is undoubtedly the most problematic of infrastructure issues in Africa. The poor quality of service to enterprises is captured in Table 2 below.

Table 2: Inadequate Electricity Services

	Energy as % of enterprise costs (Average)	% output lost to power outages (Average)	Power outages per year (Median)	Days for electricity connection (Average)	% have own generator
Eritrea	5.0	5.5	60	99	43
Ethiopia	3.3	5.6	36	116	17
Mozambique		2.0	60	31.5	23
Nigeria	4.2	3.3			97
Uganda	3.3	6.3	20	38	35
Zambia	4.2	4.5	15	174	38
Kenya	5.6	9.3	24	65	70
Morocco	2.1		12		17
China	1.4	2.0	2	18.5	30

Source: Eifert & Ramachandran (2004)

3.1.3 The differences between China and the other countries might seem small, but Eifert & Ramachandran (2004) notes that if Kenya's poor electricity system were improved to the quality of China's, the resulting cost savings and productivity increases for Kenyan firms would be financially equivalent to the near-total elimination of their labor costs."

3.1.4 Over the last decade, most of Africa has experienced a virtual telecommunications revolution with the spread of mobile phones—virtually all enabled through the entrance of private operators. However, fixed line service remains a state monopoly in all but a few countries on the continent. Mobile phones have had a major impact on all economic strata and have made business easier. However, medium and large enterprises still need the full range of telecommunications services, including fixed lines. In 2003, low income countries in Africa had 0.8 fixed line subscribers per 100 people. The corresponding figure for all other low income countries is more than four times higher at 3.5 per 100. Also in other respects (waiting time to get a phone installed, cost of international calls, number faults, etc.) service in comparable countries is better than in Sub-Saharan Africa. Furthermore, in 2006, Africa had an estimated number of Internet users of 44 million or 3.8 percent of the world's 1.1 billion Internet users.

3.1.5 Fewer firms mention poor roads as a serious constraint than they do electricity. This might be because the effects are more indirect. A recent study of the urban transport systems in four large Sub-Saharan African cities--Dakar, Douala, Kampala and Nairobi—noted (Adam Smith International, 2005):

> *Congestion is a serious problem in all four cities, and the problems are exacerbated by poor quality roads and lack of effective traffic management…the urban authorities are short of money and urban road maintenance is seriously under-funded…Failure to enforce parking controls and regulations prohibiting*

the use of sidewalks for commercial activities has led to significant reductions in road capacity in all the cities studied.

3.1.6 The failure of municipal authorities to manage urban transport flows efficiently is also born out by another study, which found that only 3 of 22 signalized intersections in Nairobi were working. In short, poor urban transport makes deliveries more costly and face-to-face meetings more time consuming (and thus reduce some of the most important agglomeration economies of cities).

3.1.7 The piped water systems in urban areas in Sub-Saharan Africa have a more limited coverage than in other low-income countries. While this obviously affects the urban poor, it also has an impact on enterprises. In Nigeria, Lee et al. (1996) observed that 44 % of all firms (and 75% of large firms) had their own wells or boreholes, adding to their capital and operating costs.

3.1.8 In short, poor urban infrastructure and cumbersome administrative procedures for obtaining land, permits, etc. make it hard for African firms to compete in a globalized world economy.

4. The Way Forward

To improve governance and make management of the urbanization process more responsive to the needs of both enterprises and the urban poor require actions in many areas. The more important ones are discussed briefly below.

4.1 Land Management

4.1.1 As cities grow, there is a gradual transition from traditional tenure forms to a more market based system where land is bought, sold and rented. National land policy and legislation must facilitate this process rather than hinder this process. Policy makers must acknowledge reality as it is rather than how they would like it to be from an ideological point of view. (The recent Land Act in Mozambique is an example of the latter.)

4.1.2 In many countries, the role of municipalities in selling or leasing public lands needs to be more clearly defined and the general procedures for disposing of state land need to be streamlined. (Dar es Salaam, where the authorities during a 12 year period received more than 240,000 requests for land but allocated only 8,200 plots, illustrates the need for reforms in this area.)

4.1.3 The basic land legislation as well as laws related to taxation (property taxes, transfer taxes, etc) must be such that they do not provide disincentives, which is frequently the case at present, for old and new owners to record property transactions.

4.1.4 The next step for governments throughout most of Africa is to find ways of recognizing *de facto* land tenure and to build up a proper cadastral system. The basic strategy here would be to adapt policies and procedures to the actual implementation capabilities. The aim should be that the system should be “approximately right” rather than “absolutely wrong.” It is more important to record the general location of the plot, its approximate size, the tenure status and the name of the owner/lease holder for all plots than to measure each plot to the last centimeter but get bogged down in the process and only record a fraction of the properties. In Cameroon, for example, only about 6% of the properties are recorded.

4.1.5 Urban planning must be realistic, taking into account the location, service, quality and space demands of enterprises and households. This is especially important in Sub-Saharan Africa, where authorities are too weak to enforce building codes and zoning regulations. The emphasis in planning and infrastructure provision should be on accommodating rather than ineffectually trying to reverse or redirect the pattern of growth. Indeed, in all cities in Africa, land availability and infrastructure provision have a far greater impact on land use and economic development than physical planning documents. To achieve this, a greater involvement of all stakeholder groups in the planning process is essential**—**which is only realistically possible if local governments are responsible.

4.2 Decentralization

4.2.1 Political decentralization is a precondition for administrative and fiscal decentralization. However, without any meaningful administrative and, especially, fiscal decentralization, local elected councils will become irrelevant. Similarly, far reaching fiscal decentralization might become ineffectual and wasteful if it is not commensurate with the administrative capabilities of local governments.

4.2.2 There is a basic rule for fiscal decentralization: *"finance follows function,"* i.e. first, the assignment of expenditure responsibility to sub-national governments, and then the assignment of revenue raising powers and the determination of central government revenue shares and transfers.

4.2.3 Professor Roy Bahl, who has studied municipal finance in developing countries for almost four decades, is a strong proponent of this rule. In a paper published in 2006, Professor Roy Bahl and Martinez-Vazquez observed that:

> *"The first reason is that one cannot establish the required level of sub-national government revenues independent of an estimate of expenditure needs. The second reason is that it becomes difficult to effectively impose a hard budget constraint at the sub-national level if there is an insufficient revenue assignment. Examples abound of local governments being given expenditure responsibilities and mandates that exceed their assigned revenues. Local governments may take this to mean that they are expected to overspend and that the deficit will be covered by the higher level government. If, on the other hand, sub-national government revenues are over assigned relative to expenditure needs, then the central government can become fiscally strapped and there will be pressures on the central budget deficit.*
>
> *There is a third argument for finance to follow function, and this is discussed less often. The economically efficient assignment of revenues requires a prior knowledge of expenditure assignment. For example, services that may be priced (public utilities, bus transportation) should be largely financed by user charges; general services with a local area benefit zone (roads, parks) should be financed with local taxes; and goods characterized by significant externalities should be financed from region-wide taxes and intergovernmental transfers. A blanket statement that the aggregate of local government services should be financed by*

user charges, local taxes, and intergovernmental transfers, simply misses the efficiency point. Government must settle on the assignment of expenditure responsibilities to local governments, before it can choose an efficient mix of taxes."

4.2.4 In any decentralization scheme, transfers from central to local governments are likely to be important. Experience has shown that transfers should be transparent, based on an objective set of criteria and impose a hard budget constraint on local governments. Soft budget constraint will tend to discourage local governments' own tax effort and encourage inefficient and even wasteful spending—a culture that might be hard to break.

4.2.5 There is another way of looking at the question of local government functions: The key issue is in which functions are local knowledge and local preferences most important in determining the economic and social impact of government actions. Urban planning, land management and infrastructure provision stands out as areas where local governments have a comparative advantage over central governments. Even when primary education has been "decentralized," these activities are determined almost exclusively by central governments: the central government decides on curricula, achievement standards, teacher qualification and salaries, student to teacher ratios, text books, etc. Almost the only thing local governments can decide is where and when to build new schools (but this is typically subject to approval by the ministries of education, finance and local governments. While accountability for educational results are important, the question is if this could not be achieved through a deconcentration[13] strategy and greater involvement of parents in school affairs.

4.2.6 Any decentralization strategy has to take into account the administrative and managerial capabilities of local governments. However, as Bahl & Martinez-Vazquez (2006) point out, this is

"…a 'chicken and the egg' dilemma. Decentralization may not take place because of the lack of capacity but capacity has never developed because there never has been any meaningful degree of decentralization. The right approach to this issue is a pro-active policy that combines capacity training and asymmetric measures with progressive devolution of responsibilities and financing instruments. It does not make much sense to wait for decades… for the capacity to appear at the local level. At such a pace local governments may never be ready."

4.2.7 Bold decentralization reforms are needed in most of Africa, but introducing these must be a gradual process and involve fine-tuning on the way. The start should be careful consideration of the issues, probably through the preparation of a "white paper" analyzing the key issues and solutions. It is important that municipalities, through their association, are fully involved in the deliberations from the start. It is also important that the scheme takes into account the great variety that will be found between local governments. This is indeed an area where the "one size fits all" does not work. The differences in needs and human and financial resources found between a major city with millions of people, towns with a few thousand people and remote rural areas have to be reflected in the decentralization model. The decentralization scheme must also provide a consistent framework for the operation of governments at different levels and establish mechanisms for coordination and collaboration

[13] "Deconcentration" is when a central agency gives increased decision making power to lower levels (to district offices, for example).

between governments at different levels and between governments at the same level (e.g. between neighboring municipalities in a large metropolitan area).

4.2.8 Similarly, there should not be a significant gap between revenue and expenditure responsibilities and administrative capacities. Indonesia is one of very few countries that have successfully managed drastic "big bang" decentralization without a breakdown in public services. This was achieved by deconcentrating the central government administration that moved central government officials out "in the field." Consequently, all the relevant officers were already located in the right place when devolution occurred. In simple terms, the "only" thing that was needed was a change in their reporting lines from the concerned central ministry to the local government. Other countries have been successful in gradually devolving responsibilities to lower level governments; i.e. in the initial phase the bulk of responsibilities are assigned to intermediate (state or provincial) level governments and only in a subsequent step to municipalities.

4.2.9 A parliamentary approved decentralization law (or local governments act) is required to give legal standing to the implementation of the decentralization measures. The law must be clear and it must be true to the policy design. The decentralization law might stand alone, or some elements of the decentralization program might become part of the constitution. To smooth implementation, the act should be complemented by carefully crafted regulations. The law and the regulations must provide a proper framework for ensuring accountability and proper economic and financial governance.

4.3 Making Local Government More Responsive and Accountable

4.3.1 Theory and experience tell us that generally local governments will be more responsive to local needs if the policy makers are directly accountable to their constituents and selected through a democratic process.

4.3.2 However, experience has also told us that there is a risk that both politicians and local technocrats are "captured" by various vested interests or disconnected from the "grass roots." We have seen that involvement of the beneficiaries in slum upgrading, rural water supply, etc. improves development outcomes. UN-HABITAT's Urban Management Program spearheaded the use of "city development strategies" that were prepared with full input from various stakeholder groups (Box 1). The Cities Alliance is now supporting a much wider use of city development strategies. So far, such strategies have been developed in a dozen African countries.

4.3.3 In order to implement its urban development strategy, Cameroon's government has taken this approach further. It has instituted a system of "City Development Contracts" established through participative processes between the various stakeholders - the city, central government, and the communities - which will define sets of programs and responsibilities for city development over a certain period of time, and strengthen accountability for service provision.

4.3.4 However, strengthening accountability is not easy. The basic approach has to involve transparency in local government decision making and making public relevant information in a form that can easily be understood by journalists and the population at large. There is also a need to get more direct feed-back from the beneficiaries of public services. Various participatory systems for analyzing public services by citizens have emerged in recent years.

One of the established ones is the “citizen report card,” which was pioneered in the Indian city of Bangalore. Citizen report cards are instruments to encourage public accountability. Modeled on a private sector practice of conducting client satisfaction surveys, report cards solicit user perceptions on the quality, efficiency, and adequacy of the various public services that are funded by tax-payers. Qualitative user opinions are aggregated to create a “score card” that rates the performance of service providers.

4.3.5 The findings present a quantitative measure of overall satisfaction and perceived levels of corruption among an array of other indicators. By systematically gathering and disseminating public feedback, report cards can serve as a “surrogate for competition” for monopolies—usually government owned—that lack the incentive to be as responsive as private enterprises to their client’s needs. They are a useful medium through which citizens can credibly and collectively “signal” to agencies about their performance and pressure for change. The use of citizen report cards is increasing in Africa; for example, a report card was prepared last year for water and sanitation services in the three main Kenyan cities.

Box 2: Participatory Planning--City Development Strategies

Assess the state of the city and its region. Each city needs to identify and analyze its own opportunities and problems; the values and preferences of its residents; its change drivers, including its relationship to its region and the national and global economy; and its assets and resources.

Develop a long-term vision. A shared strategic understanding among all stakeholders is essential to align energies to work cohesively for the good of the city. Thinking citywide provides a mechanism for local stakeholders to assess the linkages between their respective priorities for health, security, jobs, housing, education, transport, and the environment and to develop a shared vision.

Act now with focus on results. Although the vision has a long-term perspective, the strategy should focus on short-term results and accountability – indicating the role for many key stakeholders, not just local government.

Value the contributions of the poor. The urban poor have demonstrated enormous resilience and ingenuity in mobilizing and organizing themselves when formal institutions have failed to serve them. The CDS process capitalizes on the enormous potential of the urban poor as development agents by supporting their participation in decision-making processes that affect their livelihood.

Encourage local business growth. Involving key stakeholders and collaborative leadership and responsibility is a more effective way of creating a business-enabling environment than just relying on tax-based incentives that sometimes divert resources needed for critical infrastructure investments.

Engage networks of cities. Learning from peers through city-to-city knowledge-sharing networks has proven the most effective and sustainable way to transfer knowledge. The involvement of local government associations is considered crucial for the institutionalization and replication of a CDS.

Focus on implementation. Implementation is at the heart of a CDS, not the development of a perfect plan. Successful strategies mix means, clearly identify institutional responsibilities, and provide incentives for performance. Stakeholders learn to integrate evaluation and impact targets from the beginning, learn from errors, and revise the strategy in the next round.

Concentrate on priorities. A strategy reflects tough choices and focuses on a limited number of actions as well as on available resources to shape emerging opportunities. Strategic planning involves making informed decisions in a rapidly changing environment.

Foster local leadership. The sustainability and effectiveness of the CDS process depend to a great extent on the active involvement of the mayor, high-ranking local government officials, and representatives from the municipal council. If not anchored in the yearly municipal budget with a sustainable financing strategy, the CDS will remain just another planning document.

Source: City Alliance web site

4.3.6 Opponents of decentralization often argue that decentralization reduces central control and increases the chances of corruption (less supervision of procurement decisions, etc.). While there are plenty examples of local government corruption (in both developed and developing countries), after an extensive review of the evidence, Shah (2006) concludes that:

> *”... decentralized local governance is conducive to reduced corruption in the long run. This is because localization [i.e. decentralization to local governments] helps to break the monopoly of power at the national level by bringing decision making closer to people. Localization strengthens government accountability to citizens by involving citizens in monitoring government performance and demanding corrective actions. Localization as a means to making government responsive and accountable to people can help reduce corruption and improve service delivery. Efforts to improve service delivery usually force the authorities to address corruption and its causes. However, one must pay attention to the institutional environment and the risk of local capture by elites. In the institutional environments typical of some developing countries, when in a geographical area, feudal or industrial interests dominate and institutions of participation and accountability are weak or ineffective and political interference in local affairs is rampant, localization may increase opportunities for corruption. This suggests a pecking order of anti-corruption policies and programs where the rule of law and citizen empowerment should be the first priority in any reform efforts. Localization in the absence of rule of law may not prove to be a potent remedy for combating corruption.”*

4.3.7 In short, corruption at the local government should be addressed through two parallel approaches: First, it should be a major element in national anti-corruption programs. Second, transparency in local governments should be increased along the lines discussed above.

4.4 Capacity Building

4.4.1 Previous parts of this note have demonstrated that local governments in Sub-Saharan Africa lack critical capacity to deal with urban planning and land management and their ability to manage major spending programs and revenue mobilization is weak. It is commonly assumed that established procedures, norms, etc. are appropriate and that what is missing is the “capacity” to implement them.

4.4.2 There is also a long-term, continuous need for capacity building. Donor projects typically include training components for local government staff (in “target” municipalities. In some cases, the projects also include strengthening of units in central ministries that provide support to municipalities. However, it is essential to take a broader approach ranging from reforming higher education systems, reassessing formal qualification requirements and pay systems, creating local government support organizations (perhaps created by the association of local governments[14]). Capacity building programs should be targeted at elected officials as well to help them better understand not only their roles and responsibilities but also the economic and social aspects of the urban development process.

[14] In Sweden, for example, the local governments have created a finance company, established a consulting firm and formed a collective purchasing/procurement association.

4.4.3 Gradually, there is also a need to build capacity in "softer" areas such as environmental management, disaster prevention and the related task of incorporating the anticipated negative consequences of climate change. Efforts in these areas probably need to start at the central level. However, even within existing resource constraints, the major cities on the continent should be in a position to begin addressing these problems.

4.5 Administrative Complexity

4.5.1 As mentioned earlier, there is a need for reducing administrative complexity. Indeed, many policies and procedures are either inherited from colonial days or imported from developed countries. What is required in most countries is a regulatory and/or procedural audit that identifies bottlenecks and redundant procedures as well as spurious accuracy requirements and less important information. A good example of how this can be done is Peru, where the procedure for land titling and registering property was simplified. The cost was cut from US$2,000 to US$50 per plot and the time required was reduced from 15 years to 6 weeks or less. In five years, more than a million households were given titles to their properties.

4.6 Public Private Partnerships

4.6.1 There is also scope for off-loading some tasks from the local governments through an expanded use of public-private partnerships. This topic is discussed more extensively in Concept Note 2 on Financing Urban Development.

5. Issues for Consideration

5.1 As noted above, urbanization in Africa has been a largely unmanaged process. Decentralization and enhancing the roles and capabilities of local governments are vital elements in any strategy to make cities and towns more livable and productive. In this context, some of the key questions are:

- Which are the priority activities that should be delegated to local governments?
- Can and should the delegation of functions to local governments be differentiated according to population size, type of economic base (rural/urban) or other criteria?
- Which are the priority areas for capacity building?
- What should be the role of ADB in promoting better governance in the continent's cities?
- Which type of instruments should ADB use in addressing these objectives?

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HIGH LEVEL SEMINAR IV

UPGRADING INFORMAL SETTLEMENTS IN AFRICAN CITIES

Concept Paper

***Date**:* *13 May 2008*
***Venue**:* *Room 1*
Centro Internacional de Conferências Joaquim Chissano (CCJC)
***Time**:* *2:30 pm to 5:00 pm*

Executive Summary

African Governments find it difficult to cope with unprecedented urban growth. The most visible signs of this challenge are the mushrooming slum areas that permeate the larger cities on the continent. Only a few African countries, notably Tunisia, have managed to upgrade informal settlements on a large enough scale to have a significant impact on the extent of slums. In most of Sub-Saharan Africa, slums grow at a rate that far outpaces the scale of slum upgrading programs. One of the causes of the growth of slums is poverty – both rural and urban. Slums are also the product of failed policies, bad governance, inappropriate legal and regulatory frameworks, dysfunctional land markets, unresponsive financial systems, and last but not least, a lack of political will.

Addressing this multi-faceted problem requires not only the concerted effort of governments, enterprises and civil society in Africa, but also financial and technical assistance from the international community. The paper discusses the key factors affecting the growth of slums in Africa, and comes with propositions for upgrading slums. It proposes a *way forward* for reversing slum growth and identifies four key premises that must be recognized in developing a strategy for addressing the slum problem. This is followed by proposed questions for discussion.

Upgrading Informal Settlements in African Cities

1. Introduction

1.1 African Governments find it difficult to cope with unprecedented urban growth. The most visible signs of this challenge are the mushrooming slum areas[15] that permeate the larger cities on the continent. More than 250 million people—or around 60% of the urban population—live precariously in these settlements; and, if present trends continue, the number of slum dwellers will grow to over 350 million by 2020. The problem is most severe in Sub-Saharan Africa, where some 72% of the people live in what is charitably called "informal settlements."

1.2 Only a few African countries, notably Tunisia, have managed to upgrade informal settlements on a large enough scale to have a significant impact on the extent of slums. In most of Sub-Saharan Africa, slums grow at a rate that far outpaces the scale of slum upgrading programs. Thus, the first priority for governments should be to put in place policies, procedures and programs that retard and, eventually, halt the creation of new informal settlements.

1.3 One of the causes of the growth of slums is poverty – both rural and urban. Today (2008), one out of every three poor people in Africa live in the region's cities and towns. Urban poverty increases with the rising cost of living in cities in the absence of increasing job opportunities to augment peoples' incomes. Those who cannot find jobs or lack alternative income sources, the poor, cannot pay high rents and end up living in squalid conditions in slums. Also, landlessness and destitution in rural areas (rural poverty) forces people to migrate to cities with the hope of finding jobs. Failure to find jobs or other income opportunities culminates into living in slums.

1.4 Slums are also the product of failed policies, bad governance, inappropriate legal and regulatory frameworks, dysfunctional land markets, unresponsive financial systems, and last but not least, a lack of political will. Addressing this multi-faceted problem requires not only the concerted effort of governments, enterprises and civil society in the developing world, but also financial and technical assistance from the international community.

1.5 Urban slums are not only eyesores; they also pose multiple threats to the health and safety of their inhabitants. The lack of the most basic infrastructure makes the provision of social services, such as health care, ineffectual. Thus, health indicators in urban slums are typically much worse than in rural areas (see Table 1). In Nairobi's Kibera settlement, which many people regard as the worst slum in Africa, almost one of five children die before the age of 5. Similarly, the lack of infrastructure increases the cost of basic necessities (ranging from drinking water or fuel for cooking) to the urban poor, and reduces their productivity and economic opportunities.

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[15] According to the UN-HABITAT, a slum is any dwelling that meet at least one of four criteria: lack of water or proper sanitation, built with non-durable materials, overcrowded or hosting more than 2 persons per room. Unfortunately, because of a lack of data, UN-HABITAT could not include what might be the most important variable: a lack of secure tenure. This definition is questionable. What it says is that if a house (dwelling) has more than two occupants per room, then it can be considered a slum.

1.6 Given the well-established links between poverty and inadequate housing and related infrastructure, the international community has given increased importance to upgrading existing slums. This is adequately reflected in the commitments made in *Target 11* of the *Millennium Development Goal 7*, among others. If present trends continue however, Africa alone will have added 170 million slums dwellers between 2000 and 2020. Thus, it is not enough to only implement slum upgrading programs reaching 100 million people globally but also to halt and reverse the creation of new slums, without hurting the urban poor in the process. This means addressing the myriad of factors that influence the functioning of land and housing markets, and the formation and growth of slums.

Table 1: Infant & Child Mortality and Diarrhoea in Nairobi Slums

Location	Infant mortality rate	Under five mortality rate	Prevalence of diarrhea with blood in children under 3 in two weeks prior to interview
Kenya (rural and urban)	74	112	3.00%
Rural Kenya	76	113	3.10%
Urban Kenya excl. Nairobi	57	84	1.70%
Nairobi (whole population)	39	62	3.40%
Informal settlements in Nairobi	91	151	11.30%
Kibera settlement	106	187	9.80%
Embakasi settlement	164	254	9.10%

Source: APHRC (2002), Population and Health Dynamics in Nairobi's Informal Settlements, African Population and Health Research Centre, Nairobi.

1.7 The ***objective*** of this Concept Note is to explore some of the key factors contributing to the continued growth of slums, and to highlight some successful programs that have been used to upgrade these settlements and slow down the formation of new ones.

2. Factors Affecting The Growth of Slums

2.1 Macroeconomic Policies

2.1.1 It is now generally accepted that urbanization is both a result of economic development and an engine of growth. Thus, rapid economic growth tends to increase migration and the demand for housing and urban land. But the opposite is also true. For example, as Zambia's economy declined, many workers and their families returned to their villages and the share of urban residents declined from 40% of the total population in 1980 to 35% in 2000.

2.1.2 What figures less in the urban literature is the distortive impact of high inflation on property markets. Macroeconomic instability shifts savings away from the domestic financial sector to foreign currency holdings and, especially, real estate. This makes real estate properties relatively more expensive, and therefore poor people look for cheaper alternatives.

2.1.3 Another factor that affects the formation and growth of slums is the way land and housing development process is managed and financed. Some of these key factors are discussed below.

2.2 Land Tenure

2.2.1 It is difficult for many poor urban dwellers in Africa to own or rent with any reasonable degree of tenure security. This lack of tenure security depends, to a large extent, on the process through which the poor tenant or the landlords acquired the land and erected the dwelling. This ranges from spontaneous squatting on public land, to organized large-scale invasions on public land, illegal conversion of agricultural land bought from the former owners, failure to record the purchased land due to too high transfer taxes, and failure of the constructed building to meet building codes and/or zoning regulations. Insecure tenure and the associated risks of eviction and demolition reduce the incentives for the urban poor or their landlords to invest in housing improvements.

2.2.2 Tenure security is also defined by social, political and psychological factors -as much as by legal documents.[16] Slum dwellers often live in constant fear of eviction by those with de facto rights on the plots they occupy, and lack access to public utilities and other services. Sometimes the residents may see the provision of basic utilities and services as an acknowledgement that the risk of eviction has disappeared and that they have been given de facto security of tenure. This in turn gives rise to significant investments in house improvements.

2.2.3 In most cases however, people living in informal settlements have some kind of document indicating that they purchased the land on which they built their dwelling. The question however is *how* this document was acquired. Only a tiny fraction acquire properly registered legal title to their property. There are many reasons for this. Under the new land act in Mozambique, for example, ownership of land is vested in the state and rights of use can only be transferred with government approval. In most cases however, it turns out that the seller did not obtain this permission to sell, partly due to cumbersome procedures and partly due to the fact land on the urban fringe is classified as *agricultural land* and can not be used for housing.

2.2.4 One major problem that complicates land administration is corruption. A literature survey by Molen and Tuladhar (2006) found that land administration in most of Africa ranks at the top in terms of corruption, just next to the police and the judiciary.

2.3 Inefficient Land Conversion Processes

2.3.1 Although some cities face physical constraints, in most cases there is ample land available to accommodate the growing urban population. However, the process of converting agricultural fields to developed urban land is a bottleneck throughout the developing world. The population of Dar es Salaam, for example, grew by more than 0.9 million people between 1990 and 2001. During this period, the various authorities in the city received 243,473 applications for ‘planned’ plots, but only 8,209 were surveyed and allocated[17]. This implies that less than 5% of the new households in Dar es Salaam were able to officially obtain plots through the formal system. The failure of government to provide land for housing development led to the emergence of a vibrant informal land market.

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16 See Payne, 2002.

17 See Kironde, 2006.

2.3.2 Today, the informal land market in Tanzania deploys norms and institutions that are closely linked with the formal sector. This include sub ward (Mtaa) leaders and organized community groups authenticating and registering land rights, arbitrating land disputes, checking land-use development and spatial orderliness and providing basic services. These socially controlled regulatory mechanisms are playing an active role in guiding or regulating urban housing land development[18].

2.3.3 The problem is not limited to Sub-Saharan Africa. In Cairo for example, some 60% of the city's approximately 10 million inhabitants live in illegal settlements[19], which are mostly buildings constructed on agricultural land bought from farmers but in contravention to zoning regulations and without building permits. Initially, these settlements consisted of traditional one family houses but since the 1970s multi-story apartment buildings have become increasingly common. Some of these buildings are as high as 14 stories. A recent study indicates that "… a series of laws and decrees made it increasingly illegal to build on agricultural land. The latest (and most respected) was promulgated in 1996 and made such building a criminal offence to be handled under military law"[20].

2.3.4 Given Cairo's location, that leaves essentially only one other option, namely to build on desert land. However, desert land is owned by the government and purchasing such land, sub-dividing it and obtaining building permits is a cumbersome, if not impossible, process. Thus, the 'desert settlements' surrounding Cairo were created through a process similar to that of the organized land invasions in Latin America.

2.4 Regulatory Frameworks

2.4.1 The growth of slum settlements is in many cases also a result of an inappropriate regulatory framework that pushes up the cost of land and housing for the poor. In his much acclaimed book *The Other Path* (1989), de Soto argues that people operate in the informal market because they cannot afford the cost of "formality." For example, Nairobi official zoning regulations in most parts of the city mandate minimum plot sizes for single family dwellings of 2,000 m^2, and in some areas of as much as 10,000 m^2 (1 hectare). The building codes further specify the number and dimensions of the bedrooms, cooking area, and sources of ventilation[21]. At the same time, almost 60% of the city's population lives in slum areas, occupying only 5% of the city's area. In major slums, the densities are as high as 15-20 persons per 100 m^2. The cost of acquiring a 'legal' plot of land and constructing a dwelling that meets building codes is simply unaffordable for the urban poor.

2.4.2 The large plot size also drives up the cost of building infrastructure networks, given that estimates show that the cost of providing infrastructure to an area with 1 hectare plots is about ten times the cost in areas with 100 m^2 plots. Thus, it is hardly surprising that only some 12% of the households in Nairobi have water connections. Thus, inadequate supply of urbanized land, extremely cumbersome bureaucratic procedures and unaffordable standards force the majority of the urban poor to live in settlements that do not meet official zoning regulations and building codes, i.e. in illegal settlements. But these codes are colonially

18 Kombe and Kreibich, 2001.

19 Sims, 2003

20 See Sims, 2003

21 See Kamau, 2005

inherited or based on imported models that do not reflect local needs and the actual conditions of the country.

2.5 Governance Issues

2.5.1 The preceding sections have shown that land and housing policies, procedures and regulations are beyond the possibilities of the majority of urban dwellers. Why is this the case? Weak institutional capacity can naturally be seen as one explanation, especially in Sub-Saharan Africa. Take the case of Lusaka City Council as an example. The Council has about 2,000 employees and huge wage bills. Still, the city is critically short of skilled manpower: in the Legal Services Department, one out of eight professional positions was filled in 2002; in the Planning Department, five out of 30; in the Engineering Department, four out of 15. The Department of Valuation and Real Estate Management (which evaluates all properties for real estate tax purposes) had only one registered evaluation officer. The seven unlicensed officers were not allowed to sign evaluation reports and could not appear in court[22].

2.5.2 From experience however, it appears that many of the problems associated with slums do not require large numbers of skilled workers, but can be addressed by applying simple technologies. A review by Kombe and Kreibich (2001) describes how an informal settlement in Tanzania, with over 5,000 inhabitants, evolved in an orderly manner thanks to the help of village construction committees and a 'barefooted surveyor' (a semi-skilled technician) who used a sisal rope to measure land parcels to demarcate boundaries. Land transactions were recorded in simple deeds authenticated by the sub ward (*Mtaa*) leader. This example implies that other explanations must be found, beyond lack of capacity.

2.5.3 The existence of inefficient and impractical planning regulations and standards are largely believed to serve the interests of political and administrative elites. For example, it is generally believed that most of the landlords in Nairobi's Kibera slum (often regarded as the largest in Africa) are politicians and mid- to higher level bureaucrats who earn high returns from renting their shacks to the urban poor. Civil servants and politicians also benefit from a web of corruption that is claimed to surround land administration and housing development.

2.6 Housing Finance

2.6.1 In developed countries, most homeowners buy a completed house, either new or previously occupied. In developing countries, on the other hand, most people build their own houses and they do so in stages. They must first buy a small piece of land and erect a small shack with walls, which they keep transforming from one form to the other, until after several years, a standard house is built. This process of "incremental" building is forced upon them by a lack of own savings and, especially, long-term mortgage financing. In simple terms, they go through cycles of 'save and build'.

2.6.2 In most of Sub-Saharan Africa, formal housing finance institutions, (i.e., specialized housing banks, building societies and loans schemes, etc.) play only limited roles in meeting the housing needs of the urban poor (and often also of the broad middle class). In Uganda, for example, only about 200 mortgage loans are issued every year while the number of new dwellings (however modest they may be) in urban areas approach 50,000. Thus, less than 1 % of the dwelling units are constructed with bank loans. In Kenya, the total stock of outstanding

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22 UNECA, 2002

mortgage loans in 2004 was around 30,000 and less than 5% of new dwellings in urban areas were constructed with the benefit of a mortgage loan. Indeed, the mortgage lenders suffer from severe problems with non-performing loans and are curtailing new lending. As a result, there is a common saying in Nairobi that *"only bankers can get mortgages."*

2.6.3 Zambia is among the low income countries in Sub-Saharan Africa that has a fairly well developed banking system. However, the government has largely crowded out private sector borrowers. High inflation and high real interest rates have virtually obliterated the long-term debt market. This is especially the case with the housing finance market. The country has three specialized mortgage lending institutions in the form of "building societies." In 2003, these building societies had total assets of about USD10 million, of which only 15% (or USD1.5 million) had been transformed into mortgages.

2.6.4 In the middle income countries in Africa, mortgage market is fairly well developed and some countries have made significant progress in replacing slums with standard housing. Tunisia, for example, has managed to reduce the percentage of slum dwellings from 24% of the housing stock in 1975 to less than 3% by the mid-1990s, and currently far less.

2.7 Rental Housing

2.7.1 In slum areas around the world, there is a quite developed rental market. However, tenancy is much more widespread in Sub-Saharan Africa than in other regions (Table 2)[23]. By most indications, renting is more widespread in informal settlements than in housing areas for the wealthy. In most of the slums in Sub-Saharan Africa, the rental units are located in the backyard of the landlord, although absentee landlords are common in Nairobi's slums. Various surveys in the region indicate that most of the landlords have similar socio-economic status as their tenants, although the landlords are a little wealthier and tend to have lived in the city longer. Rental arrangements tend to benefit both landlords and tenants. It gives the landlords a "safe" vehicle for investments[24] that can both augment current consumption and provide retirement income. The tenants get access to housing with low upfront costs and no long-term commitments.

Table 2: Home Ownership and Tenancy in Selected African Cities

	Year	Ownership	Renting	Other
Middle Income Countries				
Cairo Egypt	1996	37	63	-
Tripoli Libya	1995	67	34	-
Johannesburg South Africa	1996	55	42	3
Low Income Countries				
Addis Ababa Ethiopia	1998	38	60	2
Kumasi Ghana	1998	26	57	17
Kisumu Kenya	1998	14	82	4
Lagos Nigeria	1998	49	49	2

Source: UN-HABITAT (2003)

[23] UN-HABITAT, 2003b

[24] UN-HABITAT (2003a)

3. Upgrading Slums – The Way Forward

3.1 Premises

3.1.1 Slum upgrading consists of physical, social, economic, organizational and environmental improvements undertaken cooperatively and locally among citizens, community groups, businesses and local authorities[25]. The approach needs to vary from case to case, depending on the political, institutional, social and economic factors discussed in Section 2. Thus, it is not possible to provide a universal solution that can apply all around the world. Rather, the solution needs to be situation specific. However, it is possible to outline a broad strategy that can slow down and eventually reverse the mushrooming of slum areas around African cities. Before laying down the elements of such strategy, a few premises need to be made.

3.1.2 The ***first*** and most basic premise for a strategy for upgrading slums is the recognition that the inhabitants of slums are in a process of striving for a better life, but they face many constraints. Poverty may be only one of those constraints, and sometimes not the most important. Because the constraints are many, removing one and leaving others in place will generally not lead to any drastic improvements for the urban poor.

3.1.3 The ***second*** premise is that preventing the expansion of slums is more cost-effective than upgrading slums that already exist. The problems of the Kibera slum in Nairobi, for example, are so intractable that many observers believe there are no feasible solutions for upgrading. On the other hand, sensible regulatory reforms could drastically increase the supply of affordable housing for new migrants and existing slum dwellers in the city.

3.1.4 The ***third*** premise is the recognition that there are active *informal markets* for land, houses and rental accommodations in slum areas. These markets are strongly influenced by the fact that the urban poor are very sensitive to distance and want to live close to informal sector employment opportunities. Any policy that fails to take these economic realities into account is likely to fail.

3.1.5 The ***fourth*** premise, which largely follows from the third above, is that the needs of the broad middle class must be addressed in any comprehensive strategy. If this is not the case, informal market mechanisms will lead to a crowding-out or "buying out" of the urban poor by the middle class.

3.2 Key Elements of a Strategy to Upgrade Slums

3.2.1 On the basis of these premises, the strategy to upgrade slums needs to include the following elements:

3.2.2 ***Ensure land tenure:*** Improving the security of tenure is a low-cost high-impact intervention. In Lusaka 30 of the 37 major informal settlements have been declared improvement areas. Normally, after such a declaration, the Lusaka City Council issues 30-year (renewable) occupancy licenses. Most slum dwellers regard this as providing adequate security of tenure, which explains why the great majority of the houses in the informal settlements are built with permanent materials.

3.2.3 ***Simplify the system of land conversion (from agricultural to urban)***: Increase the legal supply of land, allowing smaller plot sizes and adopting more reasonable reservations for roads and public spaces can have a drastic impact on the availability of plots.

3.2.4 ***Simplify the housing regulatory framework:*** This is critical so as to adapt city and urban plans, zoning regulations and building codes to suit them to the needs and means of the urban poor. Almost universally, this will mean a 'lowering' of the standards to make a conforming lot and house affordable to the majority of the urban poor. The starting point for such a reform should be to undertake a regulatory audit.[26] A related element of the strategy would be to simplify the procedures and lower the cost for registering property transfers. Governments also need to stop regarding property transactions as a revenue source and remove any fees on title registration that are not related to the cost of providing the service.

3.2.5 ***Improve governance:*** Political commitment is essential for overcoming bureaucratic inertia and ensuring the success of upgrading programs. Improved governance also leads to improved efficiency, less bureaucracy, accountability and reduced corruption. This is very critical for the success of upgrading programmes.

3.2.6 ***Provide finance for housing:*** Addressing the housing finance constraint is perhaps the most difficult challenge. For most low income countries, it will take decades of economic growth and financial sector deepening before the formal banking system will be able to extend long-term mortgage loans to the majority of urban poor. Fortunately, in some countries micro-finance institutions have expanded into lending for house improvements. Although these loans tend to be small and short-term in nature, they fit the incremental building process well. Other innovations that help the urban poor are 'community' or 'local funds' supported by governments and donors.

3.2.7 The above policy priorities need to be accompanied by the following practical actions (UN-HABITAT (2003a)):

- Installing or improving basic infrastructure—for example, water supply and storage, sanitation/waste collection, rehabilitation of circulation, storm drainage and flood prevention, electricity, security lightning and public telephones;
- Removing or mitigating environmental hazards;
- Constructing or rehabilitating community facilities, such as nurseries, health posts and community open space;
- Relocating/compensating the small number of residents dislocated by the improvements;
- Improving access to health care and education, as well as to social support programmes in order to address issues of security, violence, substance abuse, etc.;
- Enhancing income-earning opportunities through training and micro-credit;
- Building social capital and the institutional framework to sustain improvements."

[11] Guidelines for undertaking a regulatory audit have been prepared by Geoffrey Payne & Associates under a DFID sponsored research project on "Regulatory Guidelines for Urban Upgrading." See the following websites for more information: http://www.gpa.org.uk/ and http://practicalactionconsulting.org/?id=rguu.

3.2.8 A ***gradual, low cost approach*** covering a large area is likely to be more replicable and sustainable over the long-run than a high-standard upgrading of small areas. Once the whole city has been upgraded to a minimal standard, the next phase will raise the standards. Modest standards, replicability and aiming for quick city-wide impact were cornerstones in Indonesia's Kampung Improvement Program. Although the program was supported by donors, the bulk of the financing was mobilized domestically.

3.2.9 The close ***involvement of the residents*** in the planning, design and implementation of upgrading schemes is essential for both initial success and long-term sustainability. Tunisia was an early pioneer in this respect

3.2.10 Upgrading schemes can start a powerful transformation process. For example, an evaluation in the early 1990s of the national parastatal upgrading agency in Morocco showed that for every dollar spent by the public sector, the private sector invested nearly six dollars on house improvements. Similarly, unpublished surveys from the upgrading program in Tunisia showed that every public dollar of upgrading expenditures encouraged two to four additional dollars in house improvements.

Questions for Discussion

- What are the key interventions needed to slow down the growth of slums?
- Is there a role for "slum clearance" programs?
- How important is it to address the land tenure situation in the continent's cities?
- What can be done to make housing and infrastructure a higher priority for African Governments?
- What role can the African Development Bank play in addressing this problem?

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