

# **THE IMPACT OF REGULATIONS AND PROCEDURES, ON THE LIVELIHOODS AND ASSET BASE OF THE URBAN POOR - A FINANCIAL PERSPECTIVE**

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*"...the total value of the real estate held but not legally owned by the poor of the Third World and former communist nations is at least \$US9.3 trillion - wealth that also constitutes by far the largest source of potential capital for development. These assets not only far exceed the holdings of the government, the local stock exchanges and foreign direct investment; they are many times greater than all the aid from advanced nations and all the loans extended by the World Bank". De Soto, (2000)*

# 1 INTRODUCTION

This paper has been prepared as a discussion document for the ITDG Regulatory Guidelines for Urban Upgrading Research Project. A final version will be prepared following the project workshop to be held on May 17 and 18, 2001. The paper draws extensively on findings emerging from a parallel research project co-ordinated by Homeless International – Bridging the Finance Gap in Housing and Infrastructure and has been developed in close collaboration with our Indian partners SPARC.

The paper considers the existing sustainable livelihoods theoretical framework and poses a number of initial questions about the asset base of the poor:

- For what purposes should it be used?
- Who decides when and how it should be used?
- Through what institutional relationships will understanding be developed and knowledge created? Who will own the knowledge created and have the discretion to determine how to use it?
- Through what institutional relationships can the asset base of the poor be most effectively valued, applied and leveraged?

The paper suggests a number of modifications to the asset categories that anchor sustainable livelihoods theory. Two new asset clusters – institutional (political) capital and knowledge capital are proposed.

Suggestions are made concerning the level of analysis at which the theory can most usefully be initiated, and the care that needs to be taken to develop a language within the theory that supports an exploration of the complex relationships within which the asset base of the poor can develop.

The use of a nascent analytical tool – asset mapping – is briefly described prior to a consideration of the importance of risk analysis, management and mitigation within the urban development context and the question of definitional control. The institutional relationships reflecting local-global connectivity between organisations of the urban poor are also described.

The points at which real decisions are made regarding whether or not initiatives can proceed legitimately, are treated within the paper as “moments of truth”. These are the points at which it becomes clear whether or not the systems applied by the state and the formal financial sector work for the poor or not. Seven areas where criteria are applied that have a direct influence on the degree to which organisation of the urban poor can operate legitimately, in the eyes of others, in urban regeneration and development are then identified and discussed.

Finally a number of conclusions are drawn which, it is hoped, will be of assistance to others participating in the research project.

## 2 LIVELIHOODS THEORY APPLIED IN AN URBAN CONTEXT

### 2.1 BACKGROUND

Homeless International has been exploring the application of sustainable livelihoods theory within its own work and that of its partner organisations in Asia, Africa and Latin America. Our thinking has been focused on the formation and development of assets by organisations of the urban poor. Sustainable livelihoods theory, in simple terms, provides a means of identifying the resource base of the poor rather than simply focusing on their needs. The assumption, that the poor do have resources, which constitute assets, paves the way for exploring how these assets can be most effectively used, invested and leveraged. In addition it allows examination of the ways in which the poor can protect their asset base against stresses and shocks that may result from internal and external events, in short the ways in which risks associated with the investments they make can be managed and mitigated<sup>1</sup>. In this sense the theory is important because it offers not only an alternative means of classifying and categorising resources, but also offers the potential for a dynamic means of considering transformational processes.

The assets that are generally recognised within sustainable livelihood theory include:

**HUMAN CAPITAL** – skills, information, knowledge, ability to labour, health.

**SOCIAL CAPITAL** – social resources (networks, membership of groups, relationships of trust, access to wider institutions).

**PHYSICAL CAPITAL** – housing, basic infrastructure – (transport, shelter, water, energy and communications) and the means and equipment of production.

**FINANCIAL CAPITAL** – financial resources available (savings, supplies of credit, regular remittances or pensions)

**ENVIRONMENTAL (NATURAL) CAPITAL** – natural resources (land, water, wildlife, bio-diversity, environmental resources).

The question that hangs is – how useful is this theoretical approach for the poor? The theory is certainly of benefit to scholars and donors who seek to understand the complex dynamics of urban poverty. It is far less certain that, as a tool, it can offer the poor any great advantage. In Homeless International's discussions with its partners there has been a healthy scepticism about the value that the theory can add "at the front line". Many questions arise concerning the description and analysis of the asset base of the poor. For what purposes will this analysis and the asset base itself be used? Who decides when and how they should be used? Through what institutional relationships will understanding be developed and knowledge created? Who will "own" this knowledge? Through what institutional arrangements will the assets of the poor be valued, applied and leveraged?

In a global context characterised by a trend of abdication of responsibility by governments for the development and maintenance of community assets, the inherent assumption within neo-liberal theory is that the agencies that will take on this role in future will be found through privatisation and the market. The existing and potential contribution of poor

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<sup>1</sup> DFID has adopted the livelihood approach as a key theoretical tool in understanding poverty. However the agency has omitted the final component of Chambers and Conway's definition, namely the statement "*and which contributes net benefits to other livelihoods at the local and global levels and in the long and short term*". We are not clear why this omission has occurred but believe that the issue requires further discussion. See DFID (1999), Moser (1998), Carney et al (1999), Sanderson (2000).

communities themselves remains largely invisible, other than in simplistic concepts of cost recovery or readiness and willingness to pay. Concepts of participation tend to be limited to notions of “sweat equity”, “regular loan repayment” or the provision of information that creates a database for others over which the poor have no control. The importance of recognising the institutional and knowledge resources developed by organisations of the poor, and those that work most closely with them, therefore assumes a particularly critical significance in offering an alternative understanding of how more equitable city-community partnerships can be created.

### **ADDING TWO FURTHER ASSET CLUSTERS.**

Research into urban finance over the last two years has led Homeless International to explore the use of two asset clusters that we believe should be added to the five already identified. We have called these asset bases institutional (or political) capital, and knowledge capital. In the original framework social capital included networks, membership of groups, relationships of trust, and access to wider institutions. However we find that the institutionalised and political capacity that develops when organisations of the urban poor become pro-active drivers of development is not easily accommodated within this limited view. It is the political power of organisations of the urban poor, and their institutional capacity to constitute a force capable of creating important structural change in the relationships that they have with the state, that determines the direction and speed at which change occurs. In this sense organisations of the poor become the enablers of their own development, rather than receivers of the empowerment that is benignly offered them by others. If this process is to be understood it is important that its central importance be recognised within the analytical framework used to understand the asset formation process of the poor.

#### ***INSTITUTIONAL (POLITICAL) CAPITAL***

*The organisational forms, relationships and processes specifically developed by the poor to increase their capacity to escape from poverty. This concept incorporates relationships that facilitate access to, and influence on, the structures and procedures that constitute the external policy and regulatory environment in which organisations of the urban poor operate. In effect this form of asset constitutes the political base of the urban poor’s organisational influence.*

Information and knowledge have been treated as “human capital” within the sustainable livelihoods theoretical model. In our opinion, when the theory is applied at institutional level, and used to think through the development dynamics of organisations of the urban poor, such a categorisation proves inadequate, because it fails to identify the strategic role that knowledge creation plays in the development of capacity within these organisations.

### **KNOWLEDGE CAPITAL**

*The institutional knowledge created by the poor – a form of intellectual capital that has a significant role to play in the negotiation of partnerships and in the formation of collaborative arrangements with the state and with formal financial institutions. The production and collation of information by the poor, about the informal settlements where they live provides a basic example. This information has a tangible value for local authorities planning urban development. A more complex example is provided by the capacity of the urban poor to share learning and experience locally, nationally and internationally through exchanges and dialogue, a capacity that has been enhanced by the use of new information technologies that allow almost immediate sharing of information. It is this asset base that also constitutes the anchor for the development of the institutional (political) capital discussed above.*

## **2.2 A BRIEF NOTE ON LANGUAGE**

Sustainable livelihoods theory and the framework that has emerged from it can be used in different ways. Our main interest in the theory is the degree to which it can be used to help us think through, and find ways to support, the strategic interventions made by organisations of the urban poor and those who work with them. In this context we find that it is important that the framework can be used dynamically and that it can reflect complex processes that are non-linear and organic rather than mechanistic. We are interested in how the framework can incorporate a process-language capable of reflecting the complexity of relationships in which organisations of the urban poor must engage if their development agenda is to be realised at the level of the city, rather than simply at the level of the household or the individual settlement.

## **2.3 APPLYING THE ANALYSIS AT AN INSTITUTIONAL LEVEL**

Different agencies have adapted sustainable livelihood theory to suit their own purposes but the starting point, and unit of analysis, seems usually to have been the individual household<sup>2</sup>. It is our opinion that this approach has serious limitations if we are trying to understand and support strategic interventions intended to impact on the poverty of large numbers of people, at city level. We have therefore focused, as our starting point, on exploring the asset base that has been created at institutional level by organisations of the urban poor and those who work in alliance with them<sup>3</sup>. This level of analysis enables a more adequate consideration of the ownership of the change process and requires an examination of the potential that institutions established by the urban poor have for valuing, developing, applying and leveraging the asset base that they have at their disposal. Without such a consideration their asset base remains subject to appropriation by others – particularly by governments, academics or development professionals – and their capacity to use their resource base to lead a development process becomes diminished as a result.

## **2.4 WORKING WITH RISK AND INVESTMENT**

The asset base of organisations of the urban poor provides options for leverage and investment within the complexity of political and market forces that the urban environment presents. However investment involves risks. When the asset base of the urban poor remains invisible, unrecognised, unarticulated and under-developed, the power of the poor to determine how risk is defined, constructed and

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<sup>2</sup> See for example DFID (1999)

<sup>3</sup> This institutional base is frequently formed around common tenure. For example in the case of the National Slum Dwellers Federation of India, families living along the railway tracks on land controlled by the Railway Authority have formed the Railway Slum Dwellers Federation, those living on Airports Authority land have formed the Railway Slum Dwellers Federation.

controlled within a broader framework is minimised<sup>4</sup>. As a result their access to resources such as finance and land remain constrained because they are not considered credit-worthy and/or because their capacity to manage and develop complex projects is underestimated. It is in articulating and demonstrating the knowledge that has emerged with the creation of their asset base, through their own investment and risk taking, that organisations of the urban poor become pro-active subjects of development rather than objects of the plans and aspirations of others. It is in sharing this knowledge with each other, and, in effect, creating a critical mass of poor people who are articulate and informed, that their power base becomes strong.

## 2.5 SOME ISSUES WITH DEFINITIONS AND THE DEFINITIONAL PROCESS

Our work in urban finance also suggests that, within a context of rapid urbanisation, a more dynamic examination of physical and natural assets should be explored. Within sustainable livelihoods theory land and water have generally been seen as “natural” assets. However in urban areas the poor’s limited access to land and water, as well as to sanitation and other basic urban services, represents a critical struggle that is more appropriately articulated in physical and political terms<sup>5</sup>. Land and water have to be accessed. In urban areas this usually means challenging relationships that reflect inequitable control of resources. Far from being “natural”, these basic elements of urban survival, land and water, become a contested and scarce commodity subject to legislative processes that define access and use. For the poor land and water do not exist “in themselves” as a natural form and, within most urban contexts, the political dynamics associated with land access are not only extremely complex but highly polarised. For example the poor’s encroachment onto land that they do not legally own is frequently required if they are to ensure their physical and economic survival. However, this very act of survival is often perceived by those who are better-off, as constituting an unacceptable, act of aggression which is environmentally hazardous. In these circumstances, the rhetoric of environmental sustainability is increasingly being used by better-off groups, to pressurise the state into acts of forced eviction - a major man-made hazard for the urban poor – and the political process of definition determines outcomes in a tangible manner. We believe that the process of definition, and the determination of definitional legitimacy requires further recognition and exploration within sustainable livelihoods theory if the conceptual framework it is based on is to become useful to organisations of the urban poor. It is the capacity of organisations of the urban poor to tangibly redefine the poverty and development debate in urban areas that determines how effective “city-community” partnerships will be in eliminating poverty<sup>6</sup>.

## 2.6 ASSET MAPPING – A TOOL TO HELP THINK AND TALK THINGS THROUGH

Asset mapping has helped Homeless International to explore the complexities of the strategies developed by our partner agencies. It is a tool we are developing to help us to identify and understand the range of resources that organisations of the urban poor have created as they organise around slum rehabilitation and resettlement initiatives. We are very aware that it is a tool to help us in our own search for conceptual understanding – a kind of method for thinking-things-through so that we can talk

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<sup>4</sup> For example conventional bank lending, based on asset securities, assumes that collateral should be restricted to legally registered property and certifiable earnings. This conception of capital assets immediately excludes the vast majority of those living in informal settlements and dependent on livelihoods generated within the informal economy. Alternative asset bases such as social and institutional capital, that may offer far greater security in the long term, are not understood or recognised as effective indicators or predictors of “safe” lending.

<sup>5</sup> In Nairobi more than 60% of the population live on less than 5% of the land. In Mumbai over 50% live on less than 8% of the land.

<sup>6</sup> By tangible definition we mean the practical demonstration by the poor of what is possible – the creation of precedent setting alternatives which are well illustrated in the paper by Burra and Patel. When new precedents are set the rules of “business as usual” are less easily applied and defended. New criteria for judging success emerge and the prevailing indicators of development may be challenged with alternative views. This has significant implications for the ongoing development of urban poverty indicators, and the way in which criteria for evaluating the impact of particular initiatives on poverty are legitimised and applied.

more intelligently to the organisations with whom we work. In that sense it's a kind of brainstorming or interpretation game that helps outsiders to understand the complexity of investment options and choices that the urban poor are engaged in on a daily basis. The mapping process, which is very fluid, emerged from work in India with SPARC and the National Slum Dwellers Federation. The method plots perceived resources and threats (risks) by building up a map based on clusters relating to financial, human, institutional, social, environmental, and physical assets, political and market factors, and specific investment areas such as land development and construction. The result is a single sheet summary that is used for discussion and brainstorming, for uncovering confusion and for clarifying assumptions.

The asset mapping process helped Homeless International to articulate how the formation and development of institutional capital within informal settlements provides a strategic basis for negotiated partnerships between organisations of the urban poor, and both the state and the formal financial sector<sup>7</sup>. The mapping exercise also helped us to explore the options that exist for risk management and mitigation within this context. We have found the process particularly useful in developing arguments in favour of alternative forms of credit assessment by financial institutions considering lending for community driven infrastructure and housing initiatives. However it should be noted that the method was not developed and has not been used as a quantitative or asset measurement tool.

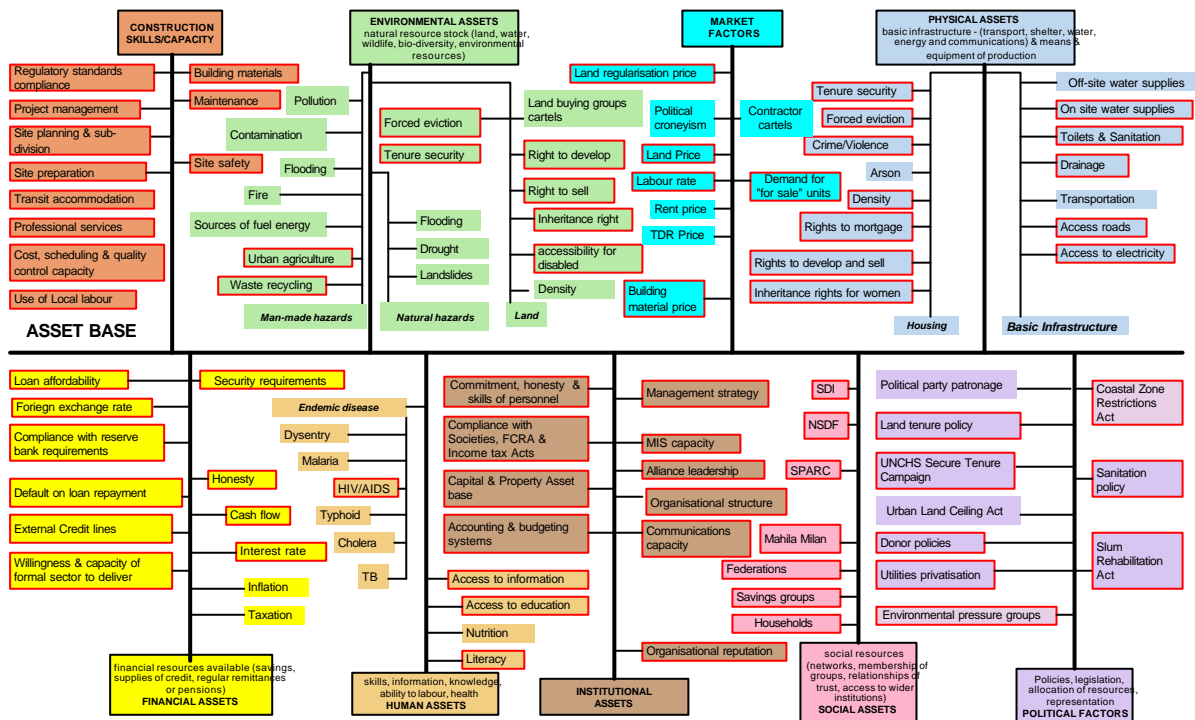


Figure 1 – An example of asset mapping

## 2.7 ANALYSING, MANAGING AND MITIGATING RISK

Livelihoods theory provides a framework that encourages analysis of how the resource base of the poor can be used to withstand stresses and shocks that may result from internal and external events. In other words the theory supports an analysis of risk taking, management and mitigation by the poor

<sup>7</sup> Entering into such partnerships can entail significant risks for the poor at the same time as enhancing their capacity to influence policy in their favour.

linked to their perceptions and judgements of potential options and investments. As Homeless International has begun to explore the theory to develop our thinking around options for housing and infrastructure finance we have found ourselves drawn into a particularly detailed consideration of risk. As a result we have identified a number of assumptions about the nature of risk that we believe are important. We believe that risk ( and risk analysis):

- is about what can go wrong, how badly it can go wrong, and what may happen as a result.
- involves judgement about the likelihood or probability that something will go wrong and how severe the consequences will be.
- is about choice and the ability to choose. It is, as Bernstein<sup>8</sup> has pointed out *"a set of opportunities open to choice"*.

The urban poor face a multitude of risks on a daily basis ranging from the risk of inadequate food, right through to the risk of forced eviction and the destruction of the shelter that they manage to create. For some, short-term risk management dominates their daily lives. For others a longer-term perspective is possible, as is the potential to develop strategies to manage risk associated with investments aimed at escaping poverty altogether. This longer term potential arises most often when the urban poor are organised, and have an institutional base, and associated allies, that provide a means to engage in proactive negotiations with the state and with financial institutions<sup>9</sup>.

It is important to note that the relationship between security and risk is dialectic. By this we mean, *"Security at one level allows risks to be taken at a higher order, in good faith"*<sup>10</sup>. So the starting point for risk analysis has to be the security that organisations of the urban poor are already perceived to possess.

We have made three further assumptions that have been well articulated by Beck <sup>11</sup> He argues that ... *"Risks only exist in terms of the.... knowledge about them. They can be changed, magnified, dramatised or minimised within knowledge, and to that extent they are particularly open to social definition and construction. Furthermore some people are more affected by the distribution and growth of risks and there are winners and losers in risk definitions. Power and access to and control of knowledge thus becomes paramount in a risk society"*.

In other words:

- Risk is socially defined and constructed.
- People from different contexts define risk differently.
- People's access to, and control of knowledge, affects whether or not their definition of risk is accepted by others.

Within this context the knowledge (and definitional frameworks) created by organisations of the urban poor takes on an important significance because they help the poor not only to articulate their own definition of risk and investment but also to convince others of the legitimacy of their judgements in this area. They, in short, help the poor to counter judgements that make no sense to them. We would further argue that it is the systematic collation of information by the poor, and its transformation into institutional knowledge, that provides the poor with the strategic advantage that they require in order to enter proactively into negotiations with the State and with the formal financial sector. The development

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<sup>8</sup> Bernstein (1998)

<sup>9</sup> McLeod and Satterthwaite (1999)

<sup>10</sup> I am grateful to Xavier Briggs of Harvard for this insight which emerged from email correspondence.

<sup>11</sup> Quoted in Lupton, (1999)



of this capacity can make a crucial difference when these negotiation incorporate options to scale up community-driven initiatives to city-level solutions<sup>12</sup>.

## 2.8 SPECIFIC AREAS OF RISK

Our research, so far, has led to the identification of fifteen areas of risk that alliances of the urban poor and NGOs must manage and mitigate when they seek to scale up their work to create safe and secure shelter in partnership with the state, and with financing from the formal financial sector. The main risk areas we have identified are:

- Construction Risk
- Bribery and Corruption Risk
- Credit Risk
- Economic Risk
- Financial Risk
- Foreign Exchange Rate Risk
- HIV/AIDS Risk
- Interest Rate Risk
- Loss of Learning Risk
- Market Risk
- Natural Hazards Risk
- Organisational Risk
- Participation and Equity Risk
- Political Risk
- Savings Risk

These risks will not be considered in detail within the body of this paper<sup>13</sup>. However it should be noted that the ability of the urban poor to manage and mitigate risk relates closely to their capacity to engage in negotiation with the state and other agencies regarding the application of building and planning standards and to the procedures through which these standards are enforced. The SPARC case study prepared for the wider research project of which this paper is a part illustrates this well<sup>14</sup>. Understanding precisely which risks are most critical for the poor within any specific context is an important strategic step in ensuring that the development processes that they plan and promote can be implemented successfully in practice.

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<sup>12</sup> In many cases this lack of access to adequate information by the state is a result of inadequate capacity. For example many cities have no effective cadastral registers or accurate population data relating to the size and composition of populations living in informal settlements. However it may also be the case that state interests preclude any active creation of such data bases, particularly where the data may be associated with politically controversial decision making regarding allocation of state resources.

<sup>13</sup> For further discussion on the characteristics of these risks and options for their management and mitigation see McLeod 2001.

<sup>14</sup> Burra and Patel 2001

## 2.9 LEVELS OF INTERVENTION AND INFLUENCE

The capacity of organisations of the urban poor to take a lead in their own development is influenced by regulatory and procedural processes that originate from different levels of authority. The diagram below illustrates this figuratively.

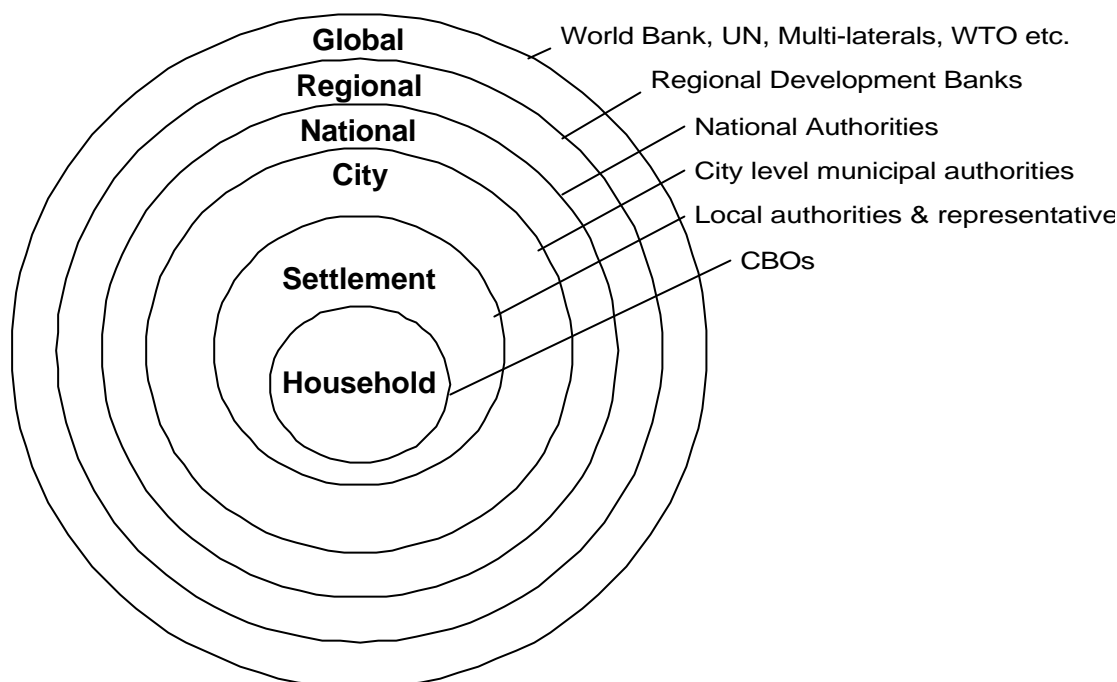


Figure 2 – Levels of authority likely to influence the regulatory system.

The degree of influence of each level of authority varies from one context to another. In Kampala for example a highly devolved governance structure allocates responsibilities right down to the LC5 or CBO level. Elsewhere this level may have no formal influence at all, particularly in informal settlements. Some community processes are directly influenced by policies of the World Bank because projects funded by the Bank operate within the settlements concerned as part of city or state level agreements. In other cases no global agencies have direct influence at local level. Differing authorities may also have varying priorities in enforcing planning and building standards and procedures and it is not necessarily the case that local and national authorities for example will be in agreement about what should happen at local level. Organisations of the urban poor may therefore often find themselves negotiating with authorities that cannot agree among themselves let alone with the poor. This complexity requires that organisations of the urban poor and their allies develop the confidence to negotiate with multiple players in a planning and approvals game that may have its regulatory boundaries set from many different angles. The development of information and exchange networks by the urban poor has greatly facilitated the building of such confidence<sup>15</sup>. When constructive agreements have been reached within one urban context they can be shared in other contexts where partnerships between the urban poor and city authorities are at an earlier stage of development. However such systematic learning and support systems require the creation of institutional relationships that reach beyond the local. An example of such a series of relationships is shown figuratively below, showing the local to global connectivity that has emerged between

<sup>15</sup> See ACHR 2000 and Homeless International 2000.

Federation of Slum Dwellers in Asia and Africa through the emergent Shack Dwellers International network<sup>16</sup>.

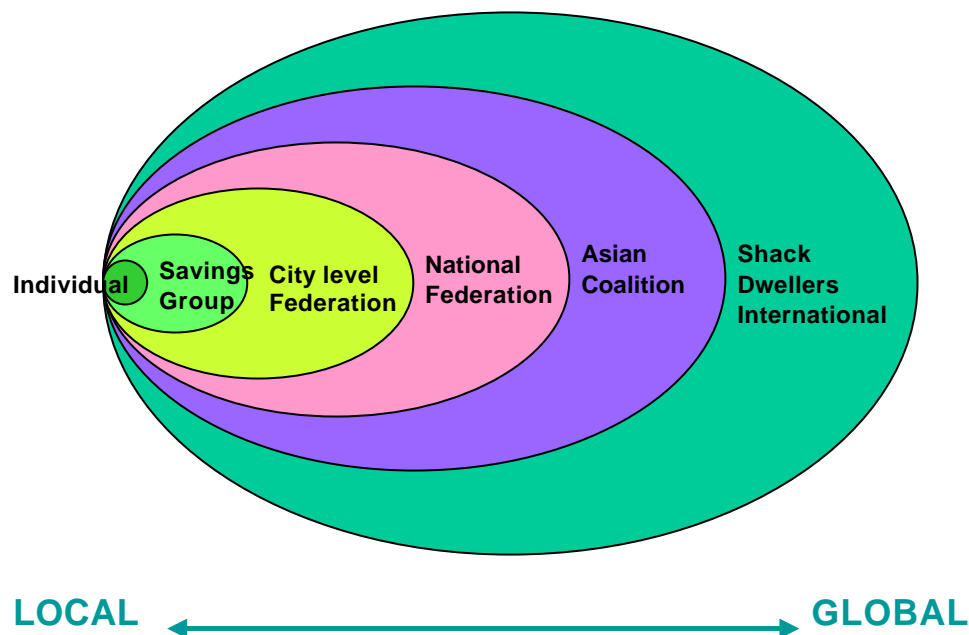


Figure 3 – Alliances that link local initiatives to global support

### 3 MOMENTS OF TRUTH

The urban poor come face to face with planning and building regulations and procedures when they seek to form partnerships with the state and to implement initiatives that may require financing beyond their own direct means. When this happens decisions are negotiated on the basis of criteria that may or may not be formally established, and may or may not be understood by those seeking to enforce them. The situation is exacerbated when the regulations and processes are written in technically obscure language that makes it difficult, if not impossible, for local organisations to understand them. To simplify the discussion this section of the paper will focus on seven areas where criteria are applied that have a direct influence on the degree to which organisation of the urban poor can operate legitimately, in the eyes of others, in urban regeneration and development. The points at which real decisions are made by people as to whether or not initiatives can proceed legitimately can be seen as a “moment of truth” – the point at which it becomes clear whether or not the systems applied work for the poor or not.

#### 3.1. CRITERIA FOR PLANNING AND BUILDING PERMISSIONS

It is frequently the case that planning and building standards used to assess approvals for construction are derived from contexts that bear little relationship to the realities faced by the poor in urban centres in developing countries. The application of British planning and building regulations in commonwealth countries, as a result of colonialism, has resulted in many anomalies. Standards may be based on detailed specifications of building materials that are neither affordable nor appropriate to local conditions. All too frequently criteria are applied rigidly and there is no flexibility to accommodate progressive improvements over time (allowing investment to be made in line with incremental building) and/or the use of performance criteria that would enable alternative building methods to be legitimated. The end result is that those dependent on shelter within the informal

<sup>16</sup> The illustration takes as its starting point the local processes of the Indian Alliance that is the subject of the Homeless International/SPARC component of the research project.

sector have no alternative but to defy or bribe their way round the regulations as the regulatory systems are, in reality non-operable. In either case the costs to the poor can be considerable. Housing may be demolished as "illegal" with regular rebuilding costs that can exceed the cost of a formal housing loan were such a loan to be available. On the other hand regular and recurrent payment of bribes to a range of officials can prove financially onerous. In some cases however the regulatory system appears to be of no concern to either officials or those living in informal settlements. Regulatory requirements and procedures may be seen as completely irrelevant and incomprehensible. (See paper by S.Lall 2001 )

New planning regulations focused on protecting the environment can prove not only contentious, but also prohibitively expensive for the poor to comply with<sup>17</sup>. The environmental standards laid down may, effectively, meet the requirements of middle and upper income households whilst displacing poor households to marginal land that is developed totally outside the planning process. Indeed it may be the objective of the better off to achieve precisely this outcome. When environmental regulations have not been developed locally their relevance to the local context may also be in question. The capacity of organisations of the urban poor to engage proactively in local political debate concerning the setting of precedents in applying environmental and planning standards is of critical importance if equity is to be incorporated into the urban planning process. Without this condition it is inevitable that the poor will end up paying the costs for the environmental choices of others.

When organisations of the urban poor seek to change planning and building standards the investments required may entail considerable expense in terms of time and in the form of "demonstration" projects that are needed to convince the authorities of the workability of the changes proposed. The demonstrations can be seen, in policy terms, as the means of making the impossible possible. The problem is that banks rarely provide financing for innovative and precedent-setting demonstrations on the basis of rational plans and financial viabilities. It is invariably true that "seeing is believing" and in these circumstances financing tends to follow the project rather than preceding it. As a result those taking the initiative require bridge capital and may later require bank guarantees – both of which are hard to come by from conventional NGO funding sources.

### **3.2. CRITERIA FOR CREDIT APPROVAL**

Financial institutions have a tendency to risk aversion, particularly when lending to poor households or to the organisations of which they are members. If banks do not want to lend to poor people they may use planning and building regulations to avoid doing so. For example they may require proof of building to certain specifications and designs which may not be achievable by the poor. Tenure requirements can be particularly onerous with requirements for clear land title rather than for evidence of alternative forms of secure tenure being stipulated.

One of the most difficult constraints in obtaining credit approval is the lack of familiarity that banks have with the processes of investment prioritised by the poor. Bankers refer to this imbalance in understanding as "asymmetrical information" – the borrower knows significantly more than the lender about the likelihood of repayment. The lack of understanding by bank personnel also means that they feel uncomfortable about lending. They frequently refer to this as the "lack of the comfort factor". Their discomfort is based in a lack of knowledge but enlightenment, even if it occurs, is not sufficient to address the constraint. A historical lack of understanding is inevitably reflected in the absence of appropriate systems within banking institutions for delivery of financial services to the poor. As a result one of the most important investments that has to be made is building up internal procedures and systems within banking and other financial institutions that work for the poor.

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<sup>17</sup> See the SPARC case study from Mumbai

Most institutions lending to the poor focus on retail lending to individuals. For housing finance they usually require that evidence of compliance to tenure requirements be provided. In reality, in densely populated urban areas, options to develop long term housing solutions by individual households are extremely limited. The solutions that are necessary can only be developed when poor households combine their resources and plan collectively. In this situation exemplified by resettlement and rehabilitation of slums, organisations of the urban poor require development capital on a wholesale basis. This is rarely available and, where it is, the credit rating criteria used by financial institutions can be prohibitively onerous. When organisations are expected to demonstrate their credit worthiness by meeting conventional banking requirements, which are based on financial and physical assets, they are likely to have their loan applications rejected. The challenge in this context is to provide systems of collateral that recognises alternative assets as representing security against default on repayments. It is arguable that the social and institutional capital of organisations of the urban poor should be recognised as constituting a reliable form of collateral. However dialogue with financial institutions has only just begun and at the moment there are few examples of successful borrowing on this basis<sup>18</sup>. To exacerbate the situation financial institutions may be constrained in lending to organisations of the urban poor by regulatory frameworks that require onerous provisioning<sup>19</sup> for lending that lacks conventional collateral. The end result can be that lending to the poor becomes too expensive and complex a proposition for banks to consider even if they want to.

### 3.3. CRITERIA FOR LAND PROVISION

Spatial requirements stipulated in planning regulations frequently make land development impossible for the poor. In most cities minimum plot sizes close to the city centre can only be afforded by the better off. Those who cannot afford the cost are confined to high density developments, usually located at some distance from the urban centre, and entailing considerable costs in terms of transportation to and from the locations on which people depend to earn their living.

Even if affordable land can be identified, organisations of the urban poor face problems in accessing loans to purchase land. Where informal settlements are well established consideration may be given to regularising the tenure. However the costs of doing so can be excessive. In Andhra Pradesh in India for example Homeless International assessed the cost of regularisation initiated by the poor themselves and found that the end cost would be equivalent to the cost of building a permanent home. An additional problem arises if financing arrangements require that tenure options are limited to free-hold title. This may undermine the ability of a community to ensure that housing constructed for low income families is not taken over by those who are wealthier.

In Maharashtra in India a more constructive and pragmatic approach has been taken to high-density developments. The Slum Rehabilitation Act allows for the use of varying densities in different parts of the city and a transferable land rights market has been established which allows a degree of cross-subsidisation across the city. Slum dwellers and pavement dwellers, under specified conditions, have been granted development rights, which can be realised by co-operatives providing they are able to access the necessary development finance<sup>20</sup>.

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<sup>18</sup> For a longer discussion on this issue and the use of international guarantees to create the “comfort factor” required by banks – see McLeod 2001.

<sup>19</sup> Provisioning requires that financial institutions retain specified reserves to cover the likelihood of loan repayment default. The less secure the loan is considered the higher the level of provisioning usually required under stipulations of local Banking Acts.

<sup>20</sup> For a more detailed understanding of the application of the SRA approach see the Indian Case Study published as part of the *Bridging the Finance Gap in Housing and Infrastructure Research in August 2000*.

### 3.4. CRITERIA FOR SERVICE PROVISION

It has become well known in recent years that the poor in most urban centres in developing countries pay considerably more for water than the rich. Restrictions on the provision of basic urban services such as water, sewage, roads, electricity and garbage disposal exclude the poor from access to basic services and result in their using scarce resources to cover basic needs that others obtain by right of their land tenure. This lack of access to basic services has a knock on effect that constitutes a central feature of urban poverty. When people have no access to toilets and running water the health costs that result are considerable. Women in peri-urban Nairobi can spend up to three hours a day collecting and carrying water, time that could be much more productively used. The cash cost of this water significantly exceeds that of repaying an infrastructure provision loan if one was available.

In many towns and cities in developing countries the provision of basic services is conditional on clear land title. Where this does not exist, options for legal connections to mains systems will be distinctly limited. Where shared facilities are provided by the state they may be used by large numbers of people, and long term maintenance may be a problem.

### 3.5. CRITERIA FOR SUBSIDY ACCESS

Where state subsidies are allocated for the improvement of low income and informal settlements the means of subsidy delivery can be a constraint on the capacity of organisations of the urban poor to take the lead in development initiatives. In South Africa for example, capital subsidies made available for the construction of secure housing were initially channelled either through developers or through banks. The South African Homeless Peoples Federation (SAHPF), working in alliance with the NGO Peoples Dialogue on Land and Shelter, was able to demonstrate that the add-on costs of developers meant that the end product resulting from expenditure of the subsidy was considerable inferior to the result when organisations of shack dwellers managed the same level of development finance themselves<sup>21</sup>. Eventually, as a result of strong lobbying by SAHPF and Peoples Dialogue, the Housing Subsidies Act was amended to facilitate direct access to subsidies by organisations of the poor. However the bureaucratic requirements associated with subsidy applications continue to make access to subsidies problematic particularly in regions where the local Housing Boards are not sympathetic to community-driven processes.

In the case of South Africa the Federation and Peoples Dialogue has had to make a considerable investment in developing the internal management systems to interface with the state's subsidy system. They have also had to establish their own bridge fund – the uTshani Fund - because of the significant delays in obtaining subsidy allocations. Given that, even as a result of all this effort, the majority of Federation members remain unable to access the subsidy system, and are dependent on loans provided through the uTshani Fund, the jury remains out on whether or not capital subsidies have provided an overall benefit to the majority of the urban poor.

Interest rate subsidies are a common means of supporting low-income housing developments. However it is widely acknowledged that this form of subsidy frequently ends up benefiting better off families. This is particularly the case when capital funds are based on salary deductions from those in formal employment<sup>22</sup>.

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<sup>21</sup> For further details see Baumann 2000 – the South African Case Study from Bridging the Finance Gap in Housing and Infrastructure, Homeless International and the upcoming development of this work in Baumann 2001.

<sup>22</sup> In Bolivia and Jamaica for example, such funds have failed to reach the poor and been demonstrated to deliver almost exclusively to middle income households with formal employment. See Ferguson 2001.

In India subsidies are allocated at national level for local use in infrastructure development. However according to Patel, such subsidies frequently remain unspent with local authorities unable to develop effective delivery systems for the infrastructure that is needed, particularly within informal settlement. In Pune and Mumbai initiatives by the Indian alliance of the National Slum Dwellers Federation, SPARC and Mahila Milan led to a partnership with local Municipalities that enabled communities to take a direct role in the installation of infrastructure, providing a means for nationally allocated subsidies to be used effectively.

In other contexts subsidies may be delivered in the form of land. In Phnom Penh for example the Municipality agreed to provide land for resettlement of slum dwellers. Other examples can be cited from India and from Zimbabwe.

### **3.6. CRITERIA FOR AWARD OF DEVELOPMENT CONTRACTS**

The initiative of organisations of the urban poor in creating solutions that are affordable is increasingly being recognised. However many of these solutions are developed informally with no reference to the formal planning and building standards of the state which may simply turn a blind eye because no alternatives are seen to exist. In other cases as settlements are improved informally over time their use value increases and eviction can result leading to take-over by local vested interests. In Addis Ababa this has recently been a problem in settlements where a major investment had been made in improving water provision but the basic land tenure of the residents had not been secured.

In recent years there have been a number of attempts to award improvement contracts directly to communities. This can prove problematic as organisations of the urban poor rarely meet the criteria anticipated in procurement procedures of local authorities, municipalities, regional development banks or bi-lateral and multi-lateral funders. Tendering processes can be bureaucratic and expensive, requiring the provision of application fees. Where tenders are awarded further requirements for performance bonds and start up capital may make the financial costs of engaging in a contractual partnership with the state prohibitively expensive. In Mumbai for example, SPARC and the NSDF won a significant series of contracts incorporating community construction of toilet blocks in informal settlements throughout the city. The combined costs of the 5% performance bond and 10% start up capital amount to the equivalent of US\$1.3 million, a sum that the urban poor and the NGOs that work with them are unlikely to find easy to access.

### **3.7. CRITERIA FOR AWARD OF MAINTENANCE CONTRACTS**

When urban regeneration initiatives are analysed it is important that the benefits that they produce are considered in the long as well as short term. For example in Pune, the capital costs covered by the city authorities for land and construction of toilet blocks were negotiated with organisations of the urban poor on the basis that local community organisations would take on full responsibility for the management and maintenance of the toilets over a thirty year period. The design of the toilet blocks and the incorporation of a community hall that can be rented out, together with a caretakers facility have made such an undertaking possible for the communities involved. In addition the arrangement provides an important means of protecting the local authorities capital investment in the long term,

When organisations of the urban poor take responsibility in the ways that have been illustrated above they are able to do so because they have, in the words of SPARCs Celine D'Cruz – “done their homework”. They have set up community savings and loan schemes, bringing people together through savings and providing the first level of an important safety net structure that helps to protect the vulnerable asset base of the poor. They have also invested time and energy in creating a knowledge base about their own communities which is required if any significant level of planning for improvements is going to be made. This process does not take place automatically, it requires

consistent and regular support, often via networks established with other communities. It also takes time - usually years rather than months. Finally they have invested in constructing precedent setting alternatives that provide models for future scaling up. If this form and level of investment by the urban poor is not supported and recognised in planning urban redevelopment initiatives the potential for strengthening the asset base of the poor and for leveraging that asset base remains severely restricted.

#### **4 CONCLUSIONS**

- ◆ It is in articulating and demonstrating the knowledge that has emerged with the creation of their asset base that the poor become pro-active subjects of development rather than objects of the plans and aspirations of others.
- ◆ Institutional (political) capital, anchored in the knowledge base of the poor, is particularly critical in determining how effectively organisations of the poor are able to develop, present and leverage the equity that they bring to the negotiation table, when they enter into relationships with the state and with financial institutions over issues of planning and building regulation.
- ◆ The ability of the urban poor to manage and mitigate risk has important implications for their ability to engage in negotiation with the state and other agencies with respect to the application of building and planning standards and to the procedures through which these standards are enforced. Understanding precisely which risks are most critical for organisations of the urban poor, within any specific context, is an important strategic step in ensuring that the development processes that they plan and promote can be implemented successfully in practice.
- ◆ Risk is about what can go wrong, how badly it can go wrong, and what may happen as a result. However because risk is socially defined and constructed and because people from different contexts define risk differently, the poor's access to, and control of knowledge, affects whether or not their definition of risk is accepted by others.
- ◆ The capacity of organisations of the urban poor to take a lead in their own development is influenced by regulatory and procedural processes that originate from different levels of authority, ranging from neighbourhood to international levels. This complexity requires that organisations of the urban poor and their allies develop the confidence to negotiate with multiple players in a planning and approvals game that may have its regulatory boundaries set from many different angles. The development of information and exchange networks by the urban poor has greatly facilitated the building of such confidence.
- ◆ There are seven areas where criteria are applied that have a direct influence on the degree to which organisation of the urban poor can operate legitimately, in the eyes of others, in urban regeneration and development. These areas are:
  - Criteria for planning and building permissions
  - Criteria for credit approval
  - Criteria for land provision
  - Criteria for service provision
  - Criteria for subsidy allocation.
  - Criteria for award of development contracts
  - Criteria for award of maintenance contracts



Each of these areas incorporate significant financial costs. At the moment these are being covered by organisations of the urban poor and those who support them. The financial investments made are complemented by other important investments, particularly in the form of institutional (political) and knowledge capital.

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