

Inclusion and Poverty Reduction in Slum Improvements: Lessons from Central America

Alfredo Stein

Global Urban Research Centre (GURC),
University of Manchester

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Purpose of presentation

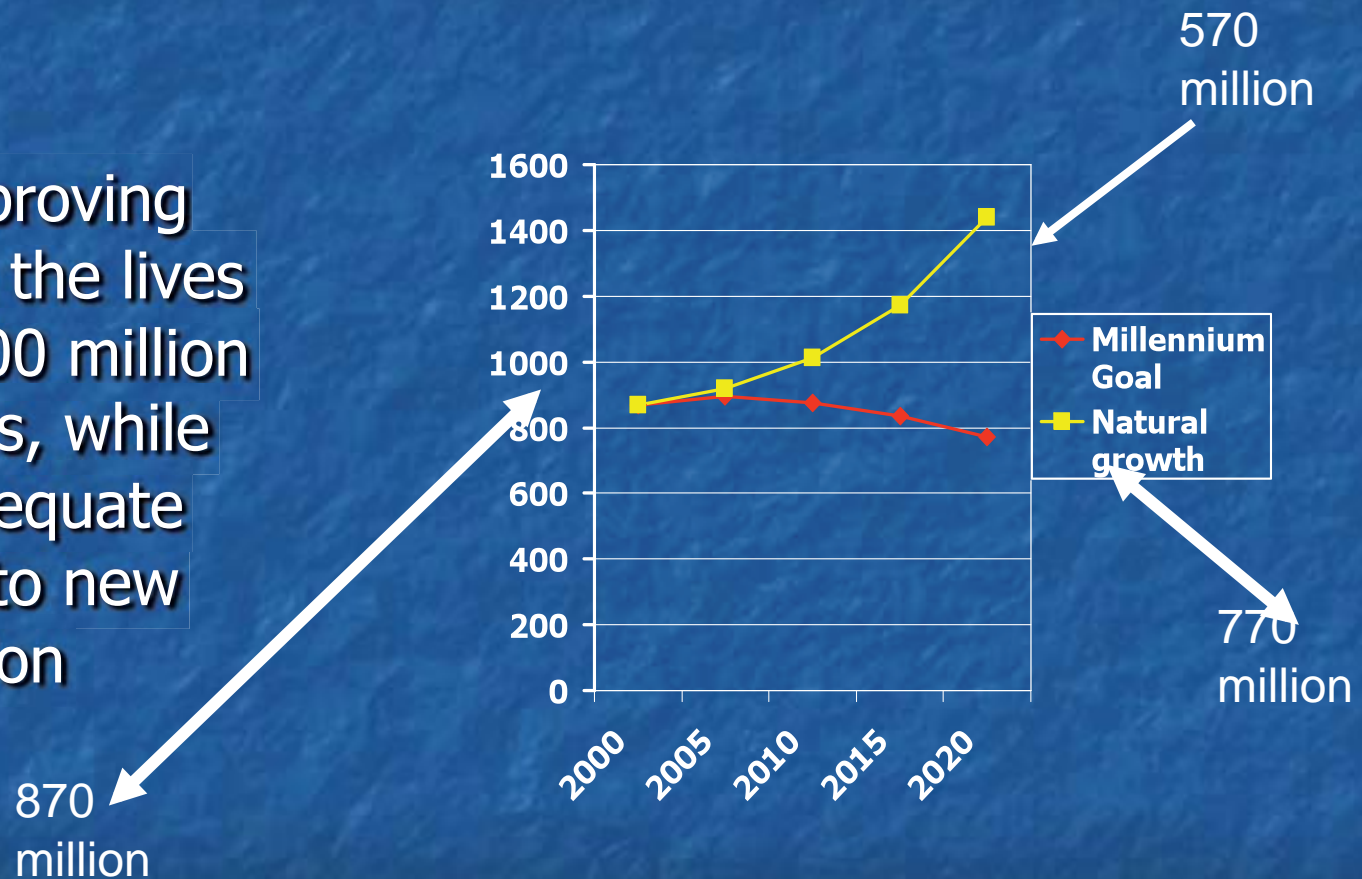
- Try to understand:
 - What the challenges & myths on slums are?
 - What do they mean in terms of urban poverty and social exclusion
 - What options do we have to face the challenges?
 - Lessons from slum improvements in Central America

Slums: challenges & myths



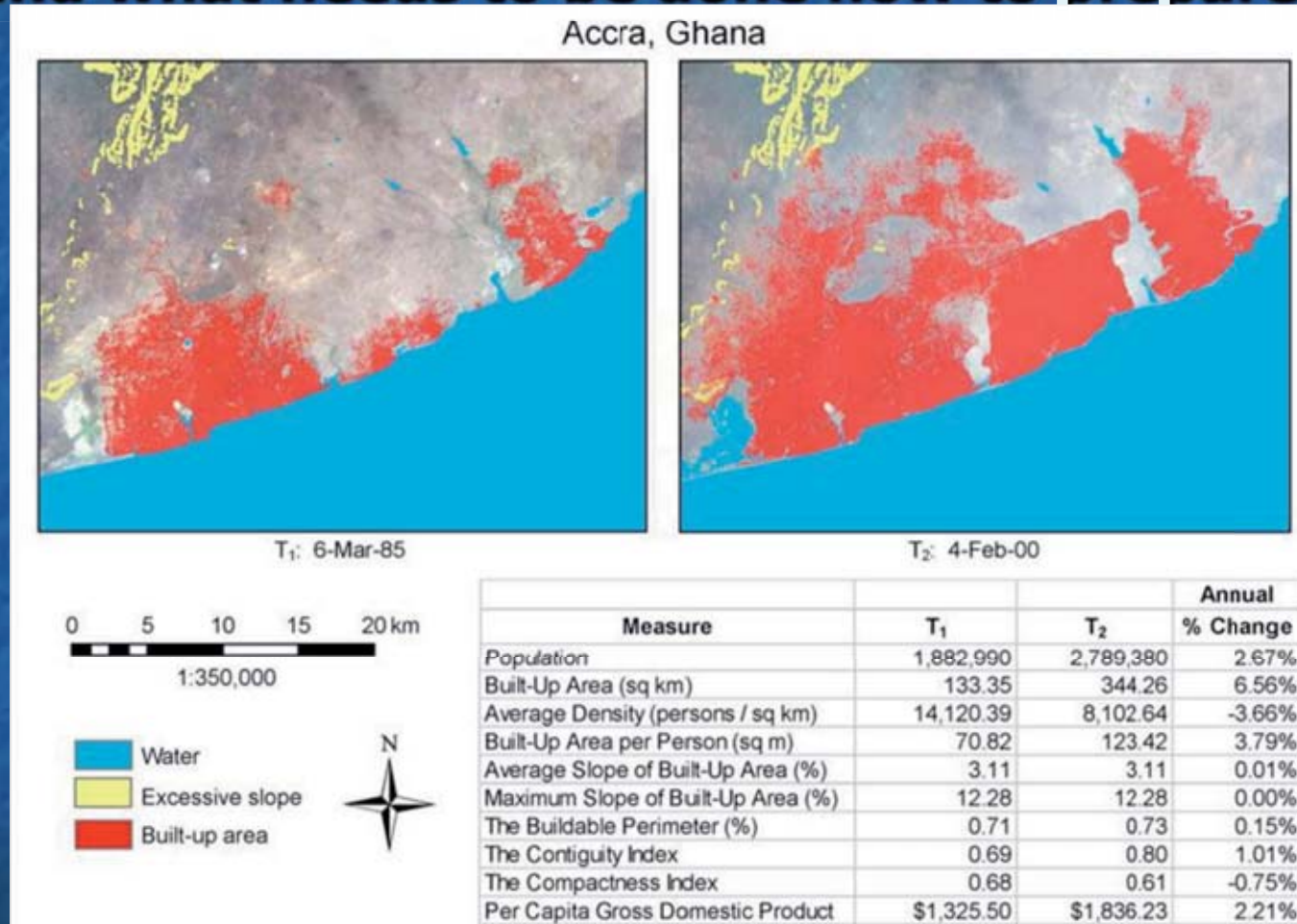
Challenge of MDG 7, Target 11 on Slum Dwellers (According to Task Force):

- By 2020, improving substantially the lives of at least 100 million slum dwellers, while providing adequate alternatives to new slum formation



To improve 100 million = improve 100 + provide for 570 million

Challenge: not whether urban expansion will take place but what will be the scale of urban expansion and what needs to be done now to prepare for it



Implications
for land,
infrastructure
& services
provision

Source: Angel, S. et al (2005:104), *The dynamics of Global Urban Expansion*, The World Bank. Washington DC.

Myths about slums:

- Myth 1: The majority of their population are migrants:
 - However, many are not migrants
 - And many migrants are not the poorest...
 - Natural population increase in cities is very important
- Myth 2: All slum dwellers are poor:
 - However, many slum dwellers are not poor
 - And not all of the urban poor live in slums

Slum in San Salvador, El Salvador

Not all poor households live in slums; and not all households that live in slums are poor

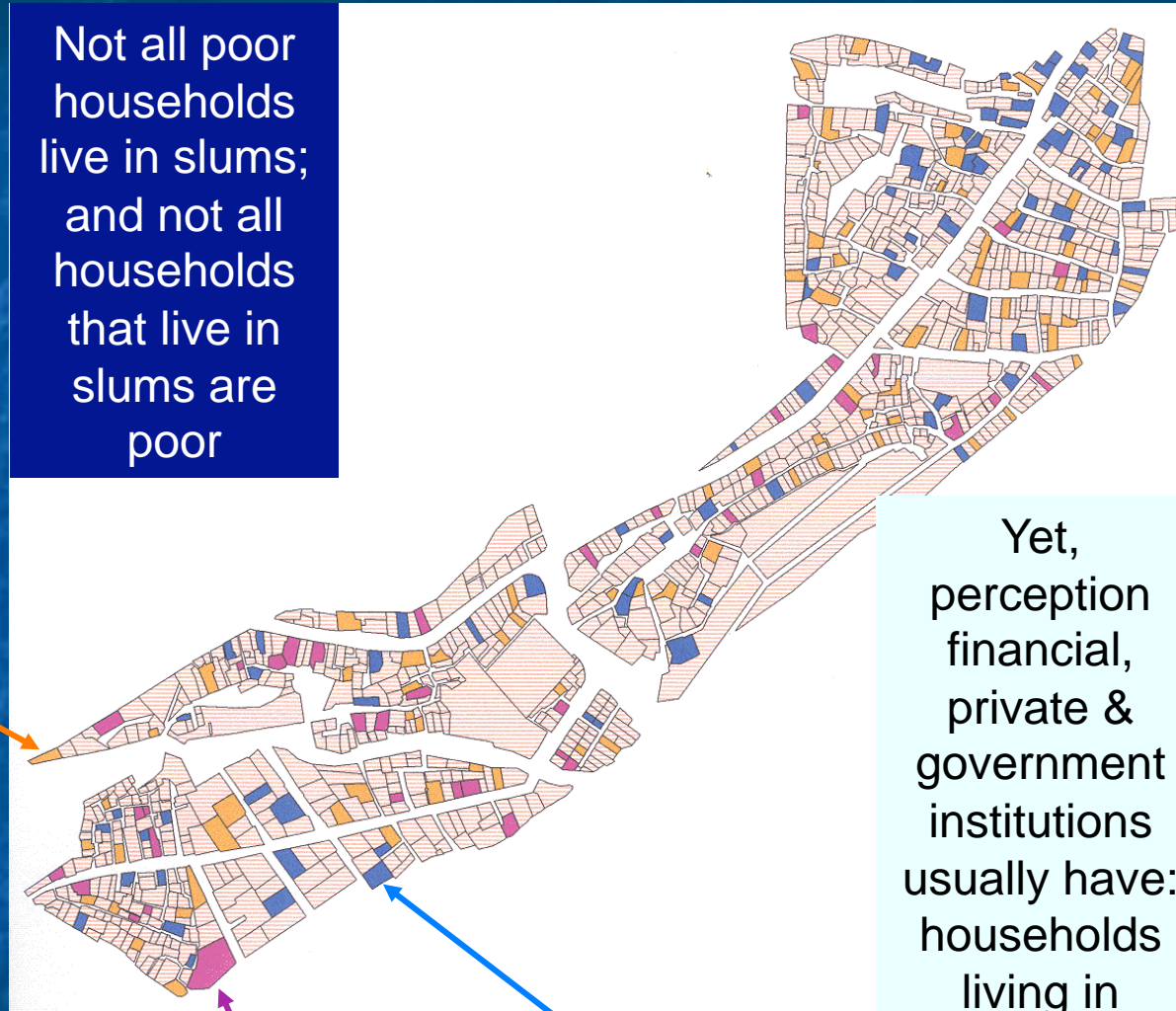
Relative poor

Yet, perception financial, private & government institutions usually have: households living in slums are poor

Extreme poor

Non poor

Source: Fundasal 2004



More myths:

- Myth 3: Problem of slums must be handled by professionals with sophisticated planning techniques & methods + private developers:
- However, in slums:
 - There is no lack of knowledge about problems
 - There is no lack of capacities to confront problems
 - There is no lack of resources to solve problems
 - There is no lack of assets!

Important issues at stake in slum formation & informality

- How people
 - find land;
 - find housing;
 - get services;
 - find livelihoods
- Slums formation and informality:
 - systemic failure, as much as it is lack of affordability
- Formal systems do not work well for the poor
 - How they negotiate accommodation with formal systems
 - What strategies they structure to find solutions

Mitlin (2008)

Policies & planning this way makes thing worse: it excludes & increases poverty!



Others – “un-authorized”

Big Business –
“Authorized”

Source: S. Benjamin (2004)

Growth of slums:

- Not inevitable consequence of urbanization or poverty or lack of financial resources
- But the product of:
 - Failed national and local policies
 - Bad governance at local level;
 - Inappropriate legal & regulatory frameworks
 - Dysfunctional markets & unresponsive financial systems for land, services and housing
 - Corruption and lack of political will

Tannerfeldt & Ljung 2007

So why are problems not solved? What is missing?

Source: S. Benjamin (2004)



What is missing?:

- A 'space', a context to:
 - Articulate & identify common problems,
 - Define & structure solutions,
 - Reach consensus,
 - Negotiate collaboration.
- A mediation between requirements of public authorities & demands of urban poor
- A way to articulate functional relation between
 - Diverse groups of demands
 - Diverse groups of people
 - Diverse scales of organizations

(Hamdi & Goethert: Action Planning for Cities, Wiley Chichester 1997)

Some lessons from Central America



Central America context

- Increased population and urban growth
- Increase urban poverty;
- Increase social disintegration;
- Increase urban violence;
- Increase population displacement (15% has migrated)
- Most natural disaster prone area in the world, and;

Central America: Inhabitants per square kilometre (1950-1990)

	1950	1960	1970	1980	1990
Latin America	8	10	14	17	22
Costa Rica	17	24	34	45	59
El Salvador	92	122	171	215	246
Guatemala	27	36	48	64	84
Honduras	13	17	23	33	46
Nicaragua	9	12	16	22	28

Source: UN-Habitat and Cities Alliance 2002, p.11

Unequal income distribution = polarized + segregated societies

Income inequality	Costa Rica	Honduras	El Salvador	Nicaragua	Guatemala
Income earned by richest 20 %	51%	56%	61%	59%	64%
Income earned by poorest 20%	4.5%	3%	4%	2%	2%
Ginni coefficient	0.46	0.518	0.582	0.564	0.584

Components per program

	FUPROVI (CR)	FUSAI (ES)	PRODEL (NIC)	FUNDEVI (HON)	FDLG (GUA)
New Housing	YES	YES	NO	YES	NO
Housing Improve-ments	YES	YES	YES	YES	YES
Infrastrc. and basic services	YES	YES	YES	YES	NO
Income generating activities	NO	YES	YES	NO	YES

Key issues per programme

	FUPROVI	FUSAI	PRODEL	FUNDEVI	FDLG
Advisory services for land tenure	YES	YES	NO	YES	NO
Direct lending to families	YES	NO	NO	YES	NO
MFIs + Banks channeling loans	NO	YES	YES	NO	YES
Influencing housing policy	YES	YES	YES	YES	YES

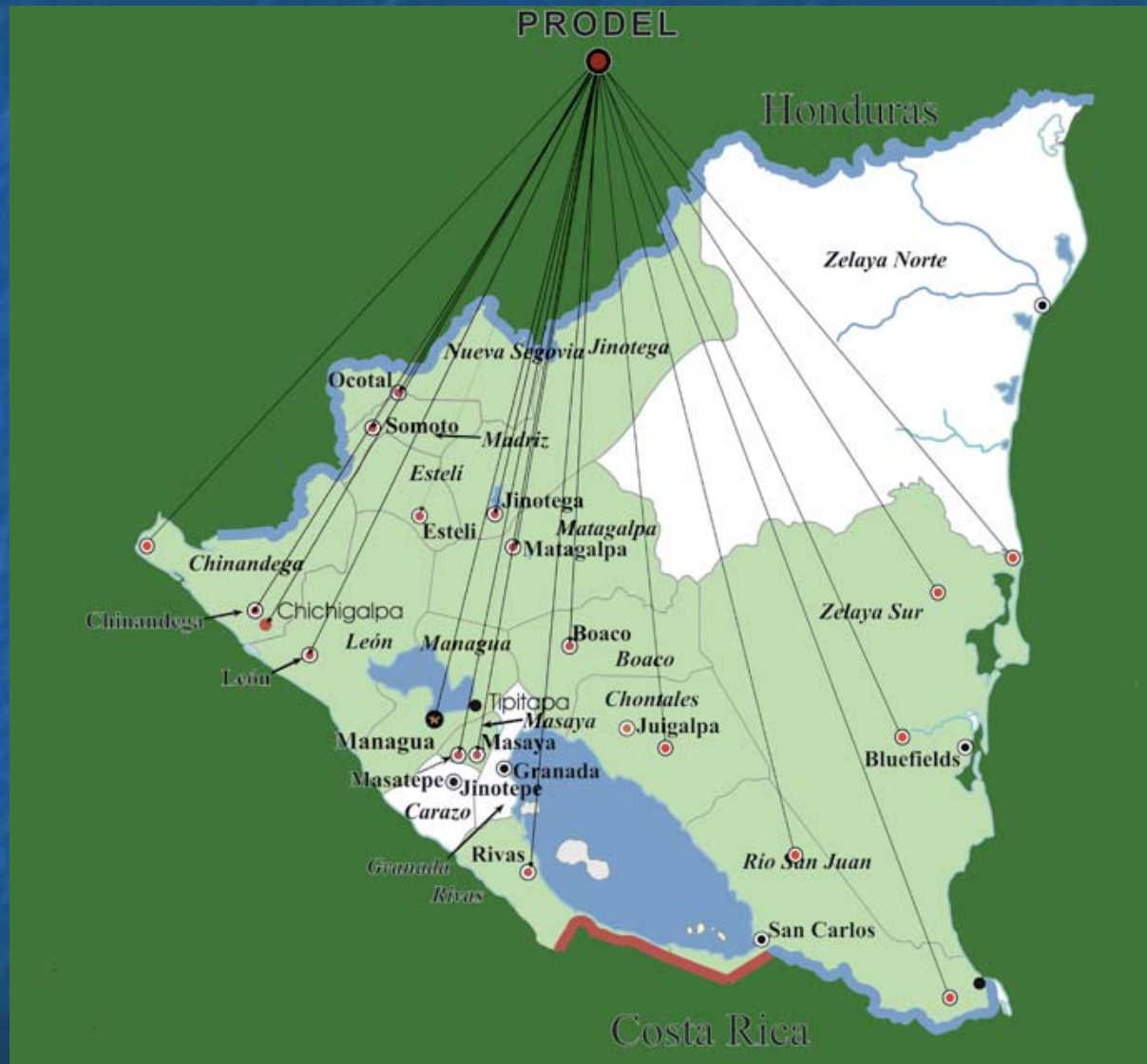
Basic Financial Methods:

- New housing, new settlements:
 - Loans from programs to families +
 - Subsidies from state to families +
 - Labour, savings and in-kind contributions from families;
- Housing improvement + income generation (slums + other informal settlements)
 - Credit lines to Non Traditional Micro-financial Intermediaries (MFI)
 - Small loans from MFI to families + technical assistance;
- Matching funds for infrastructure + services in slums and other informal settlements:
 - Program through local government \approx 50%
 - local government resources \approx 35%
 - Communities contributions \approx 15%

Financial conditions:

- New housing Loans (> US\$ 3,000):
 - Positive and market interest rates
 - Mortgage guarantees
 - Repayment: 5-8 years
- Housing improvement (average US\$ 800)
 - Market interest rates
 - Different type of collateral (pawns, fiduciary, others)
 - Repayment: 2-4 years
- Matching funds for infrastructure + services (up to \$50,000):
 - Microplanning with community
 - Increased tax revenue collection by local authorities used as matching funds + matching community funds
 - Social and external audits.

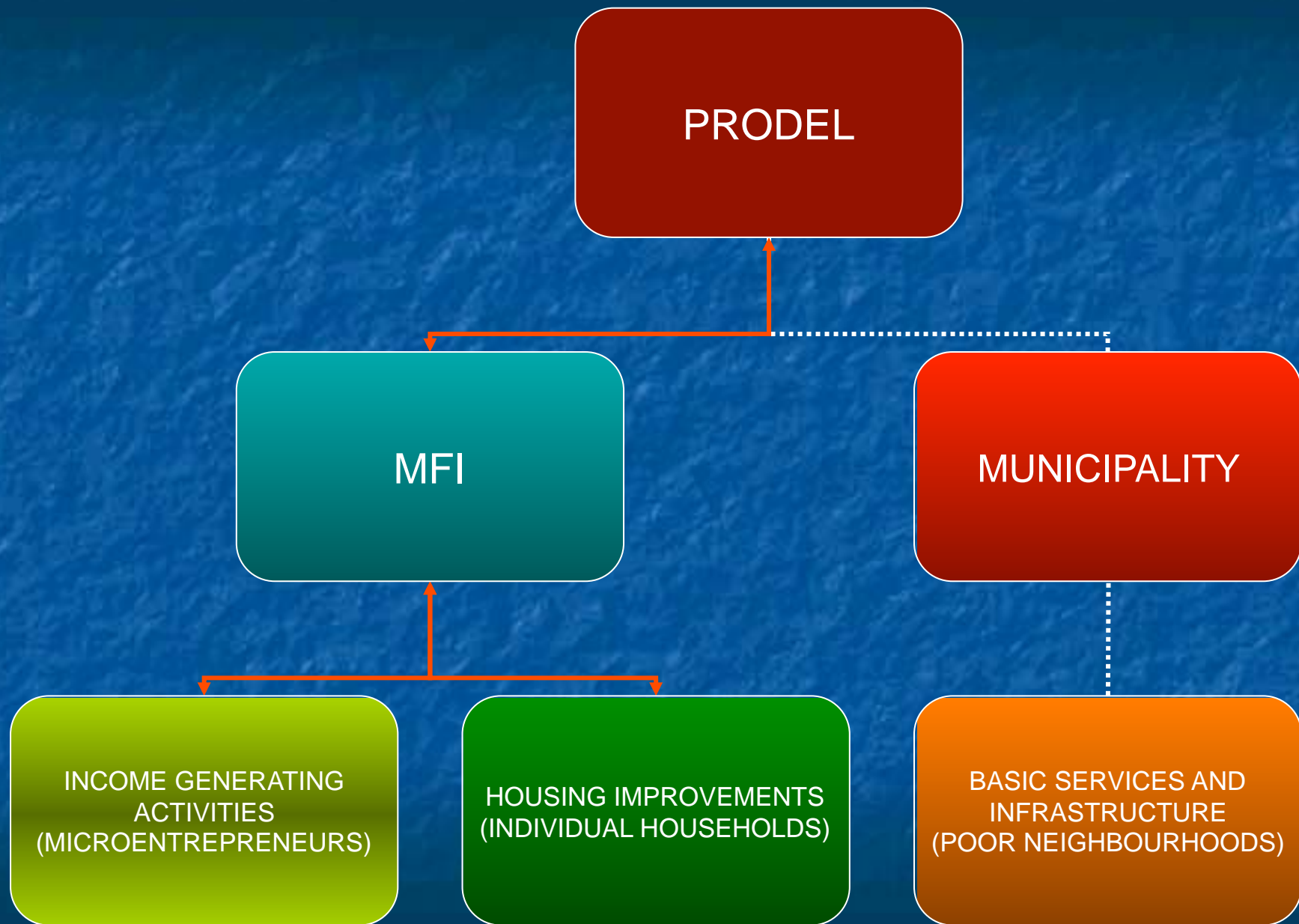
The case of PRODEL in Nicaragua



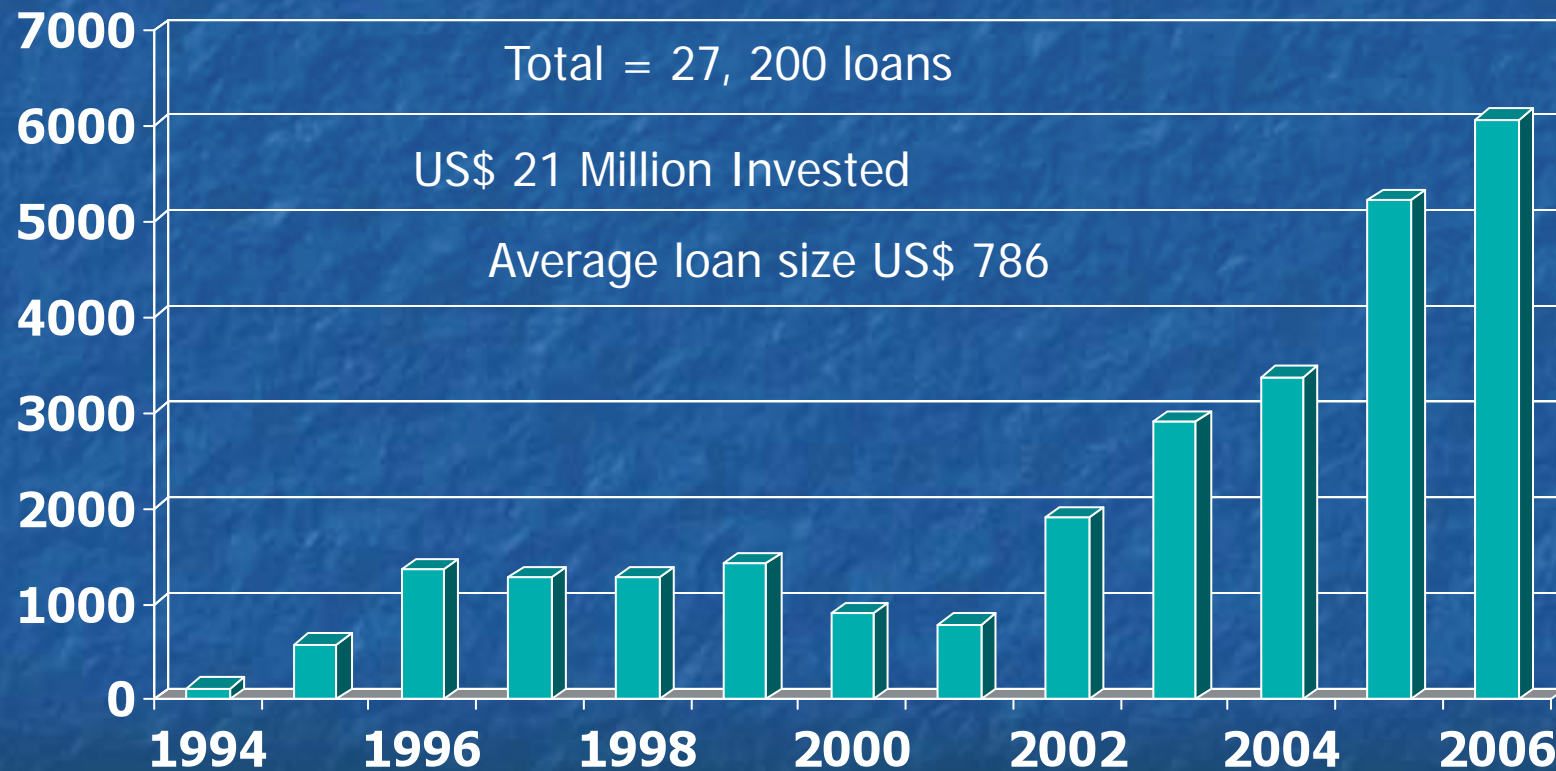
**Coverage
(1994-2007):**

**Infrastructure: 10
cities. Work
through local
governments;**

**Housing and
micro-enterprises:
38 cities. Work
through 15 MFIs.**

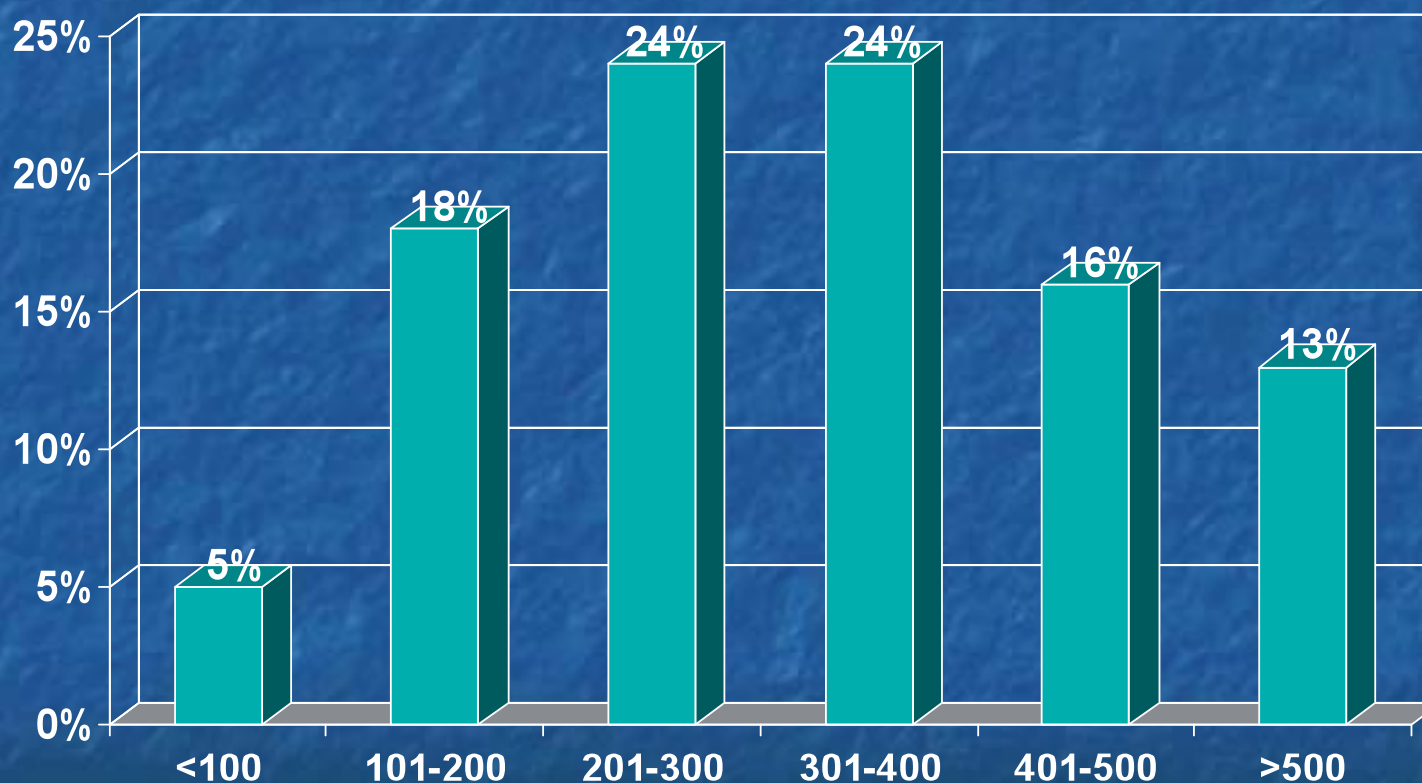


PRODEL: Total Housing Improvement Loans (1994-2006)



Source: Own elaboration based on PRODEL's historical data

PRODEL: % of housing loans according to household income bracket (in US\$) (1994-2006)

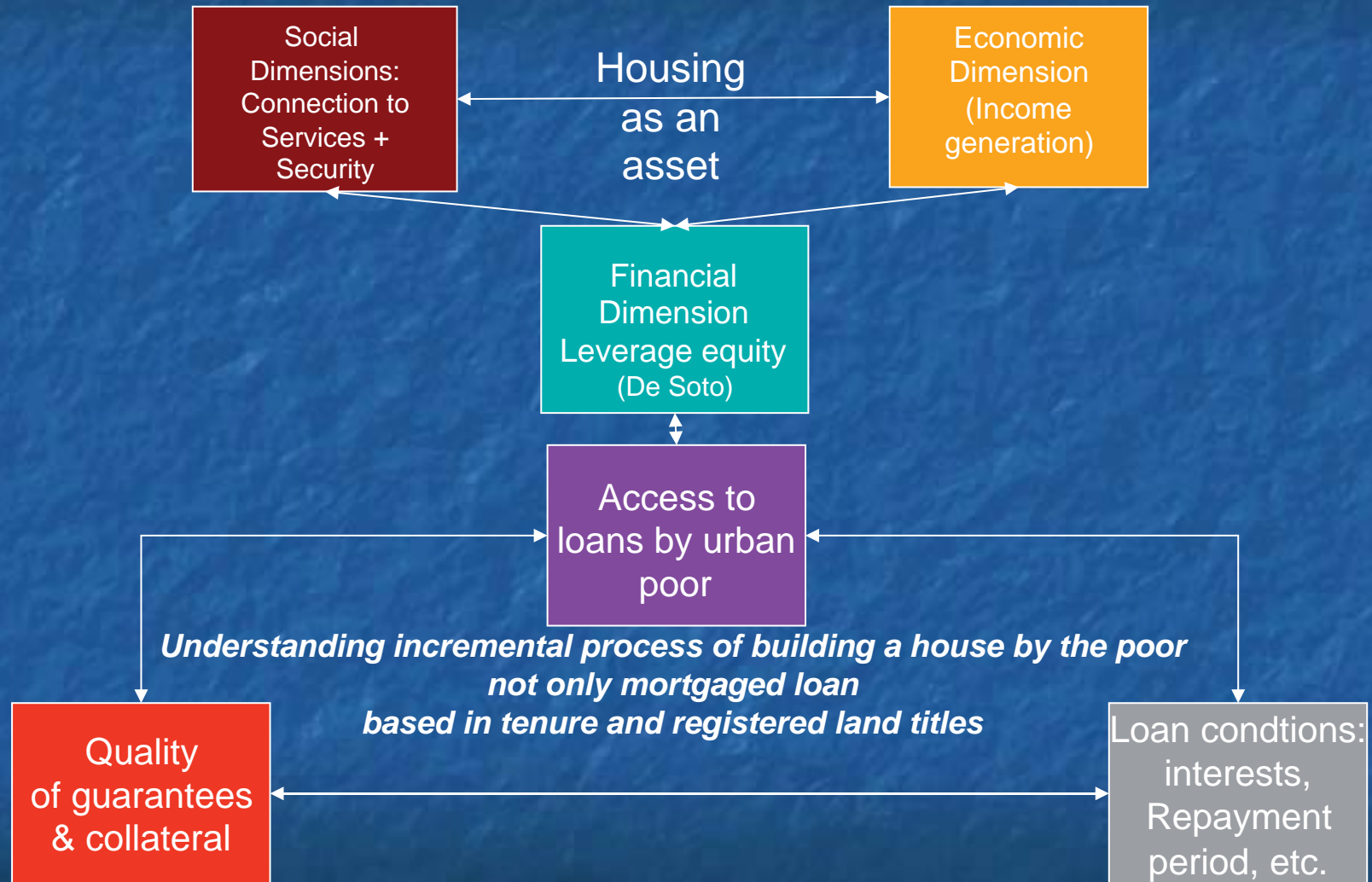


Source: Own elaboration based on PRODEL's historical data

Characteristics of Programs:

- Secure land tenure;
- Provision and maintenance of basic services + infrastructure;
- New housing + housing improvements through incremental methods;
- Income generating activities;
- Community participation;
- Institutional development (Central + local governments + NGOs + CBOs).

Alternative housing finance forms = understanding the multi-dimensions of housing as an asset for urban poor



Source: Adapted from Moser (2007) & Rust (2008)

Micro planning with households & communities for infrastructure & housing improvements



Photos: © PRODEL

Consolidating Housing as an asset...



Incremental housing improvement in Nicaragua

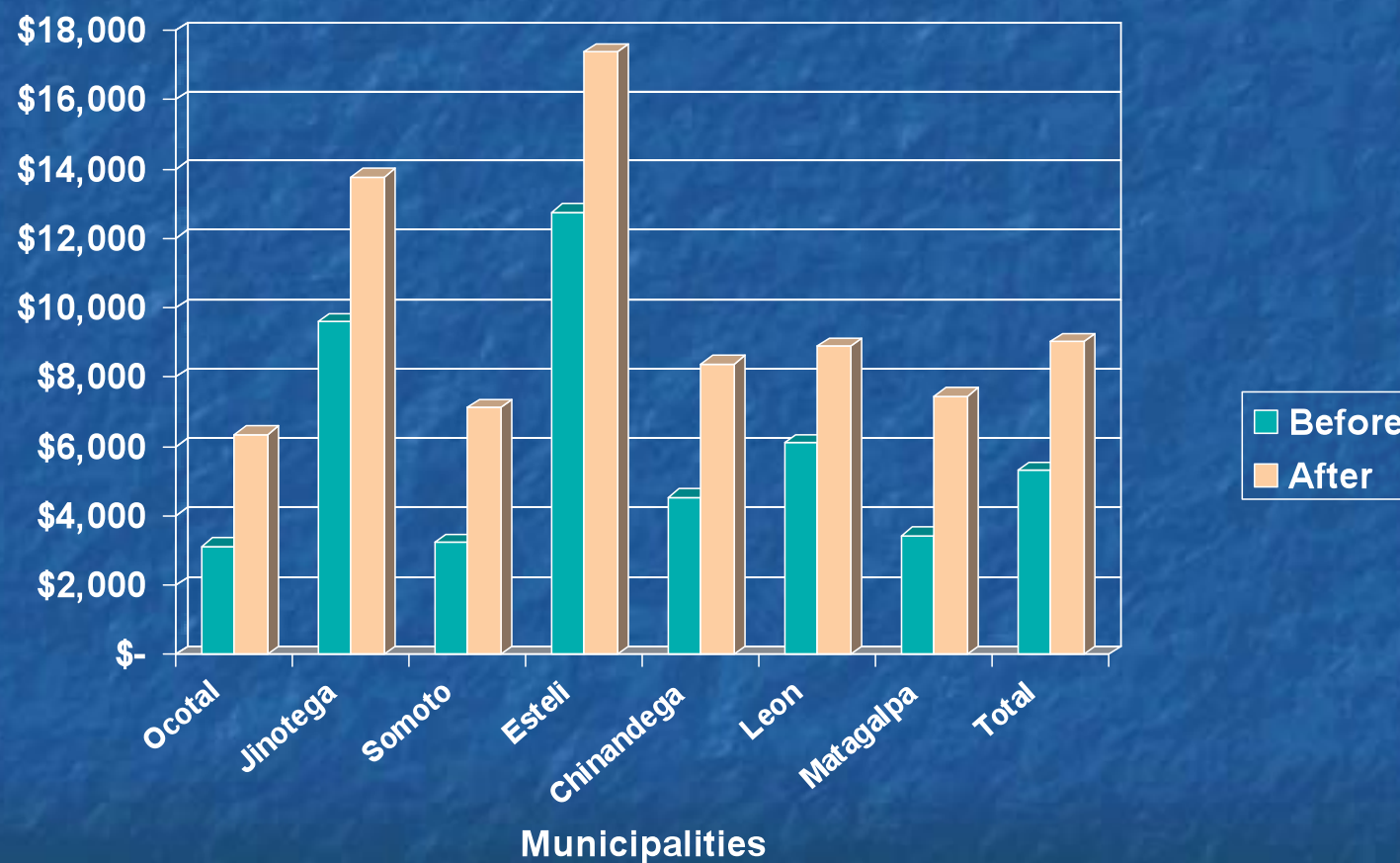


5-7 consecutive loans can transform
a house

Francisco Parayon: elementary teacher with
income of US\$ 120 a month

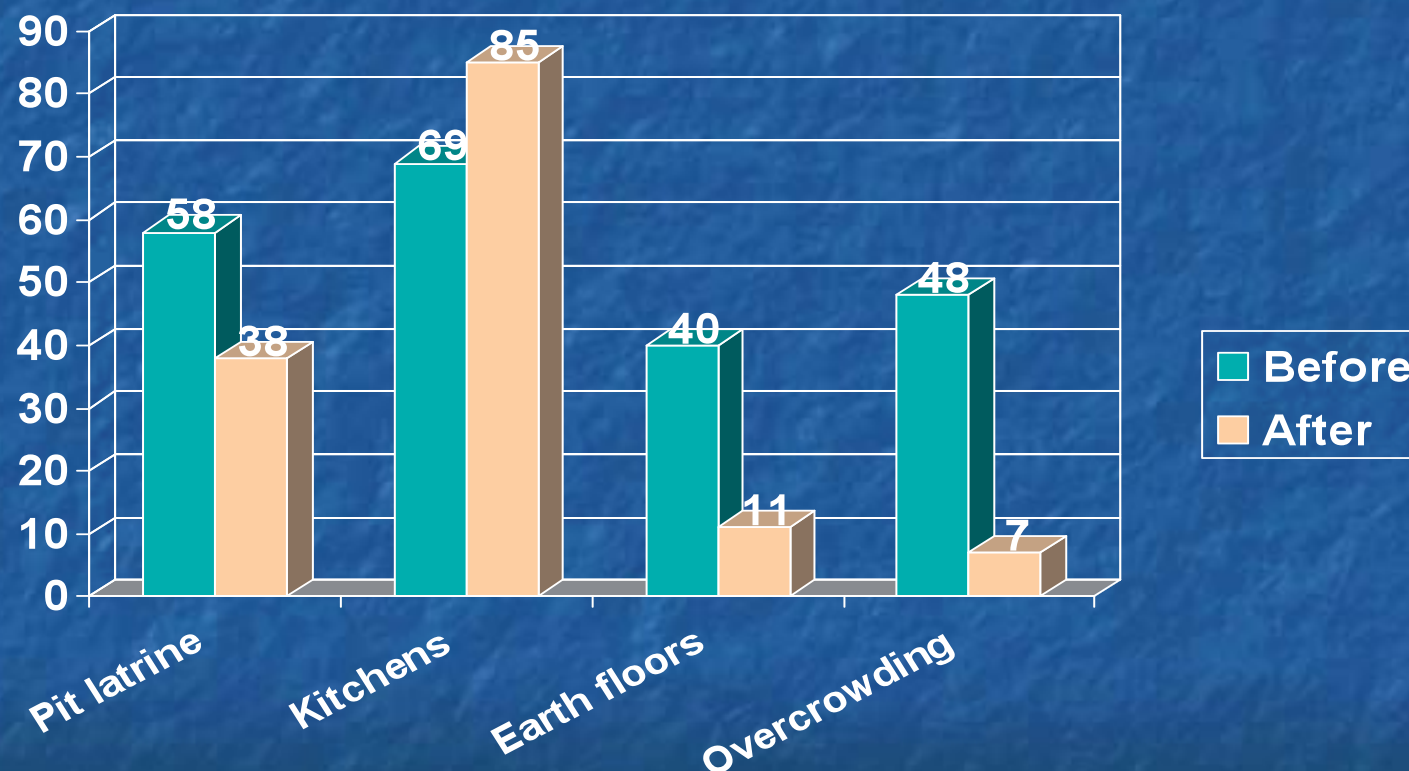


PRODEL: Mean Prices of Houses Before and After Improvement (US\$)



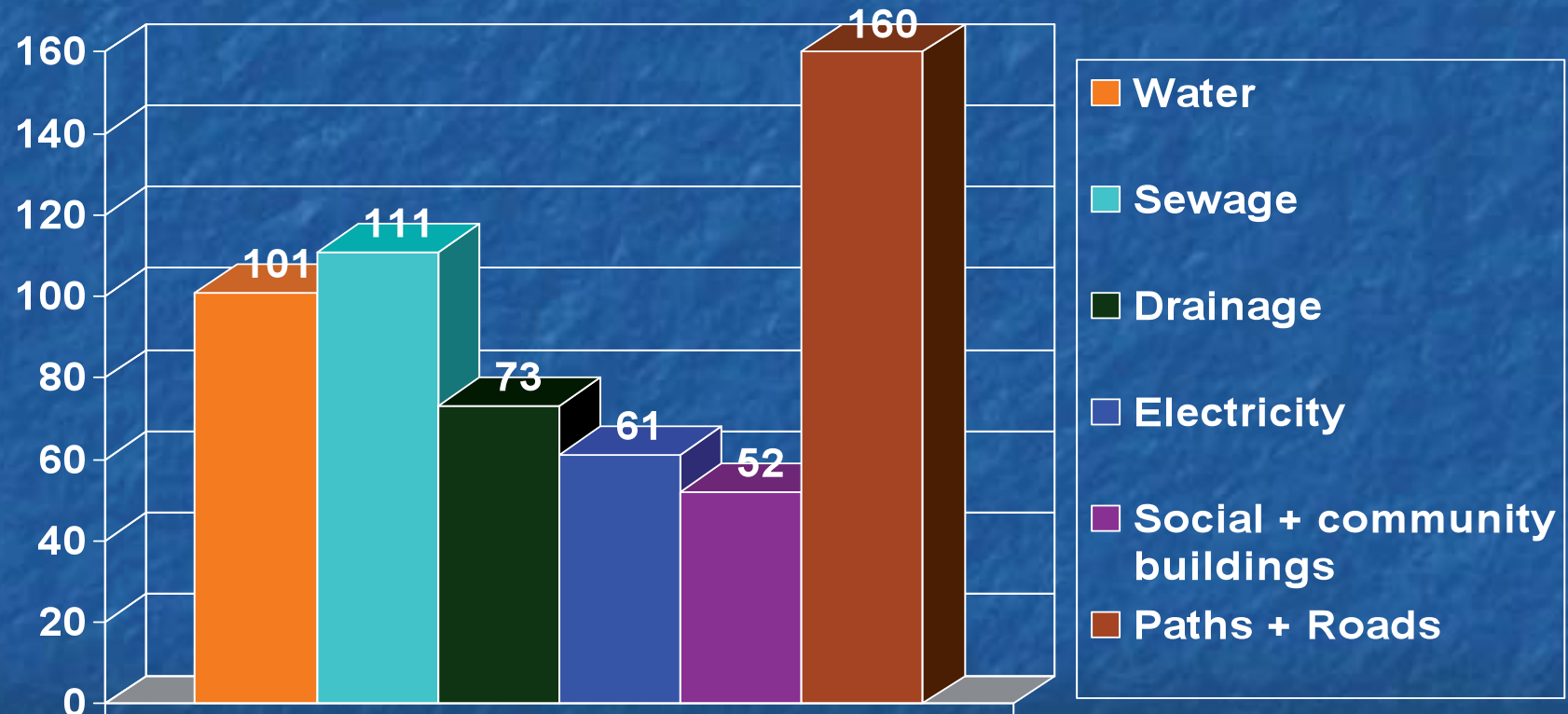
Source: own elaboration based on FIDEG's 2005 survey of 542 PRODEL beneficiary households

Effects of Housing Improvement Loans (% of Households)



Source: own elaboration based on FIDEG's 2005 survey of 542 PRODEL beneficiary households

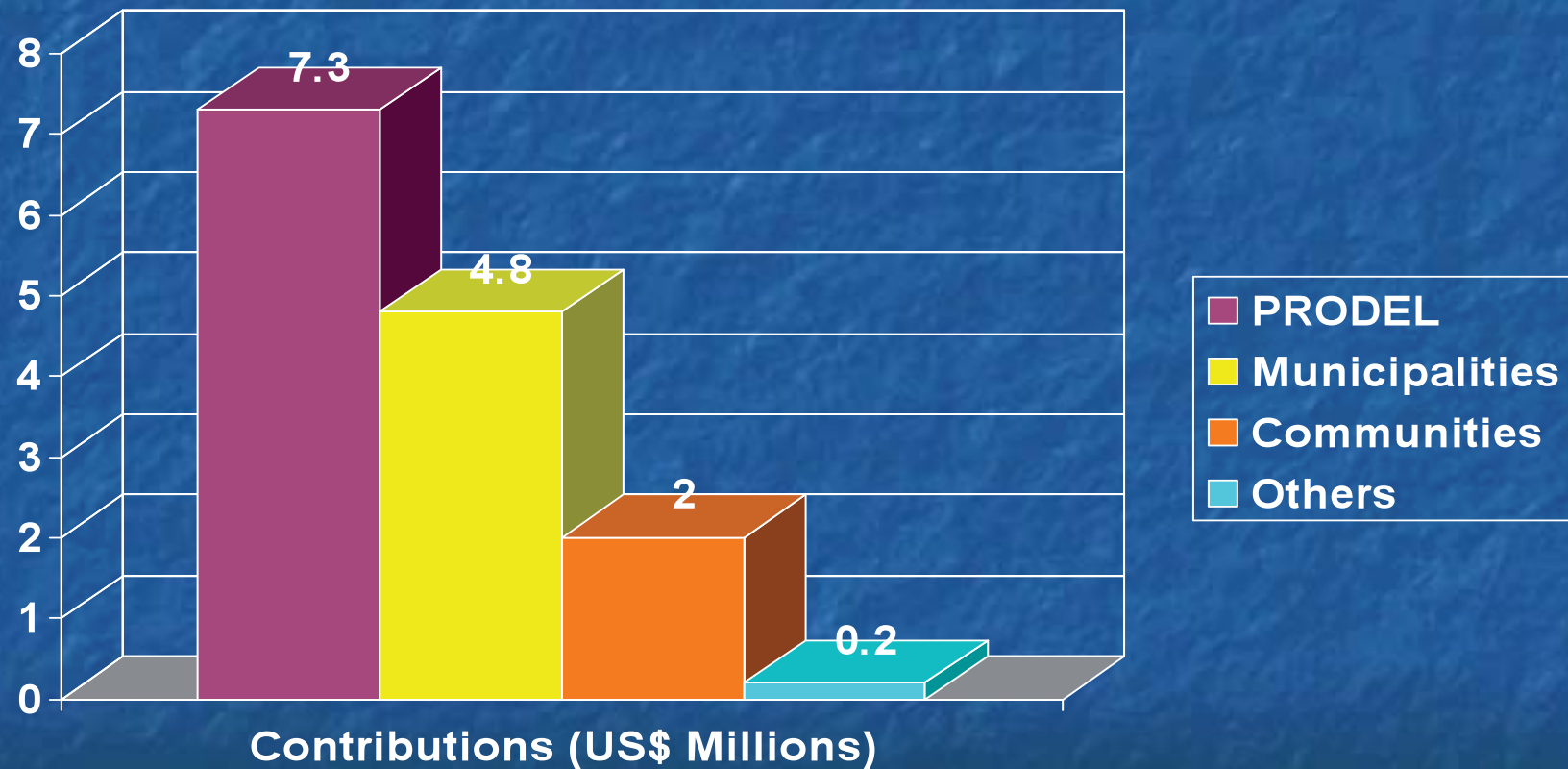
PRODEL: Infrastructure and basic services projects (1994-2005)



588 projects → 33% of total households of 8 cities benefited

Source: Own elaboration based on PRODEL's historical data

Infrastructure Component: Mobilization of Resources (US\$)



Average Cost per Project = US\$ 25,600

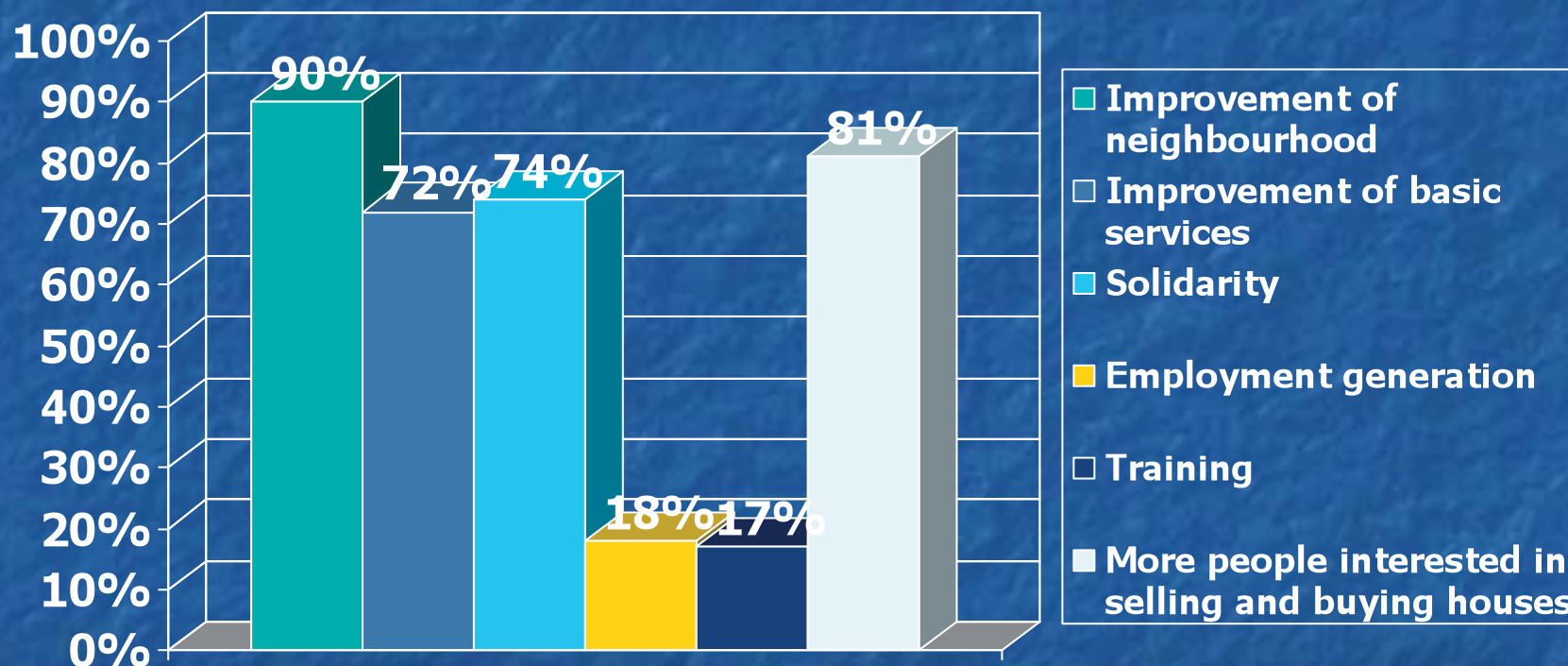
Ocotal, Barrio Melba Antunez: before



Ocotlal: Barrio Melba Antunez after

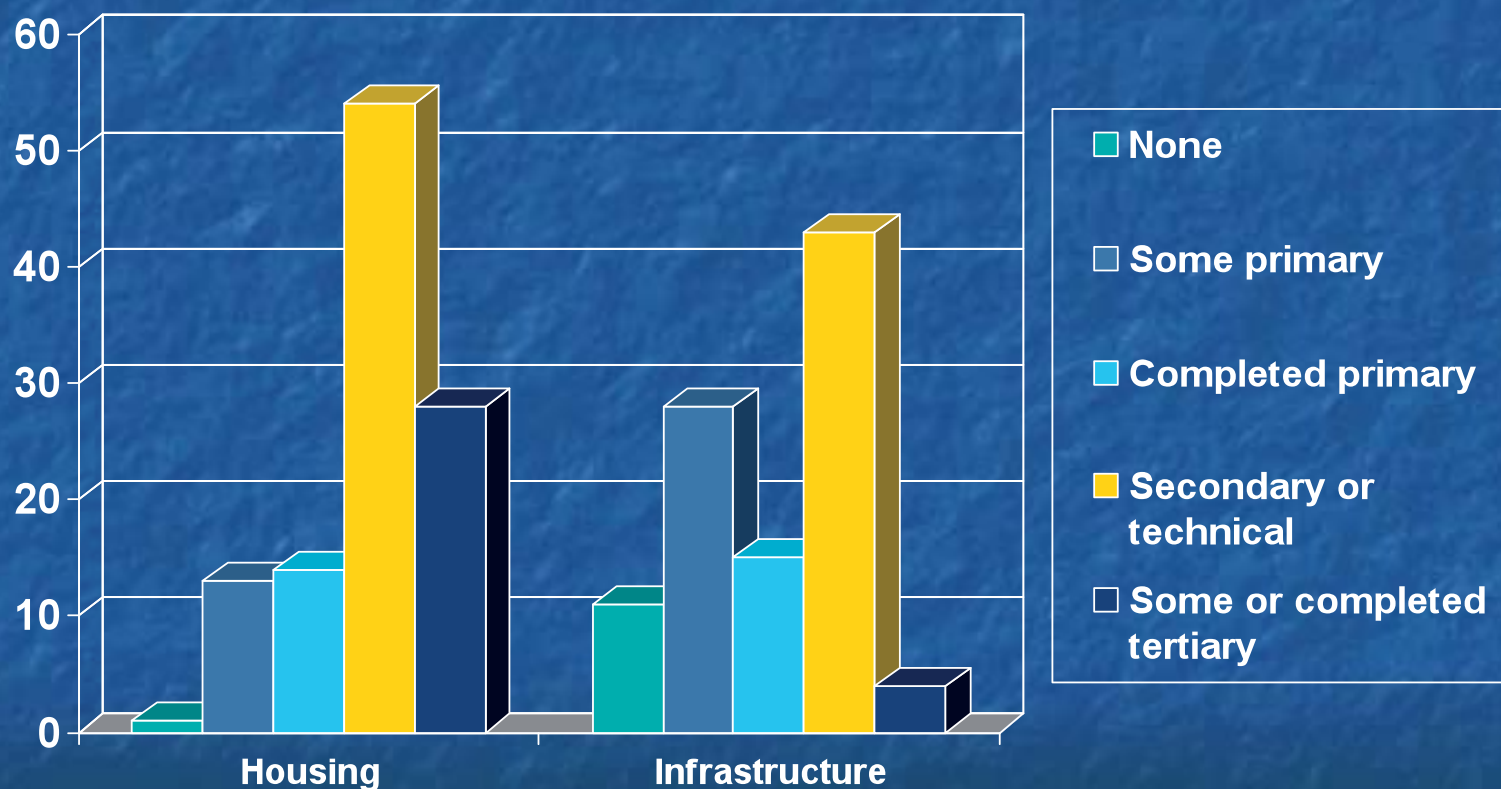


Percieved benefits of Participation in Infrastructure Projects



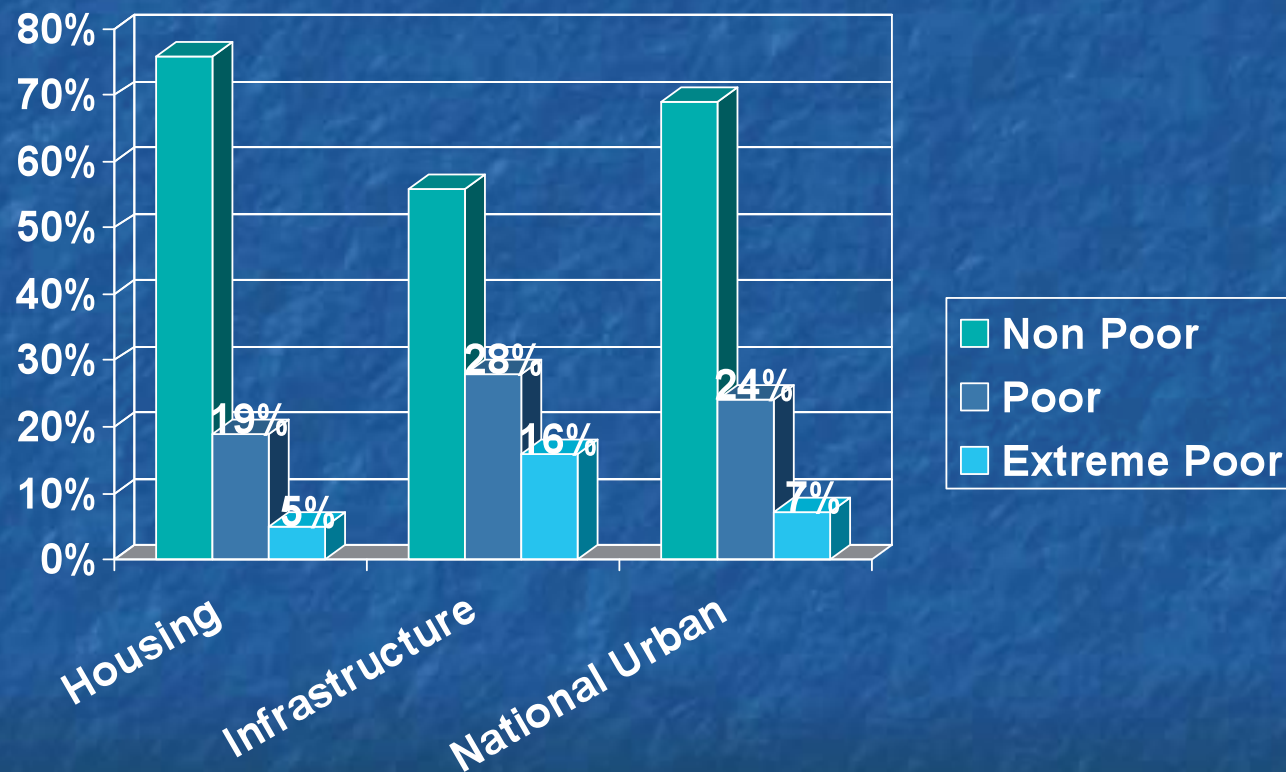
Source: own elaboration based on FIDEG's 2005 survey of 542 PRODEL beneficiary households

PRODEL: Level of Education of Household Heads Per Component (%)



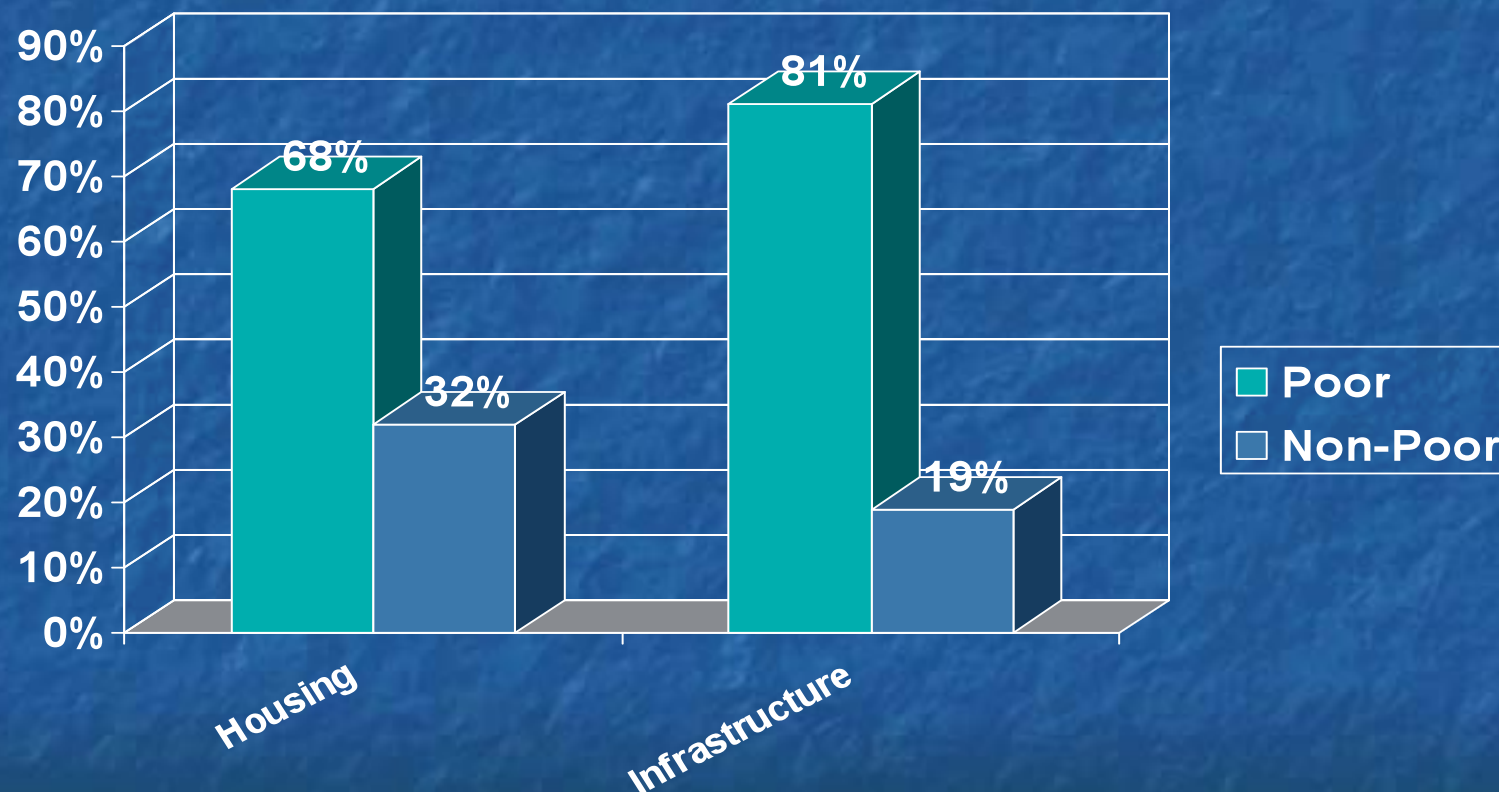
Source: own elaboration based on FIDEG's 2005 survey of 542 PRODEL beneficiary households

PRODEL: Poverty Level of Households Compared to National Urban Poor*



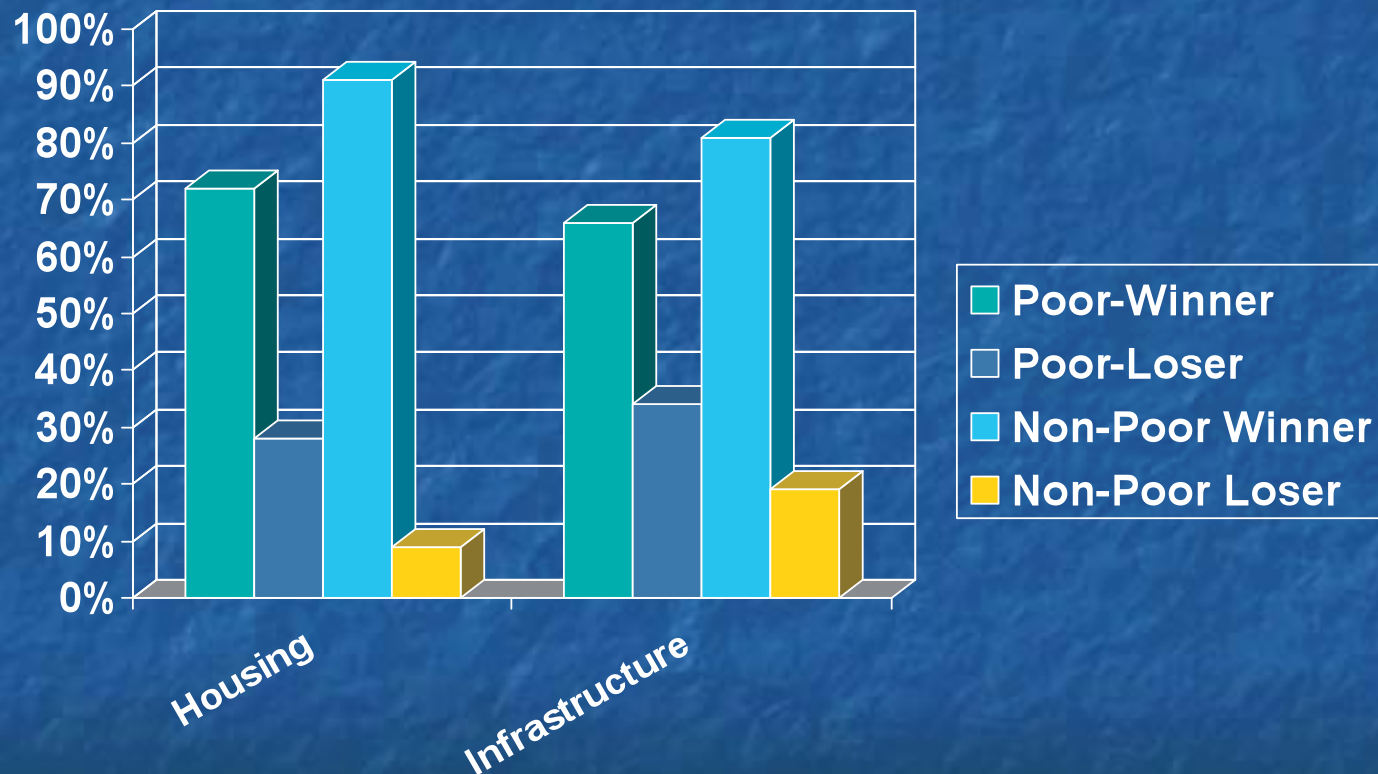
* According to Nicaragua's Poverty Line for 2005 \approx US\$ 36 per capita per month

PRODEL: Household Heads Perception of Their Situation Per Component



Source: own elaboration based on FIDEG's 2005 survey of 542 PRODEL beneficiary households

Household Perceptions about Improving Their Living Conditions per Component



Source: own elaboration based on FIDEG's 2005 survey of 542 PRODEL beneficiary households

Lessons from PRODEL (1)

- Asset perspective increased possibilities of financial inclusion by:
- *Moving traditional collateral and income analysis to a better understanding of which the main monetary and non-monetary assets of the urban poor are and how they evolve in time;*
- *Adapting different phases of lending cycle to incremental and non-linear process by which urban poor build their houses*
- *Dealing with households with unstable and sometimes unverifiable sources of income;*
 - *Creating mutual trust between urban poor and MFIs and banks*

Lessons from PRODEL (2)

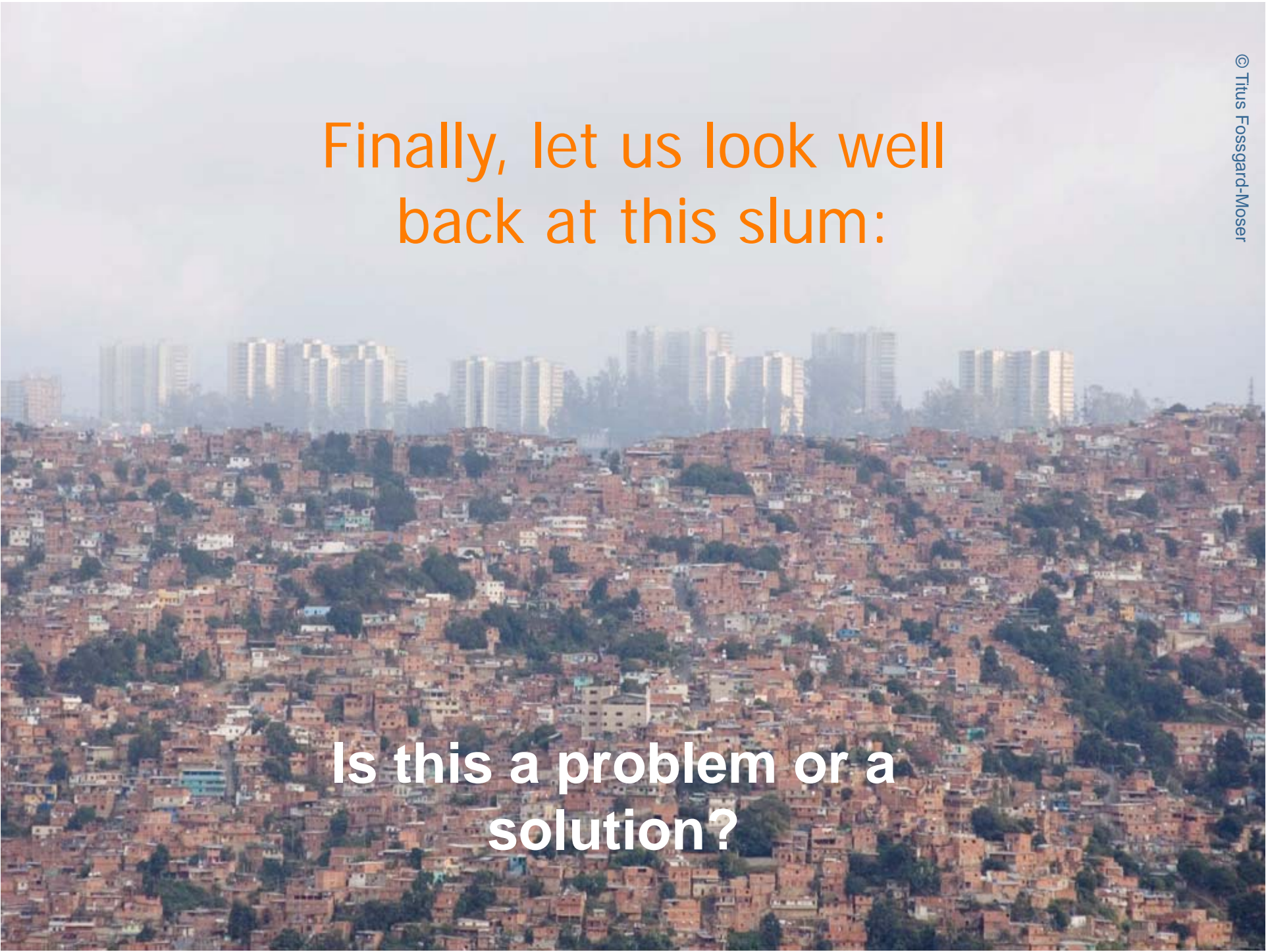
- Asset perspective increased possibilities of financial inclusion:
- *Complementing forms of non-lending interventions based in co-financing incentives for infrastructure with lending systems for housing improvement accompanied by technical assistance for construction.*
- *Creating mutual trust between communities and local governments by being all inclusive and sharing decisions and costs.*

Preliminary conclusions

- Not all families living in poor settlements are poor according to income or education levels
- Higher levels of education or income do not imply that people perceive themselves as non-poor.
- Lack of social mobility, better employment opportunities and neighbourhood and city conditions affect this perception
- Investments in housing improvement, income generating activities and infrastructure open spaces for positive perceptions of well being at neighbourhood level, but is not enough.

What to do with slums?

- Restrict urban expansion?
- Impede migration?
- Impede improving?
- Define urban growth limits & land conservation?
- Adopt urban expansion policies?
- Affect migration?
- Improve what exists?
- Allow process of urban development?



Finally, let us look well
back at this slum:

**Is this a problem or a
solution?**