



UN-HABITAT

**The Challenge of Urbanisation
and the Role of UN-HABITAT**

**Lecture by
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Honourable Rector of the Warsaw School of Economics, Professor Adam Budnikowski,

Excellencies,

Distinguished Members of Faculty and all invited Guests,

Dear Students.

Ladies and Gentlemen,

It gives me great pleasure to be with you today. I myself was a student of economics in Sweden in the 1970s. Many of the things I learned have served me well in my career back home in Tanzania as economics professor at the University of Dar es Salaam and in my daily work as an executive in the UN system.

Although I am not here today to give you a lecture in basic economic theory or in economic praxis, I wish to first take you back to the very first lesson in such a class, namely the need to recognize that scarcity is the bane of civilization. Some of the dynamics that are changing our world very rapidly today is the new scarcity of urban space, and hence the urbanization of poverty.

As students of economics, you are all very familiar with the two of the mega-trends that are shaping our societies and our daily lives. These trends are “globalisation” and the “information revolution”.

However, there is a third mega-trend that is less talked about and perhaps less visible on a daily basis. It is, nonetheless, having an equally important impact on our societies and the way we live. This third mega-trend is urbanisation and the growth of cities.

In economic parlance we can say, the crisis of the scarcity of living urban space.

The phenomenon of urbanization constitutes a defining feature of the new century and of the new millennium. In 2007, humankind as a whole crossed the Rubicon and became a pre-dominantly urban species. *Homo sapiens* has now transformed to *homo urbanus*. For the first time in history, the majority of the human race is now residing in urban centres. Even for the less developed societies of Africa and Asia the rate of urbanization is rapidly rising. By 2030 Africa will no longer be a rural continent as by then 51% of its people will be living in urban areas. In short, irrespective of where we live, our future is urban, and access to urban space will define the quality of that future.

Today, cities are increasingly assuming a leadership role amid the phenomenon of globalization. With the liberalization of the world’s economy, human, technological, financial and informational resources are concentrating in cities. Hong Kong, London, New York and Tokyo have become global centres of financial services followed closely by Frankfurt, Sao Paulo, Shanghai and Singapore. Cities such as Dubai have capitalized on their physical location to become global transportation hubs. Yet other urban agglomerations such as Bangalore have emerged as key players in information technology.

In terms of contribution to economic output, cities drive national economies in the industrialized countries. For example, in the USA, cities outpace states and even nations in economic output. If treated as nations, US metropolitan areas in 2000 would comprise 47 of the world’s largest economies. The combined gross economic output of the top ten metropolitan areas in the USA in 2000 was US\$2.43 trillion. This is an amount greater than the combined economic output of 31 states in the USA. If the 5 largest metropolitan areas in the USA (New York, Los Angeles, Chicago, Boston and Philadelphia) were treated as a single country, it would rank as the fourth largest economy in the world.

In developing countries also, cities have increased not only in size but also in economic importance. Many cities in developing countries generate a large share of national income. For example, Mexico City, with

14% of Mexico's population, accounts for 34% of its GNP. Sao Paulo, with just over 10% of Brazil's population produces 40% of its GDP. Shanghai, with just 1.2% of China's population, generates over 12% of China's GNP. Bangkok has only 10% of Thailand's total population but contributes nearly 40% of its GDP. Cities in Africa contribute 60% to the continent's GDP, yet only about 34% of the continent's people live in cities. Johannesburg and Cape Town, respectively, account for 15% and 14% of South Africa's GDP. But if one includes Johannesburg and East Rand as one entity, then the region contributes nearly 23% of South Africa's GDP.

Cities, therefore, are potent instruments for national economic and social development. They attract investment and create wealth. They enhance social development, harness human and technological resources resulting in unprecedented gains in productivity and competitiveness. Indeed, cities are the repositories of knowledge and the agents of socio-political change. And within this new constellation, cities are serving as the nexus of production, innovation and specialized services, as well as generating new forms of social organization, cultural integration and dialogue among civilizations as the world, assisted by radical innovations in transport and communication technology, becomes a global village and market place.

Ladies and Gentlemen,

The paradox is that cities have also become a locus of excruciating poverty and deprivation. This is particularly the case in developing countries. Rapid and chaotic urbanisation is being accompanied by increasing inequalities, which pose enormous challenges to human security and safety.

My organisation, UN-HABITAT, has been raising a red flag for several years on the rapid and chaotic aspects of urbanisation.

Our first concern is the plight of the one billion urban dwellers all over the world who eke out an existence in slums. One out of every six humans is currently deprived of the most basic amenities such as water, sanitation, security of tenure, durable housing and sufficient living space.

The deprivation suffered by these people constitutes a major threat not only to their welfare, but also to the overall security and stability of their respective societies. If present trends continue, their numbers are likely to increase to two billion by 2030.

Needless to say, if these trends are not stabilized and subsequently reversed, the slum crisis will become yet another threat in the long list of threats to social stability, and thus to global peace and security. The Millennium Declaration of year 2000 set out 8 goals, known as the MDGs. Goal 7 on environmental sustainability has target 10 seeking to half the proportion of people without access to safe drinking water and sanitation by 2015. Target 11 of this MDG goal seeks to make significant improvement in the lives of at least 100 million slum dwellers by 2020. Recognizing how modest the slum target is, in 2005 world leaders meeting in New York have revised the target to include prevention in the growth of new slums by paying proper attention to physical planning, land reform, and investments into affordable housing for the urban poor and low income earners.

Are economists aware and following these policy changes?

Our second concern is the impact of rapid and chaotic urbanisation on our environment and the ability of our planet to sustain the diversity of life as we know it.

As human activity concentrates in cities, irreversible changes occur in our production and consumption patterns. We change the way we use land, forests, water, energy and other natural resources.

Although only half of humanity is living in cities, cities are already consuming 75% of the world's energy and generate an equally significant proportion of the world's waste, including greenhouse gas emissions. The ecological footprint of mega cities and large metropolises is ever growing.

One can go on almost *ad infinitum* to list the dysfunctional dynamics arising within urban contexts. Traffic accidents; epidemics; conflicts arising from forced evictions; human trafficking and the shameful sexual exploitation of children and girls, illegal immigration, as well as terrorism, are some of the processes that are increasingly being associated with cities and urbanization and are having significant national and global ramifications.

At this juncture, and in the spirit of the critical inquiry underlying this lecture, the question that needs to be posed is how can the positive aspects of urbanization be harnessed to promote social integration and inclusion, and thus contribute to our collective stability and prosperity? How does urbanization become the bane of a new inclusive civilization? How do we create a vibrant and socially cohesive urban economy? How do we create a new win-win situation for the urban species that we have become?

Ladies and Gentlemen,

Our experience at UN-HABITAT in working with governments, local authorities, communities and the private sector all over the world provides several important insights. While we do not pretend to have all of the answers, I do believe that our work on the ground has allowed us to ask some of the right questions and are showing the way forward.

The urban crisis – or the slum crisis – is indeed a crisis in governance. But I wish to submit that unless we deconstruct this issue into its causal factors, most of them economic ones, I fear that we will continue to debate the same issues, propose the same solutions, based on the same theoretical constructs. These constructs are none other than creating democratic space, promoting the rule of law, law enforcement, and the protection of human rights in pursuit of economic empowerment of the urban dwellers of different incomes, education and skills, gender, age, race and even culture where this is relevant. An inclusive city is critical to a world vision based on equity and justice. However, creation of inclusive cities that are safe will require long-term and protracted efforts in requisite policy and legal reforms with follow up investment to unleash the potential of the urban poor, the majority of them very young people below 30 years. There is also need for changes in civic education and changes in institutional behaviour. There are many pressing issues which, in the mean time, need to be addressed in very pragmatic terms, if we are to arrest and turn around the negative trends of the rapid and chaotic urbanization taking place in the developing world, with negative adverse effects on the entire global community. We need to see the urban poor as assets and not liabilities. We need to fight poverty and not the poor, to fight slums and not slum dwellers. And the way to achieve this is economic empowerment by removing barriers to their access to factors of production such as land, institutional credit, education and skills training.

Underestimating the social consequences of rapid urbanisation: misguided public policy

Very seldom have we had a crisis in the making for so long. As far back as the 1970s, urban specialists and demographers were predicting the explosive growth of cities. Habitat I was held in Vancouver in 1976 as a follow up to a recommendation of the 1st UN Conference on the Human Environment held in Stockholm in 1972. In Stockholm, lack of finance for adequate shelter and municipal infrastructure was rightly recognized as a challenge and bottleneck for the developing countries. A decision was made to establish a global shelter finance facility called the Habitat and Human Settlements Foundation. This new global facility was envisaged to provide funding for housing and urban infrastructure development to municipalities without sovereign guarantee.

Regrettably, economists and economic planners did not pay much attention to this new global finance facility and spatial issues. So it ended up as a still born. It is only now, after an hiatus of 35 years, and with over 1 billion slum dwellers that the UN General Assembly is calling for the capitalization of the Shelter and Slum upgrading facility, and even this is not receiving the direct endorsement it deserves.

In short, we have continued to base our national economic plans and our international assistance programmes on several false assumptions, assumptions that continue to this day to ignore some very basic facts and what is actually happening on the ground. The first assumption is that by investing in rural development we can arrest or slow down rural-urban migration. Not only has this not happened, much of our development efforts in, for example, education provided the impetus for young people to leave rural areas in search of better use of their skills. Today, the point is moot. We have reached a stage where most of the urban growth in developing countries will be due to the natural increase of the existing urban population, and not to migration. Yet, as economists we should have known better. From the Harris Todaro Model on migration, economic theory tells us clearly that “people move not because they will be better off, but because they expect to be better off”. It is the expect function that informs and defines everything. It goes without saying that even if rural development was successful, and in many places it has not, populations would move to cities as long as perceptions that they could improve their welfare or that of their children persist.

In other words, even with the most successful rural development programmes achieved, at least in the long term cities offer better chances for people to improve their situation. They are the ultimate human settlements. With better education and rising awareness due to information flow enhanced by the IT revolution, many more youths will head to the city. And unless we improve conditions for them at local and national level, pressures for chaotic international migration can also increase. It would be naïve to expect that international free flow of capital and finance, and increasing trade, could go on for ever without attendant flow of labour across national boundaries. Economic pressures for the re-allocation of resources would build up and burst whatever artificial fences we manage to construct. If we are to avoid that this process takes explosive proportions, we need to prepare now by working towards balanced territorial development both within and between nations.

The second economic factor ignored is that agriculture is a residual employer. There is always a secular decline of agriculture with economic development and structural transformation. As economists, we know that *ceteris paribus*, agricultural productivity rises faster than it does in secondary and tertiary sectors (industries and services respectively). So, if and when rural development programmes are successful, we shall need even more less people in the rural sector. People will need to move to secondary and tertiary sectors mostly located in urban areas. As such enlightened economic plans must take into account this trajectory, of demographic shift away from agriculture and rural settlements to urban settlements and employment creation in secondary and tertiary sectors. This should not be left to chance, and *laissez faire*, but deliberate economic policy to guide rural-urban migration and a balanced territorial development of secondary towns and rural growth nodes in synch with rising rural productivity. Today, we have premature urbanization. Failed rural development as well as rural conflicts and civil strife are the main factors pushing farmers off their land prematurely into cities.

Environmental degradation has also added its toll, especially in Africa. Climate change has caused an even more unpredictable weather pattern, with alternating drought and flood periods.

Both pastoralists and cultivators are flocking to urban slums as environmental refugees! A survey in the slums of Nairobi (Kibera) has shown that 1/3 of the population there are victims of failing pastoral systems. Climate change is also increasing incidences of natural disasters. With the majority of cities located along coastlines, the challenges of adaptation to climate change in terms of human settlements planning and finance are obvious priorities. The economic and financial impact of climate change requires the urgent attention of economists from a spatial perspective.

A second erroneous assumption was that slums, and the informal economy which they are part of, would be absorbed by the formal economy over time, and that what is needed is to provide the enabling space and policy framework for the private sector to thrive. This assumption has only turned out to be partly true. In most of the least developed countries the informal economy is the real economy.

In sub-Saharan Africa, which is witnessing the most rapid urban growth, the informal economy accounts for up to 70% of domestic output and 8 out of every 10 jobs created. It therefore should not come as any surprise that in these countries, slums constitute up to 70% of the housing stock. The convergence of the formal and informal economies that macro-economists predicted would follow economic reforms and structural adjustment programmes mandated by the World Bank since the 1980s has not materialized. The trickle down effect promised by the market oriented policies has not worked out well and urban inequality is on the rise. What we see in many parts of the world is a tale of two cities, of the affluent in gated communities and those trapped under abject poverty in urban slums. This state of affairs does not augur well for sustainable peace and human solidarity and prosperity. It is also both against the letter and spirit of the Millennium Development Goals, where human kind has committed itself to fight poverty and reduce it in all its various manifestations (such as water, sanitation, health, hunger, etc) to half of what it was by 2015.

The failure of planning

Another lesson we have learned is that we have failed in the area of planning. We have ignored the spatial dimension of rapid urbanization and the morphology of social change. We have assumed, for the better part of two decades that people living in cities are better served than their rural counterparts by virtue of their proximity to infrastructure and services.

The 2006-2007 State of the World Cities report, published by UN-HABITAT reveals what we have suspected for a long time – that slum dwellers are more likely to die early, suffer from malnutrition and disease, be less educated and have fewer employment opportunities than any other segment of the population. On the health front, studies have shown that prevalence of the five diseases responsible for more than half of child mortality, namely pneumonia, diarrhoea, malaria, measles and HIV/AIDS, is increasingly linked to the living conditions found in slums and not to poverty or level of income *per se*. These conditions are overcrowded living space, poor security, lack of access to potable water and sanitation, lack of garbage removal, and contaminated food.

In essence we have confused proximity with access, and we have reached a point where between 30% and 70% of the population in developing country cities now live in life-threatening conditions.

Under-investing in urban development – the failure of state intervention

One result of misinformed or misguided public policy regarding rapid urbanisation is that investments in housing and urban development lag way behind demographic growth and the physical expansion of towns and cities. An analysis of national development plans and budgets among rapidly urbanizing countries reveals that, with few exceptions, housing and urban development rank among the lowest in terms of national budgetary allocations and public expenditure. While the bulk of resources devoted to housing and urban development typically comes from the private sector, public policy and public expenditure in urban infrastructure and services are critical to leveraging private investment and to providing the necessary incentives for interventions targeting the urban poor. Affordable housing issues cannot be left entirely to the market and securitization solutions. Keynesian economic philosophies would discourage this. The current melt-down of the sub-prime mortgage market in the USA, with the contagion it has unleashed on the international market is enough evidence of the need for the role of public regulation in this matter.

The end result of the neglect of affordable housing is that the global rate of growth of the urban population estimated at 2.24% is virtually synonymous to global rate of slum growth, which is proceeding at the rate of 2.22%. Regional variations in urban and slum growth are significant, ranging from 0.75% and 0.72% in the developed world, 2.89% and 2.2% in South Asia, 2.96% and 2.71% in West Asia, 4.58% and 4.53% in sub-Saharan Africa. These rates imply that the vast majority of people migrating to or born in cities are joining the ranks of the urban poor in slums under life threatening conditions, often without dignity.

The failure of the market place

We have seen that the urban crisis and the resulting formation of slums are caused by a combination of factors that lie in the political, statistical and planning realms. But it would be too easy for me to end my analysis here. After all, at this point, as economists, you could point your fingers at your fellow professors and school mates in political science, sociology and physical planning.

However, as I warned at the outset, I am afraid to disappoint you. Because, in the final analysis, the existence and proliferation of slums is also partly due to a failure of the urban economies and the marketplace. Thus economists have also a share of the blame.

What is a slum? First and foremost a slum is somebody's home. It is where he or she lives, recreates and pro-creates. For many, it is also where they work.

For most of us, our home will be the single biggest investment we make in a lifetime. Our homes become the most tangible asset we will own. It is not only an expression of wealth, it is an instrument for creating wealth. We insure it to preserve it. We use it as a guarantee for loans.

In the case of the slum dweller, this asset is discounted to zero. The slum dweller's home is not recognized as a house, either because of either its unauthorized location or its substandard construction. Chilean economist Hernando de Soto's seminal essay on the "mystery of capital" has shed the light on this issue eloquently. While the recommendations he gives on land titling as a panacea to informality and security cannot all be taken at face value, there is no doubt that he has ably illustrated the importance of tenure insecurity and informality facing slum dwellers and the negative impact it has on the overall national economy, land and property markets.

In essence, the marketplace has failed to recognize the effective demand for land and housing solutions for a significant proportion of the population. In Nairobi, where we have our global headquarters, 70% of the urban population lives in slums. For these people, there is no other decent formal rental market and there are no mortgages. In the case of Nairobi, 80% of these slum dwellers live in rental shacks which are so profitable to their owners, such that the payback period for the investor is only 9 months! This in turn makes slum upgrading a hotly contested political activity. Vested interest would like to maintain the status quo, notwithstanding rhetorical statements about prioritizing slum upgrading programmes. It is a vicious circle!

What is worse, the uncertain legal status facing slum dwellers in Nairobi, did not even allow them to open a bank account until a year ago. It took an entrepreneurial banker who founded his bank on a micro-credit institution, to allow people to open and maintain bank accounts without a recognized address or a minimum balance.

Ways forward

We have learned that the urban crisis and the slum crisis is a crisis in governance. In essence, a problem has been allowed to exist, and to grow. Today, some 40 years later, the problem can no longer be ignored and there are no easy solutions.

Our first area of action is advocacy. I was appointed as Executive Director of UN-HABITAT precisely for this task by Former Secretary General Kofi Annan. Specifically, he asked me to apply my knowledge and skill as an economist to raise the profile of the urban poor on a global stage. He was rightly concerned about the relative obscurity of HABITAT as a UN agency charged with the task of assisting member states to cope with the challenges of the living or built environment. While the natural environment handled by our sister agency, UNEP, was a household name, HABITAT, the sister agency for the built environment was hardly known. My first task was to ensure that we had our facts right. We have adopted a tripartite strategy based on advocacy, capacity building through technical assistance and mobilization of follow-up investments at national and local level.

Diagnosis is half the cure of any disease. For our advocacy work we do our best to collect and analyze data to get a real picture of urbanisation trends and issues. As I mentioned at the beginning of this lecture, it was not only until very recently that we were able to demystify the assumption that proximity to a service implied access to that service. This work goes to the heart of scientific methods, namely, are we asking the right question and are we collecting the right data? Our discovery of the true scope and extent of urban poverty and deprivation has forced others working in areas of health nutrition, infant mortality and disease to re-examine their assumptions and the policies they recommend. Even many donor countries are now finally, albeit reluctantly, starting to re-orient their development assistance to tackle the challenges of urban poverty.

At this juncture, let me acknowledge the support I have received from the Government of Poland which has provided financial support to host a regional HABITAT office in Warsaw. I am pleased and proud to acknowledge that the founding Director of the Warsaw Habitat Office, Professor Marek Bryx, has been elected as Vice Rector of the Warsaw School of Economics. On behalf of UN-HABITAT and on my own behalf I would like to congratulate him on this important appointment. I believe he will continue to serve the global community in his new capacity, as he did at Habitat. Please, join me in a round of applause for Prof. Bryx.

The second area of focus is on developing more appropriate policy responses. This work is a long-term task. It requires advocacy but also argument. It requires evidence that improved policies can work, and it requires capacity building. A lot of our work thus involves tools and methodologies to enable governments, local authorities and their civil society partners to develop and implement new and improved policies. Our key areas of intervention include:

- Pro-poor and gender-sensitive land and housing;
- Environmentally-sound infrastructure and affordable basic services;
- Participatory urban management, planning and governance;
- Innovative housing and urban finance.

In each of these areas, clear and compelling economic analysis is critical to the task. This includes insuring that what we propose does not distort the marketplace or act as a disincentive for key economic actors and stakeholders. But it also includes a degree of innovation and risk taking. In the area of innovative housing finance, for example, we have struggled for years to convince our governing body to allow us to apply lessons we have learned from slum upgrading, micro-credit, participatory planning, and community development, to engage in pro-poor housing finance instruments. I am pleased that finally re-imbursable seeding operations for housing and urban infrastructure were approved on experimental basis. We look forward to share experiences of such pilots with you, as we plan to learn from the Polish experience in affordable housing finance systems.

Last but not least, we are working with our partners to bring pilot interventions to scale. This means that we are increasingly packaging our support and technical assistance to governments and local authorities as pre-

investment interventions. Our work in policy reform, institutional capacity building and community mobilisation thus becomes part of a process that leads to bankable projects and follow-up investment by international financial institutions, regional development banks, domestic capital markets, and the private sector.

Conclusion

Allow me to conclude by reciting a Chinese observation that we are living in interesting times. Things are changing very rapidly. The mega-trends of globalisation, information, and urbanisation are accompanied by a host of other changes, each with their social, economic and environmental consequences.

What is happening today is that the pace of change is being perceived differently by different actors and stakeholders. Some want to accelerate change. Others resist it. Most are just barely coping. And that is what it is all about. How do we balance different perspectives? How do we reconcile different expectations? Finally, how do we ensure that change is leading to progress?

For me, there is only one definition of progress. That definition is rooted in the belief that the only meaningful change is change that benefits more women and men and more children than the status quo. For this to happen we must be prepared to engage in much more participatory processes where people and their communities are fully engaged in decisions affecting their livelihoods. It is when we engage in such participatory processes on a wide range of issues, including those of daily consequence, that democracy takes on its true significance. Development with equity has long been recognized by economists as an imperative and, irrespective of ideology as one fundamental value, if one is to achieve sustainable development and secure enduring peace. The UN is itself founded on this belief, of the inseparability of the objectives of peace and prosperity for all.

I believe that economists have a role to play in integrating the spatial dimensions into their development concepts and the prescriptions they make to fight poverty both within and between nations, and deliver sustainable development. I have argued that urbanization is a fact and offers an opportunity as a new bane of civilization, as long as we wake up to the reality of our times and prepare for it adequately.

Once again, I thank you for the opportunity to address this August audience in this historical learning institution that boasts more than 100 years of existence and has withstood the test of time.

Hon. Rector, Faculty and students, UN-HABITAT will be pleased if you consider to join the growing programmes of our partner Universities in your respective fields and areas of competency, to share with the rest of the world. In this regard, I shall be pleased to receive as many of you as are able to participate at the upcoming 4th session of the UN World Urban Forum, to be held in the ancient and historical city of Nanjing China, between 3rd-7th November, this year after the Olympic games. Registration is on line at our website www.unhabitat.org.

I wish you all the best and thank you for your kind attention.