

The City Summit: Opportunities for New Financing Strategies

by Mark Hildebrand

Abstract

The second United Nations Conference on Human Settlements (Habitat II) will be held in Istanbul in June 1996. Recognizing that the 21st century will be a century of cities, the Secretary-General of the United Nations, Dr. Boutros-Boutros Ghali, has named this global UN conference "The City Summit." The General Assembly of the UN has designated the United Nations Centre for Human Settlements (Habitat) to serve as the Secretariat for the Conference. With less than a year to go, preparations are now in high gear. This article highlights these ongoing preparations and the central role which Habitat has placed on developing sustainable finance strategies for housing and urban development as an integral part of this process.

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THE CITY SUMMIT

The City Summit will be held less than a year from now in Istanbul. The second session of the Preparatory Committee (Prep-Com) for the Conference completed its work less than two months ago in Nairobi. There is a great deal at stake, particularly in terms of the opportunities for financial institutions and private sector investors to assume a prominent role in addressing the two themes adopted by the UN General Assembly for the Conference: sustainable development in a rapidly urbanizing world and adequate shelter for all.

CITIES OF HOPE OR CITIES OF DESPAIR?

By the turn of the century half of the world's population will live in urban areas. The other half will largely depend on cities for their economic and social livelihoods. The social, economic and environmental sustainability of societies will depend on how cities function. Cities may either become concentrations of poverty, joblessness, injustice, civil strife, waste and environmental degradation; or they may capitalize on their economies of scale and information and their status as incubators of new technologies to promote social well-being, employment, productivity and energy

efficiency to improve the living environment of all. *However, cities cannot meet this challenge alone. Government and the private sector cannot meet this challenge alone. What is required are new forms of partnerships between the major groups of actors.*

A PARTNERSHIP CONFERENCE

The City Summit will be a conference of partnerships, solutions and commitments for sustainable development in a rapidly urbanizing world:

Partnerships: among all levels of government, the private sector, academic and scientific institutions, and community-based organizations to harness and leverage human, technical and financial resources to address the challenges of poverty, inadequate housing, clean water and basic infrastructure services for environmental health, energy and transportation.

Solutions: workable and practical solutions which are both environmentally sound and economically sustainable.

Commitments: a first phase five-year commitment by governments and major groups of private sector actors to put into place the policies and institutional capacities required for implementing and monitoring priority

Cities and Development

This positive vision of cities is not a utopian dream. Although cities have long been blamed for many human failings, as the draft "State of Human Settlements Report" submitted by Habitat to the Conference preparatory committee in Nairobi clearly illustrates, there is little evidence to support such criticism. On the contrary, cities and urban systems have underpinned great improvements in living standards for a considerable portion of the world's population. Urbanization is not "out of control." While it is true that many cities have grown very rapidly, this is largely a reflection of the rate at which economies grew. Moreover, most rapidly growing cities are also cities whose prosperity is increasing. There is not only a strong correlation between changes in a country's per capita income and its level of urbanization; but, in general, the higher the level of urbanization in a country, the higher the life expectancy and the lower the level of absolute poverty.

programs and investments for the first two decades of the 21st century.

These three concepts have been endorsed as the building blocks of the *Global Plan of Action* which will be the central document to result from the Conference. The final document should be nothing short of an Urban Agenda 21. A drafting group was constituted at the second PrepCom in Nairobi and will produce a negotiating document for the Conference's third and final PrepCom, which will be held from February 12-23, 1996, at the UN Head-quarters in New York. The *Global Plan of Action* will contain a Statement of Principles and Commitments, Strategic Objectives and a Program of Action.

Highlights of the Preparatory Process To Date

Global Awareness Building, using all forms of media and including a series of over 50 seminars, workshops, symposia and conferences addressing the specific issues and themes of the Conference. These preparatory activities have already resulted in the establishment in over 100 countries of broad-based National Committees for Habitat II and the active participation of a wide range of private sector actors in the preparatory process. Work will continue throughout 1995 to reach out to and inform local authorities, NGOs, community-based organizations, women's groups, youth groups and private sector organizations.

Shelter and Urban Indicators, developed jointly by Habitat and the World Bank, and adopted by the Commission on Human Settlements are being applied by many of these national committees: to help assess the effectiveness of ongoing policies and investment programs; to identify gaps in understanding and knowledge; and to better understand which public and private actions and investments to choose so as to improve sector performance and leverage public and private actions and investments to the greatest extent possible. Over 50 countries are already applying this uniform set of Shelter and Urban Indicators as an integral part of their in-country preparatory process with the intention of reflecting the results of this analysis and related recommendations in their national reports of the conference.

The Best Practices Initiative for improving the living environment. This initiative has evolved to become one of the fundamental building blocks of the Habitat II preparatory process. Its main objective is to facilitate learning from successful and sustainable initiatives which have improved people's living conditions, and to incorporate these lessons in national reports and plans of action. To date, the Secretariat has received over 100 best practice nominations from governments, local authorities, NGOs and the private sector in developed and developing countries. These submissions are being analyzed, compiled and disseminated through various media. The second PrepCom requested the Secretary-General of the Conference to establish an independent panel of the highest reputation for the final selection of best practices to give five special recognitions at the Conference. Best practices will be highlighted at the Dubai International Conference for Best Practices (November 19-22, 1995) and in the Global 100 Best Practices Catalogue to be distributed at the Istanbul Conference.

As the last major UN Conference of the decade, the City Summit will help shape a new development agenda for the 21st century by opening its door to representatives of the private sector, local authorities and non-governmental organizations. In an unprecedented development, the PrepCom in Nairobi decided to design the Conference so as to facilitate the ability of major groups of actors to contribute directly to the debate of governments. A Conference Committee in Istanbul will conduct "hearings," similar to the "World

Hearings on Development" convened by the President of the General Assembly in June 1994. A series of "Partner Forums" will be organized in Istanbul at the beginning of the Conference. Representatives selected by each group of partners in these Forums will then present the Forum's statement and commitments at the Conference Committee hearings. Each of these hearings will be followed by a discussion between the Forum's representatives and the Committee members. The statements and commitments to be adopted

by each Forum will, together with the Global Plan of Action, constitute the Istanbul papers.

FINANCING STRATEGIES FOR SHELTER AND URBAN DEVELOPMENT

At the outset of organizing global preparations for the City Summit, the Secretary-General of the Conference, Dr. Wally N'Dow, recognized the need to focus on two strategic issues: *security of land tenure*; and *sustainable financing strategies* for shelter and urban development. These issues are clearly related, since security of land tenure and enforceable property rights are a cornerstone of sustainable housing and urban development finance systems, as well as being essential prerequisites for a nation's long-term success in competing for capital in broader financial markets.

Agenda 21, which was the global plan of action adopted at the Earth summit in Rio in 1992, illustrated the fact that global plans of action are not effective instruments to mobilize resources. The plans of action adopted at the International Conference on Population and Development, which was held last year in Cairo, and at the World Summit for Social Development, held in Copenhagen earlier this year, have underscored this reality. Indeed the outlook for the growth of aid from industrialized countries is bleak with constrained supply confronting increasing demands. Most bilateral donors have cut back on their aid programs over the last several years in response to various budgetary and parliamentary pressures, and this trend seems unlikely to change at least in the foreseeable future.

However, while almost all bilateral and multilateral aid budgets have been declining since the end of the 1980s, there has been a steady trend of large increases in flows of private capital to developing countries. As is documented in a report of the Secretary-General of the United Nations to the Commission of Sustainable Development (E/CN.17/1993/11), these flows have been

crucial to the development efforts of middle-income countries but are also of growing importance in a number of low-income countries as well. The same report also illustrates the fact that these private flows have changed, in terms of composition, from debt to equity financing, and have increasingly shifted from bank to non-bank sources in recent years. Indeed non-bank sources of capital have accounted for virtually all the recent growth in financial flows to developing countries over the last several years.

Since investment capital roaming across a worldwide telecommunications network has largely broken free of government controls and is increasingly freeing itself of banks, the Habitat II preparatory process needs to directly address the fact that the nature and source of capital for development has changed. More than ever, developing countries are the investment frontier. They carry the greatest risks but also offer the greatest opportunities for growth. Indeed, the global economy is increasingly dependent on the growth of developing country economies. It was pointed out in a recent *Financial Times* editorial (April 19, 1995) on the World Bank report, "Global Economic Prospects and the Developing Countries," during the 1991-93 period of recession in industrialized countries, the rest of the global economy did not fall. World trade volumes grew at about 4 percent per year with the developing world the "engine" of the rich country growth. Exports to developing countries accounted for nearly three-quarters of the rise in world exports during the period.

To take all of the above into account, Habitat has incorporated financing strategies as an integral part of the preparatory process for the conference, so that we are not faced at the City Summit with a counter-productive stalemate with the "so-called" South looking to the "so-called" North for aid resources to finance the implementation of a Global Plan of Action. Given the changing composition of capital flows, our challenge is therefore to

change the axis of our efforts and those of our partners from the obsolete North-South axis to a new Global-to-Local axis.

In setting out to address both the land tenure and financing issues, Habitat recognized the need to tap expertise and experience from all regions. Accordingly, working together with private and public sector partners in each

Competing for Investment Capital

The implications of this changing composition in financial flows were further illustrated in a *Newsweek* cover story last year (October 3, 1994) by Michael Hirsh. "Capital has become phenomenally mobile and much harder for economies to hold onto and control." Hirsh estimated that in 1993 there was \$3 trillion in internationally mobile capital, almost triple the amount just three years earlier. "This private money totals three-quarters the amount of the annual government budgets of the seven largest industrial nations." Even more significant, he notes, is the changing composition. "As recently as 1990, \$468 billion was in syndicated bank loans against \$756 billion raised through the stock and bond markets now sprouting around the world. By 1993 the proportion was \$555 billion in bank money and a staggering \$2.3 trillion from capital markets." The article goes on to note that "the advent of private capital as a global kingpin marks what may be the final gasp . . . of the belief that governments rather than markets should get the main job of allocating resources." In this context, the vice chairman of Goldman Sachs International, Robert Hormats, is quoted as noting, "Capital markets are the IMF of the '90s."

region, Habitat has helped to organize a series of regional and global consultations designed to identify innovations and good practices for: (1) extending property rights and improving access to secure tenure; and (2) extending access to credit for housing and sustainable urban development. Consultations on security of tenure are now taking place in Africa, the Arab States, Asia, and Latin America and the Caribbean, with a global consultation to be hosted by the government of India in late 1995. In a similar manner, a series of consultations on financing strategies has also been organized with public and private sector participants worldwide. Each of these consultations is building on the results of those that preceded, and each is providing key inputs for the preparation of the Global Plan of Action to be adopted at the Istanbul Conference.

The International Union of Housing Finance Institutions (IUHFI) has taken a lead on housing finance issues. IUHFI and Fannie Mae supported the preparation of a concept paper by Douglas Diamond and Michael Lea for the Nairobi Prepcom.¹ This paper, along with the conclusions and recommendations of consultations held in Seoul, Korea (organized by the Asian Coalition of Housing Finance Institutions and the Korea Research Institute for Human Settlements), and New York (organized by ECO-HAB International in cooperation with Habitat) were presented to the Second PrepCom in Nairobi.

There have been four key cross-cutting themes which have emerged from these consultations.

First, the role and future of specialized housing finance institutions in the context of global trends toward financial liberalization and increasing competition. The need to link housing savings and lending instruments to financial markets and to integrate the housing finance sector into the broad financial system of the economy emerged as a central issue.

Second, the potential to develop and expand partnerships between formal and informal finance institutions so as to extend access to

Regional and Global Consultations on Financing Strategies for Housing and Sustainable Urban Development

- Seoul, March 21–22, 1995: "Asian Regional Conference on Financing Strategies for Habitat II," organized by the Korea Research Institute for Human Settlements (KRIHS) in collaboration with the Asian Coalition of Housing Finance Institutions (ACHFI) and Habitat.
- New York, March 27–28, 1995: "Habitat and Housing Finance for Millenium III," organized by ECO-HAB International in cooperation with Habitat.
- Brazzaville, May 30, 1995: "Africa Regional Consultation on Housing Finance Strategies for Habitat II," organized by Shelter Afrique in cooperation with Habitat.
- Rio de Janeiro, August 1–3, 1995: "Strategies for Financing the City," organized by the Brazilian Institute of Municipal Administration (IBAM) in cooperation with the Municipality of Rio de Janeiro and Habitat.
- Washington, D.C., September 10–13, 1995: "Habitat Urban Finance Conference," a global conference organized by the World Bank in collaboration with Habitat.
- Accra, November 2–4, 1995: "Investment Frontiers in African Cities," organized by the Urban Management Programme (UMP) and Habitat in cooperation with the Municipality of Accra, the Municipal Development Programme (MDP) and UNDP.

credit to lower income households. Here again there is clearly considerable scope to better integrate formal and informal systems so as to make the whole financing system more sustainable.² Partnerships with communities and their organizations can foster community involvement in planning and resource mobilization and needs to play a key role in this process.

Third, housing must be looked at as an economic sector, not as a social problem. Where land tenure systems are equitable and transparent, property rights enforceable and housing finance systems in place, the opportunity to own a home is the greatest single incentive for accumulation of household savings in the national economy. The housing sector must be managed accordingly as a key part of the overall economy and financial system. Policies that treat housing problems as a welfare issue are not sustainable and are doomed to failure, since they eclipse the causal factors of dysfunctional land and credit markets, thereby failing to mobilize the most important source of capital formation — private savings by individuals.

Fourth, there is need to adjust to today's global competition for capital by developing and/or strengthening global-to-local financial instruments, mechanisms and partnerships. Here innovative thinking and new alliances between financial institutions, community organizations and local clients will be required. Here, as with the other three cross-cutting themes, concrete examples of good practices and innovations have been identified which can be built upon.

Two additional conferences on financing strategies are scheduled in 1995. A regional consultation, "Strategies for Financing the City," will be held in Rio de Janeiro on August 1–3. A global conference in Washington, D.C., hosted by the World Bank, will be held on September 10–13. Both conferences will focus on financing strategies for urban development. The World Bank "Habitat Urban Finance Conference" will serve as the Bank's flagship contribution to the preparatory process for the City Summit. The theme of the conference will be the major changes which are currently taking place in the way cities are financed. A fundamental restructuring of the mechanisms

for funding urban infrastructure and services is taking place in both developed and developing countries. In the U.S., many cities are now directly financing their development from the capital markets, often with the assistance of privately supplied credit enhancements. In developing countries, privatization of municipal services is being pursued to increase the capacity and quality of services provided to city residents. However, even with these changes, in most developing country cities the annual investment per person in home and neighborhood usually exceeds many times the annual capital investment per person by local authorities. As pointed out in the above-cited State of Human Settlements Report, in most of these cities the potential of individuals and communities to build cities and develop services has often been ignored by governments and external support agencies. "Deficits in housing and basic services seem unmanageable when aggregated. Yet housing does get built, new residential areas appear and basic (if very inadequate) services are provided in the absence of government action." Here again, the potential for mutually beneficial relationships between the private sector, NGOs and community groups will be explored. Linkages between local resource mobilization and urban infrastructure and service delivery will likely take on primary importance.

Building on the results of these conferences, the Accra consultation with the mayors of African cities, among the fastest growing in the world, will try to bring the global and regional lessons down to earth. Although cities are far away from having formal credit ratings, they are in critical need of capital and are often moving ahead in developing public-private partnerships in infrastructure and service delivery. These cities are rich in lessons and truly represent the world's urban investment frontier.

WHAT DOES THIS MEAN FOR POTENTIAL PROVIDERS OF FINANCE?

It is important to recognize that the City Summit will provide a unique opportunity to impact the way housing and urban develop-

ment gets financed. To have an impact within the Framework of Partnerships, Solutions and Commitments, we need to address as precisely as possible what each of the principal actors can do:

- What can potential providers of finance do?
- What can local authorities do?
- What can national governments do?
- What kinds of new partnerships are required?
- How can Habitat and other external support agencies best help?

While innovations and best practices in financing housing and urban development clearly need to be identified and highlighted, there is also a dark side to the lessons from recent experience which needs to be addressed. With the costly bailout of insured depositors in the savings and loan industry in the U.S., the world's largest economy, still fresh in our memories, as this article is being written the government of the world's second largest economy, Japan, is assembling what may be an even larger bailout package for its lending institutions. According to the *Wall Street Journal*, (June 5, 1995), this crisis has been largely brought on by speculative lending by Japan's "jusen" housing loan companies. "The jusen's problems threaten to cripple Japan's entire banking system and indeed are already affecting investors globally." Similar lessons are evident on the urban finance front. One of the most wealthy urban agglomerations in the world, Orange County, California, has recently declared bankruptcy due to short-term speculative investments which went bad; as a result, it is closing public libraries and cutting back on other social services.

In rapidly evolving national and global financial markets with increasingly dramatic shifts from long-term savings to short-term speculation, how do values and responsibilities get defined? Are the problems being experienced in developed countries (including the recent collapse of Barings Bank and the U.S.-based Foundation for New Era Philanthropy) really all that different from the problems of corruption and mismanagement in developing countries?

The Global Private Sector Forum on Socially Responsible Business, Finance and Investment, one of the Istanbul Partner Forums, will provide an excellent opportunity for providers of finance to contribute both their best practices as well as their views of what forms of new partnerships will be required to spot the trends and anticipate developments well enough to navigate the chaos of the global capital market. There will be a unique opportunity to send clear messages to governments about their role in establishing effective "rules of the game." Obviously efficient regulatory processes and stable decision-making environments are critical to attracting investment. But what is the right balance between public sector regulation and private sector ethics and responsibility? How can societies best monitor this process so that enlightened self-interest mobilizes socially responsible investment?

In this age of information technologies, with more wealth visible — and transferable — than ever, issues of poverty and security still threaten the very fabric of societies. Since it is clear that governments and community groups alone will not be able to address these issues, how can business leaders, particularly financial sector leaders, best be encouraged to make socially responsible investments?

The stakes will be high in Istanbul, and Habitat is counting on the active involvement of all key financial sector actors in discussing the future of the city.

NOTES

¹ See Diamond, Douglas and Michael Lea, "Housing Finance in Developing Countries: Lessons From North America" in this issue of *Housing Finance International*.

² See Kyung-Hwan Kim, "Access to Credit, Terms of Housing Finance and Affordability of Housing," in this issue of *Housing Finance International*.