

Sector Guidelines

for Pre-Feasibility Studies on

SLUM UPGRADING



A. Introduction

1. Context

Cities Development Initiative of Asia (CDIA) Sector Guidelines describes the approach to pre-feasibility studies in the sectors most commonly encountered in CDIA support to cities. These guidelines are a sector-specific appendix to the overarching *CDIA Pre-Feasibility Study Guidelines* (CDIA 2011) that sets out the format, process, and output requirements in general.

The Sector Guidelines are not meant to replace terms of reference or to provide detailed technical input for consultants, who are assumed to be qualified and experienced professionals in their field and thus technically capable. These apply to the conduct of a pre-feasibility study (PFS) for a project or group of projects (hereinafter referred to as “the project”) identified and prioritized in the plan and by the relevant authority for implementation.

These guidelines apply in the context of existing policies, visions, plans, and studies pertaining to slum upgrading and other related issues. These address the approach expected of consultants engaged at the PFS stage as regards slum upgrading.

Slum upgrading consists of physical, social, economic, and environmental improvements made in partnership with citizens, community groups, businesses, and local authorities. These improvements often focus on providing better basic services, mitigating environmental hazards, regularizing security of tenure, and providing incentives for community management and maintenance. Similar to other sector guidelines on specific infrastructure sectors, these guidelines emphasize the need for a cross-sector approach; slum upgrading integrates these improvements through a participatory process leading to improved access to services, resources, and empowerment for disadvantaged groups.



2. Objective

CDIA support to the formulation of any slum upgrading project aims to enhance the project's sustainability and contribution to the overall development goals of poverty reduction, environmental improvement (including climate change), and the promotion of good governance. This means that the project should

1. Comprise a viable component of an *integrated urban investment program* that includes consideration of housing, economic activity, transport issues, infrastructure provision, and social services (see section B);
2. Be *pro-poor* in the sense that it should be sensitive to the problems, needs, and opportunities of marginalized groups and contribute significantly to an improvement in existing conditions. Conversely, potential negative impacts resulting from the project should be (a) minimized, and (b) adequately compensated (see section C);
3. Be *economically viable* and *financially sustainable* in that the economic rate of return on a project must be acceptable *and* that revenues, subsidies, taxes or levies, microfinancing, grants, loan financing, community service obligation payments, or any combination of these must be capable of funding capital and operations costs of the various components of the project (see section D);
4. Be *environmentally sustainable* in that the proposed investments should contribute to significant improvements to the urban environment through reduction in environmental hazards resulting, from poor solid and liquid waste management, sanitation, air pollution (including green house gas emissions), and contamination of water bodies and land (see section E); *and* that adequate measures will be taken to mitigate any potential adverse environmental impacts of the project (see section E); and
5. Promote *good governance* through sound, transparent governance arrangements enabling efficient financing, design and construction, commissioning, and operation of the project, and carried out through a participatory and inclusive process (see section F).

B. Developing an Integrated Slum Upgrading Project

Slums, or informal settlements, are commonplace throughout the developing parts of Asia, although they vary in magnitude, nature, and context. Typically, they are characterized by the lack of access to clean water and exposure to unsanitary conditions in terms of solid and liquid waste. Slums are usually high density and lack security of tenure. In addition, slums are often located in areas prone to natural disasters or along the periphery of the city. Housing is often substandard and lacks sufficient living space. Despite these daily hardships, slums are also places of community and vibrant economic and entrepreneurial activity.

A successful slum upgrading project must integrate the different aspects of basic service delivery, urban mobility, land tenure, housing and livelihood, and proposed and implemented through a process of community involvement and participation. It must also be integrated in the overall urban framework of planning and investments, rather than being treated in isolation. Slum upgrading projects, therefore, can often be components of a larger urban infrastructure upgrading program.

Slum upgrading projects must aim to enhance the livability of slum areas, utilizing and enhancing the potential of community-based initiatives and local (informal) economy where possible. The



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investment project is to be based on a sound planning framework. The consultants will review this framework and the role of the slum upgrading project within it. If it does not adequately provide strategic guidance as regards a project's social, economic, and environmental contribution to the city's development, the consultants should, within the limits of resources provided under the contract, propose objectives based on available data and consultations.

The project design should comprise an integrated investment package of basic services, land and housing, urban transport and livelihood, and show how these will achieve the strategic goals discussed above.

Summary

- ▶ Review planning framework to identify target areas prioritized for improvements.
 - ➔ Fill "gaps" with rapid analysis of the urban poverty situation in the city.
- ▶ Analyze, through a consultative process, the key challenges in, and needs of the target communities.
- ▶ In consultation with affected communities, identify and prioritize improvements as part of an integrated slum upgrading project.
- ▶ Propose investments and approaches that positively affect the priority improvement areas and develop them to pre-feasibility.
- ▶ Demonstrate how the proposed design improves access to infrastructure services, and contributes to employment and empowerment with respect to poverty reduction.

C. Developing a Pro-Poor Slum Upgrading Project

The baseline for developing a successful pro-poor slum upgrading project is understanding the needs of the poor, and their priorities and opportunities. This includes an analysis of the following:

1. Brief socioeconomic profile of the target communities
2. The current state of infrastructure systems and services in, and in conjunction with the target area. An outcome should be a clear picture of the needs in terms of urban infrastructure, focusing on provision of basic services. Urban transport should be reviewed from a large geographical perspective, taking into account the needs for mobility to access employment, education, health, recreation, etc. Links between community-based secondary and/or tertiary systems and citywide primary systems should be explored.
3. Land tenure and ownership issues and their impact on investments in housing and infrastructure (rights-of-way)
4. Key gender issues, including safety and security, land ownership, and socioeconomic profile, etc. as important aspects
5. Potential for community participation and a stakeholder analysis of key community groups, including nongovernment organizations (NGO), etc.

The situation analysis should be used to develop a clear set of objectives and indicators for subsequent project development. Objectives should aim at maximizing positive impacts on key development issues. Prioritized projects and their implementation should draw on the full range of opportunities available, including microsavings and microfinancing, community implementation, and involvement in operations and maintenance. Bringing prioritized investments to pre-feasibility should focus not only on economic and financial viability and impacts on crosscutting issues, but



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substantially on process, organizational set up, and institutions from a pro-poor perspective. Consultants should keep in mind the dynamics between formal and informal systems.

For the proposed project(s), estimated impacts (positive and negative) should be described, and indicators developed to measure progress against development objectives. The PFS should clearly describe what measures have been taken to ensure that the project benefits the urban poor and the environment, improves governance, and minimizes negative impacts.

Although special care should be taken to ensure that proposed investments benefit the urban poor, there are cases when negative social and economic impacts are unavoidable. Likely disruption to communities in terms of relocation, division, noise, and impacts on livelihood, etc. should be assessed and appropriate mitigation efforts put in place. The scale and cost of relocation should be estimated along with options for on- or near-site resettlement (to minimize disruption to employment). Off-site resettlement is to be avoided wherever possible.

Summary

- ▶ Analyze the situation and needs in the target community in terms of socioeconomic conditions, access to basic services, land tenure, community participation, and gender.
- ▶ Develop a clear set of objectives and indicators for overall development goals.
- ▶ Consider various design options and approaches to maximize positive impacts and minimize negative ones.
- ▶ Bring prioritized projects to pre-feasibility and document how the project is designed to maximize positive impacts on poverty reduction.
- ▶ Estimate impacts (positive and negative) against development goals.

D. Ensuring Financial and Economic Viability

1. Financial Assessment

Slum upgrading projects will ordinarily not generate any major revenue, unless the package includes land-tenure regularization for which residents pay a fee or land-lease charge. Occasionally, co-benefit revenues arise from linking slum upgrading to improving water supply and/or solid waste collection, for which fees are chargeable. In the absence of revenue prospects, financial analysis will be limited to the ability to finance the project. Costs should be benchmarked against average construction costs in country. Costs should explicitly include social (e.g., relocation) and environmental mitigation measures.

The assessment must include an analysis of the local government's cash flow with project capital expenses and subsidies to determine the project's sustainability in relation to the likely revenue streams for the local government(s). Such an analysis should form the basis for discussions on alternate organizational structures for implementation (see section F).

Summary

- ▶ Review (land-based and service-based prospects) revenue prospects and costing and strongly advocate alternatives where such assessments make viability suspect.
- ▶ Adopt realistic return hurdle rates, if applicable.



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- ▶ Assess impact of project on local government's budget and use as basis for developing implementation options.
- ▶ Provide financial analysis for all relevant organization participants and adopt realistic return hurdle rates (if applicable).

2. Economic Assessment

Economic assessment techniques for slum upgrading projects—basically involving property development and infrastructure investments—normally involve estimates of health improvement and employment (income increase or decrease). These are potentially significant and consultants should make all efforts to estimate them, adopting proxy values such as land value increase where necessary, as set out in ADB's Guidelines for the Economic Analysis of Projects.¹ Care should be taken to identify the actual beneficiaries of such value increases. The project design should safeguard against coerced gentrification. Avoid double counting, such as health and employment productivity increases. Shadow pricing of costs is standard and follows an established process in each country. Hurdle rates for economic assessment are routinely set by ADB and other agencies in each country. Adopt ADB standards where available. If this is deemed impossible, at least a cost-effectiveness analysis must be undertaken.

Summary

- ▶ Estimate all benefits of proposed project, adopting proxy values if necessary.
- ▶ Undertake economic assessment using established processes and hurdle rates in the country concerned using ADB standards where possible.

E. Environmental Issues

Slum upgrading projects may have both environmental benefits and adverse environmental impacts. The objective of the PFS is to maximize the benefits while minimizing the adverse impacts.

An analysis for the environment situation in the target community is the first step in addressing environmental improvements. This should include impacts on the environment as well as the community in terms of exposure and vulnerability to natural hazards and disaster. The situation analysis should be used to develop a clear set of objectives and indicators for subsequent project development.

Consequently, the proposed project should include measures to significantly improve the urban environment through reduction in environmental pollution resulting from poor solid and liquid waste management, sanitation, air pollution (including greenhouse gas emissions), and contamination of water bodies and land.

Options for different environmental improvement measures should be explicitly examined by the PFS. The revenues and cost implications of these measures, and their governance implications should be included in the financial (section D) and governance analysis (section F).

The process of reducing environmental impacts is similar to that adopted for social assessment. The proposed investments and facilities should be screened to determine (i) potential environmental

¹ ADB. 1997. *Guidelines for the Economic Analysis of Projects*.



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impacts to communities, and (ii) potential impacts on water resources as set out in ADB's environmental checklist.² Mitigation measures should be formulated and costed. The implications of these measures, if required, should be included in the financial assessment (section D) and governance arrangements (section F) of the project.

Summary

- ▶ Analyze the current environmental situation and its impact.
- ▶ Develop a clear set of objectives and indicators for environmental development goals.
- ▶ Consider various design options and approaches to maximize positive effects and minimize negative impacts.
- ▶ Bring prioritized projects to pre-feasibility and document how the project has been designed to maximize positive impacts on poverty reduction.
- ▶ Estimate both positive and negative impacts against development goals.

F. Governance Arrangements

The institutional arrangements for implementing, operating, and maintaining the project must be clearly described and agreed with the client government.³ Fundamentally, the ability to successfully implement slum upgrading investments, achieving social and environmental benefits, avoiding or mitigating adverse impacts, and achieving financial sustainability, depends on a sound governance structure.

Design of this structure must include the following:

- (a) Discussion of organizational options for design, construction/commissioning, and operation. In terms of services integration, the arrangements for coordination across sectors and facility providers need to be described. Finally, arrangements for stakeholder participation (in particular any affected persons as described in section C), taking special consideration to gender concerns, must be proposed.
- (b) Consideration of how, and with what incentives, will the existing institutions and stakeholders change to the proposed arrangements.
- (c) If land-tenure regularization is part of the package, the institutional arrangement for effectively implementing this part will need to be reviewed, and if current arrangements are found to be deficient, strengthening measures (see Section G) are to be proposed. This may be at the level of city government or deconcentrated units of national land management agencies.
- (d) Consideration of the legal basis of each involved organization, its sources of revenue and responsibilities for expenditures (the two must match), and the hierarchy of authority across organizations (the legal basis of coordination).
- (e) Consideration of risks and threats to a successful project implementation, including political, financial, public acceptability, corruption, etc.

² ADB 2003, *Environmental Assessment Guidelines*.

³ CDIA 2011 *Guidelines for Urban Governance and Institutional Development*



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Summary

- ▶ Design of institutional arrangements must be thoroughly documented, encompassing the legal, organizational, and financial basis of sustainable operation.
- ▶ A clear description of how we get from where we are now to the proposed arrangements is required.

G. Institutional Strengthening

There are many different stakeholders involved in slum upgrading. These include both formal and informal stakeholders with varying degrees of power, mandate, influence, and resources. Initial priorities for a pre-feasibility team should focus on ensuring all concerned stakeholders participate in the PFS process. The PFS consultant team should design a structure of participation to engage stakeholders throughout the duration of the pre-feasibility study. Special care shall be taken to find structured forms for letting affected communities participate in planning, prioritization, and decision making. Such a process will improve institutional capacity by fostering dialogue, setting joint priorities, and coordinating the approaches to investment.

H. Capacity Development

It is clear that capacity development is an essential foundation for successful slum upgrading in any given city. There is a need to raise awareness, generate and disseminate knowledge, and share good practices with local officials, planners, and engineers. It is especially urgent to improve dialogue and coordination between urban poor communities and planners and decision makers.

The PFS team should strive to identify these actors and stimulate dialogue between NGOs, government, and the private sector to ensure a common understanding and basis for action.

The PFS team should explicitly plan activities for capacity development and training, designed and conducted to address the local situation and needs, for the whole duration of the PFS as well as part of a future capacity development program.

I. Conclusion

Although a PFS financed by CDIA will not support urban planning studies, it will help a city concretize its city development vision, examine alternatives to solve the challenges of slums, and recommend investments for further feasibility study and/or implementation.

The criteria for a successful CDIA PFS, derived from the above, can be summarized as follows:

- *Technical effectiveness*—the extent to which proposed investments solve the stated slum upgrading goals of a city;
- *Impact*—the extent to which the investments impact, positively or negatively, the livability of the area, security of residential land tenure, efficiency of land use, the local economy, nearby natural resources, air quality, energy, the urban transport network, and access to services, etc.;
- *Cost effectiveness*—the extent to which the costs of the investments are commensurate with their benefits;
- *Financial sustainability*—the extent that funds required to build and operate the preferred options are likely to be available and affordable; and
- *Equity*—the costs and benefits of the alternatives are distributed fairly across different population groups.