



# Trends in urban corruption

## ... and how they shape urban spaces

The size of the global population living in urban areas has grown rapidly [from 751 million in 1950 to 4.2 billion in 2018](#). According to the [United Nations \(UN\) Revision of the World Urbanization Prospects](#), today **55% of the world's population lives in urban areas**. **By 2050 this share is projected to increase to around 70%**.

As the world continues to urbanize, many countries face challenges in meeting the needs of their growing urban populations, especially in low-income and lower-middle-income countries where the urban population increases the fastest. By 2030 the **UN Sustainable Development Goal 11 (SDG 11)** aims to “make cities and human settlements inclusive, safe, resilient and sustainable” by providing adequate, safe and affordable housing. At the same time real estate has become the biggest “[global store of wealth](#),” the value of global real estate is [nearly 60 per cent of the value of all global assets](#), with residential real estate comprising 75 per cent of it.

This triggers **crucial challenges** to sustainable urban development around the world, which are linked to corruption. **Corruption in urban planning** has a severe and far-reaching negative impact on the development of urban spaces with view to budget execution, public services, and human rights for millions of people. **Money Laundering** activities have increased in many urban centres – an aggravating factor being economic changes in urban real estate markets that deal with housing no longer as a social good but rather as a commodity and an investment asset.

City dwellers around the globe feel the effects. In [Harare](#), the increased demand for urban land led to multiple cases of corruption in which ordinary citizens lost millions of dollars to politically connected, unethical urban developers. In [Dubai](#), laundered money of criminals from around the world supports a construction boom of luxury real estate built on sand. In [Berlin](#) people protest against unaffordable housing that is partially caused [by the investment of incriminated capital](#). In [São Paulo](#), property speculation contributes to rising inequality, unaffordable housing and expulsion of the urban poor from the city. To ensure sustainable development of present and future cities is a challenge. Yet, innovative initiatives around the globe show that it's possible (see the ! **“promising approaches”**).

### Corruption in urban planning and construction

Because of the growing population, more than ever before cities need to be sustainable and offer adequate public services like public transport, waste management, and energy, as well as space for public infrastructure, accessible public institutions like schools and hospitals, and for recreation, like parks, sports grounds and squares. Urban planners deal with the technical and political process involved when decisions on urban land use and the design of urban environment are taken. Their profession ranges between administration and developers, and therefore urban planners hold a critical role in directing urban development. Today's urban governance contexts carry high risks for corruption and illicit enrichment. The scarcity of urban services and resources like land, housing, and infrastructure creates leverages for extortion and [motivates corrupt behaviour](#) particularly in urban planning and investment.

[“Decisions around zoning, land management, infrastructure and service build-out offer some of the most sophisticated, inscrutable and lucrative ways for personal enrichment, crony capitalism, clientelism and political patronage.”](#)

! **Promising approach:** In South Africa and Zambia the project [Cities of Integrity](#) on urban planning and corruption in Africa targets urban planners to address corruption risks in urban development. The goal is to support professional communities of planners as **agents of integrity**.

### Money laundering

Speculation and the investment of **illicit funds** in the real estate sector additionally hinder the already difficult path towards sustainable urbanization. Money laundering is defined as the process used to camouflage the illegal origin of funds generated by illicit or criminal activities.

Often real estate transactions are poorly regulated and offer the possibility of purchasing property with **cash**, or acting behind the veil of **shell companies**, using false identities or complex opaque schemes to keep **anonymity**. [Real estate agents, lawyers and accountants](#) enable **secrecy**, which leads to **impunity** worldwide.

In most countries there is no obligation for (foreign) companies to provide information on their **beneficial owners** prior to purchasing urban property or land.

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Given the sheer size of the real estate market, it is quite attractive for those who want to **integrate ill-gotten gains in the legal economy**, to purchase property and then sell it or rent it, thus creating a legitimate source of income. The negative consequences can be witnessed both in [developed](#) and developing countries as **real estate pricing increases** and housing gets less affordable for people with legal funds.

Additionally, unreported acquisition, for example the purchase of property through opaque changes in shareholders' structures, **causes vast loss of tax revenues**, thus having a negative impact on domestic resource mobilisation.

! **Promising approach:** As an exemplary initiative, „[Who owns the city](#)“ cooperates with local media and citizens to make the housing market in Germany more transparent and inclusive. It uses an award-winning Software for Crowds investigations, which allows journalists and citizens to cooperate and shed light on the secret developments of the real estate industry in nine cities in Germany.

### Corruption driving factor: excessive urban real estate speculation

In both mentioned fields, corruption is aggravated by growing speculative investment activities in urban real estate markets.

 **Push:** [A gripping documentary about unlivable cities and the global housing crisis](#)

Local elites and corporate finance, including banks, insurances and pension funds, hedge funds, private equity firms and other kinds of financial intermediaries with massive amounts of capital and excess liquidity sometimes use speculative and corrupt practices in shaping the urban space according to their own needs and interests. Aiming for the highest return on investment (RoI), housing prices are increasing to the detriment of the urban poor, often resulting in their displacement. “[Financialized housing markets](#) respond to preferences of global investors rather than to the needs of communities [...]. Financial investors [...] are likely to replace affordable housing that is needed with luxury housing that sits vacant because that is how best to turn a profit quickly.”

A **lack of transparency, very often predisposed by the absence of beneficial ownership registries**, allows the

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appropriation of land by large scale investors and speculators regardless of basic human rights and sustainable and inclusive urban planning.

As a consequence, unregulated private investment in urban areas creates **spatial, gender and intersectional segregation**, perpetuating or leading to discriminatory patterns. In [South Africa](#) wealthier, predominantly white households occupy areas close to the centre while poorer black South Africans live on the peripheries of cities; in [Australia](#), research shows that average-income single female workers can afford to live in only one suburb of Melbourne.

! **Promising approach:** In Nigeria, the threat of large-scale demolitions and displacement hangs over thousands. [The Human City Project](#) is supporting marginalized communities by giving them a voice by charting their realities on maps as a testimony of ownership that can stand firm against the speculations of corrupt elites. This way men and women have a direct part in the planning processes of their city.

### Way forward

In this rapidly urbanizing world, common anti-corruption efforts, aiming for instance at greater integrity, transparency and stricter laws premised on rights, can prevent the injustice and contribute to an inclusive and sustainable urban future. Both SDG 11 and the [New Urban Agenda](#) emphasize the **pivotal role of urban planning** in sustainable urban development. Transparent urban land markets are crucial to curb money laundering and speculative investments in real estate that is needed for inclusive and sustainable urban design.

**Publicly accessible registries** with accurate and updated information on beneficial ownership of legal persons and on land ownership can concretely support better governance of cities, a prerequisite being that no loopholes are installed in respective regulations. In the European Union, however, the new regulations on beneficial ownership (BO) transparency are difficult to enforce and can be easily circumvented [by using joint stock companies and investment funds to ensure not to surpass the 25% threshold to register as a BO](#).

**Overall, a stronger political will to tackle urban corruption globally is needed.**

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