



PART III

**TOWARDS
SUSTAINABLE SHELTER
FINANCE SYSTEMS**

ASSESSING SHELTER FINANCE SYSTEMS¹

The analysis in the previous chapters of this Global Report highlights a number of specific issues that have policy implications with regard to the value of housing finance in addressing the world's housing needs. This chapter brings together a discussion of these issues across the different approaches to housing finance that have been addressed. Several themes are considered:

- affordability and the difficulties of reaching the poor;
- access to capital and the lack of loan finance;
- the move to markets and what the market cannot manage, including the issues of maintaining financial viability; and
- connections and diversity within globalization, as well as risk management within the market.

Housing finance is critical to the process of development: 'cities are built the way they are financed'.² While urban form reflects other factors, such as land regulations, building codes, cultural values and demographic change, finance is a powerful influence on the kind of cities and settlements in which people can expect to live. Hence, the development of urban areas reflects who has money, how much they have and on what conditions.

The challenge is to ensure that finance contributes to the equitable and sustainable development of cities. Clearly, as indicated in earlier chapters of this report, finance for the dwelling is only a part of the picture. Finance for other components of urban development is also important. At the level of the settlement, municipal finance is important, as demonstrated in Chapter 3. Households need to consider finance for land and for services in addition to the dwelling itself. While the typical model of urban development in the North is where the household purchases a complete unit (dwelling, serviced site, land tenure), this is not the reality for much of the South (see Chapter 6). In this context, housing finance has to be appropriate to the multiple needs of incremental development (land, services, infrastructure and dwelling). This raises a further and very significant complexity since investments in land and infrastructure are rarely affordable on an individual basis – as discussed in Chapter 7 and considered further in this chapter.

It no longer seems true to say, as in a 1993 study, that most developing countries do not have a sustainable and viable institutional housing finance system.³ In most parts of Asia and Latin America, this does exist in some shape and form and it has been growing significantly during the last 10 to 15 years. In some cases, the state remains a very significant influence on the market for housing finance (through regulation, direct lending activities or, as in the case of Chile, other subsidy finance strategies). In others, governments' significance appears to be decreasing as the number of alternative providers increases and more market-orientated policies begin to gain more influence (see Chapters 4 and 5). This 'formal' housing finance system, orientated towards the provision of mortgage finance, is limited in scale, with low-income households being excluded. Arguably, it is not as cheap or as flexible as is required. In sub-Saharan Africa, it still appears to be lacking on a significant scale. But it does, for the most part, exist in many Latin American and Asian countries. In general, it appears to be growing, and it has demonstrated a capacity to survive the financial stresses of the 1990s. While macro-economic stability is widely acknowledged to be important for the health of the housing finance sector, housing finance systems have demonstrated some resilience as they have recovered successfully from financial crises during the 1990s (see Chapter 4).

Unable to afford mortgage finance or complete dwellings, many low-income residents finance homeownership through incremental development, making small investments over a considerable time period. 'Formal' institutions providing small loans for shelter improvements have become more significant during the last 15 years. During the early 1980s, the distinction between non-institutional and institutional almost entirely replicated the small loans/big loans division, with the majority of institutional sources supplying big loans for complete (or almost complete) dwellings and non-institutional sources supplying small loans used for incremental shelter development. This is no longer the case. As discussed in Chapter 6, there has been a significant growth in non-governmental organizations (NGOs), microfinance agencies and government programmes offering small loans to assist in financing incremental shelter strategies. Many in low-

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income countries in the South still develop their housing incrementally; for the poorer households, this remains the only viable strategy, even in relatively wealthy Southern countries. As a result, the provision of appropriate funding is a development priority. However, small loans from microfinance agencies, in general, go to those with land tenure for housing improvement and extension, limiting once more their contribution to addressing the needs of many in the South. Community funds with an emphasis on collective loans have recently emerged to address the needs of the urban poor. However, much of their work remains experimental and it rests somewhat uneasily between financial approaches and poverty reduction programming.

The integration of neighbourhood upgrading and slum improvement programmes with small loan programmes offers significant support to the poor. Within such programmes, in general, subsidy funding (sometimes together with small loan finance) is orientated towards land tenure, infrastructure and services, while small loans assist families in finding the funds for housing improvements. Although not always the case, there are clear further benefits if small loan funds are also provided for enterprise development. Two emerging models exist for such upgrading. In one model, the local authority, or some other professional development agency, takes the lead, with small loans being provided through subcontracting arrangements with microfinance agencies. In the other model, exemplified by the work of the Community Organization Development Institute (CODI) in Thailand and the Community-led Infrastructure Financing Facility (CLIFF) in India, the community build up their financial management expertise through the use of community funds and they take the lead in managing the process, with appropriate support from government agencies and professional NGO staff.

Despite its lack of immediate relevance for the poor, great emphasis has been placed, by governments and development agencies, on mortgage finance. This is represented in the weight of the discussion in this report, which, in turn, reflects research, documents, institutional investments and financial capital related to mortgage finance. However, it is not directly relevant to those most in need in the world – at its crudest, their incomes are simply too low. This is not to say that this work is insignificant to the poor. There is evidence that housing finance has to be treated as a system. If the needs of higher income groups are not met, they will occupy the shelter opportunities created for the poor.

With a growing global dependence upon the market for the delivery of finance, how have housing finance systems responded? There are a growing number of providers in numerous countries. Consumers who can access mortgage finance have been able to benefit from competition, with some indications of improving loan-to-value ratios⁴ and smaller loan margins.⁵ While loan periods have also lengthened in some countries, this seems to be more concerned with the crisis of affordability than with competition *per se*. The benefits seem, in part, to have been taken up in rising dwelling prices, and increases in the scale of mortgage lending are less impressive once price increases are taken into account. Yet

there does appear to be more money for housing finance in most regions of the world, with sub-Saharan Africa being a notable exception. While there have been initiatives in this region (for example, in Ghana and Nigeria), they remain small scale and relatively insignificant.

The greater emphasis on the market has brought benefits, but also problems. A number of specific issues arising from too great a dependence upon the market that have been highlighted in previous chapters of this report. None of these themes are new; but they have, perhaps, been overlooked in the eagerness of policy-makers to move from ineffective strategies to increase access to housing finance towards something that appears to work. These are areas where the market cannot be expected to respond effectively; by its very nature, it produces outcomes that reflect individual decision-maker's choices rather than grander plans. The areas are systemic risks within the financial system; ensuring that institutional frameworks are in place for multi-family dwelling and neighbourhood development and maintenance; and urban planning and land-use management. They are all areas which require a role for government (and governance) in developing appropriate structures for planning, regulation and institutional development.

Finally, recent development discussions have placed much emphasis on globalization. While globalization means many things to many people, the two specific areas relevant to this debate are the relationship between global financial flows and housing finance, and the ways in which 'global' ideas about housing finance are permeating solutions and strategies to address housing needs. The final theme considers these issues.

AFFORDABILITY AND THE DIFFICULTIES OF REACHING THE POOR

The discussion in Chapter 4 highlights the difficulties that the poor have in affording mortgage finance to purchase a complete dwelling through a single purchase that is funded primarily (but rarely exclusively) by a loan. Significant numbers of people in the North remain in rental accommodation and cannot afford the costs of homeownership, even in a context in which subsidies have been provided. The indications are that rising house prices have made affordability more difficult in the North, although the ratio of current prices to incomes is high when compared to long-term trends, and greater affordability may be anticipated in the short term. There have been very considerable attempts supported by government to extend homeownership to lower income groups – for example, through the more extensive use of mortgage insurance. There are some indications of success (higher homeownership rates) and some areas of concern as households may find it difficult to manage the associated risks. Northern governments seek to supplement commercial housing finance for homeowners with a range of measures in order to assist the poor in securing adequate accommodation, primarily through rental markets.

In the South, the percentage of those who cannot afford mortgage loans is significantly higher in many countries, reflecting high levels of poverty. The estimates in Chapter 4 suggest that these numbers may be over 70 per cent in sub-Saharan Africa and the lower income countries of Asia, and at or above 40 per cent in the higher income countries of Asia and Latin America. The problems are not simply related to lack of income (looking at restrictions on mortgage lending in the North); they are also related to the nature of the economy and its high dependence upon informal as well as low-paid employment.

The costs of being poor are considerable. There is no doubt that the poor wish to save and accumulate assets. The World Bank estimates that 60 per cent of households in Mexico save for housing.⁶ That figure appears low. A very detailed analysis of the overwhelming importance of savings in housing investment in Hyderabad has been done,⁷ while it has also been noted that 65 per cent of those who join a shelter microfinance facility in Cape Town, the Kuyasa Fund, do so only to use its savings facilities.⁸ The scale of informal saving appears to be very significant. The success of microfinance in providing essential financial services to the poor has been noted. There is a willingness to save among the poor, and as the discussion of community funds explains, programmes have been able to build on such experiences to increase take-up of financial services (see Chapter 7).

While the poorest may not be able to afford to invest much in housing, the costs of squatting, of purchasing water and of repairing temporary dwellings are very significant. Given the opportunity, the poor readily take up opportunities to save and acquire small loans through microfinance agencies and/or community funds. Programme reports discuss many issues; but none have ever referred to a lack of demand for their services. Opportunities to acquire small loans for land acquisition, infrastructure and housing do appear to have grown significantly during the last two decades, particularly during the last ten years. However, provision still appears very small, given potential demand (and in the context of estimated housing deficits).

Small loan agencies have been established and have contributed to addressing shelter needs. They have been extensively discussed in Chapters 6 and 7. Incremental development is all that is affordable to the poor and is a viable strategy that has helped to develop housing for millions. Incremental development requires finance and is, for the most part, primarily financed through savings at present. Loan finance can reduce the time taken for such development and the overall scale of the investment. The interest in this sector is reflected by a growth in sources of provision (as well as the scale), with municipal and national governments, commercial financial institutions and other private-sector groups such as building material suppliers all becoming involved.

The growth of microfinance agencies for enterprise development pre-dates the specific rise of shelter microfinance. These agencies have been encouraged to move into the shelter sector due, in part, to the scale of enterprise loans that were 'misdirected' at housing investment. In other cases, they have extended their loan services to respond to

explicit needs and requests, and because of their own commercial needs to expand their markets. While not all microfinance programmes for housing have been successful, there is a body of experience that demonstrates the possibilities. The major problem faced by these agencies appears to be a lack of capital for expansion.

The particular focus of shelter microfinance agencies on individualized lending for housing improvements limits their value to many of the poorest urban dwellers. It is indicative that the Grameen Bank in Bangladesh, which lends to low-income rural dwellers (mainly women) for housing, except where land tenure is uncertain (in which case they lend for land purchase prior to lending for housing investment), does not consider this model to be transferable to urban areas where land costs are so much higher. This does not mean that shelter microfinance is unimportant. It provides essential assistance in enabling urban improvements to take place in many areas in which tenure is secure and in some urban informal settlements in the South. It may also be of significance in illegal subdivisions, where the tenure is not in dispute but where additional investment is required for infrastructure and services, as well as upgrading of dwellings. But in seeking to address the Millennium Development Goals (MDGs), the limitations of microfinance strategies as well as their potential have been recognized. Shelter microfinance assists in the consolidation of urban poor areas; it helps households to build up their assets, investing their savings in dwellings that provide both a place of shelter and a source of enterprise development for many working in the informal sector. In other cases, it adds directly to income when families rent rooms. However, its value is predominantly for those who already have tenure (although this may not be formal legal tenure).

The tradition of community funds has grown up to respond to the needs of urban poor groups to invest in land purchase and to develop infrastructure on such land. Community funds offer collective loans to organized communities to enhance their development capacities. While many loans are for secure tenure and infrastructure, the financial systems are also used for more individualized lending both for housing and income generation. The strategy seeks to strengthen local institutions to address investment needs that individual households, and individualized solutions, cannot tackle.

However, once more, there are indications that the poorest find it difficult to participate. Such problems are evident in assessments of the Community Mortgage Programme (CMP), a group-lending scheme in the Philippines that has provided almost 150,000 households with secure tenure, but which finds it difficult to include the poorest households. The solution used by some agencies such as the Society for the Promotion of Area Resource Centres (SPARC), an Indian NGO, is to seek to develop models that work for the poorest within a residential group, and then allow higher income groups to join in if they wish. However, it has to be recognized that the use of loans carries inherent risks for those who are too poor to manage repayment risk. The vulnerability of the poorest may be too great to successfully manage these risks (despite the capacity of an organized

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community to provide support), and greater emphasis may need to be placed on savings and grant combinations. While there have been some attempts to develop microinsurance schemes with microfinance initiatives, relatively little attention has been given to such strategies in the context of shelter microfinance. Another limitation is that bulk investments are still required by the local authority to enable communities to develop infrastructure. In Namibia, the collaboration between the government (through the Build Together programme) with the Shack Dwellers Federation of Namibia (and its community-based *Twahangana* Fund) have allowed improved housing, tenure and infrastructure to be extended to several thousand households. However, land purchase is becoming increasingly difficult due to the need for bulk infrastructure investments in urban areas such as Windhoek and Walvis Bay.⁹

Both shelter microfinance and community funds have been integrated with neighbourhood improvement (slum upgrading) programmes for a more comprehensive approach to address the needs of the urban poor. In such a model, subsidy (sometimes augmented by household loan repayments, such as in Ahmedabad, India) contributes to the improvement of the area, with secure tenure and improvements to essential services such as water, sanitation, drainage and pathways. Small loan funding will then assist households that can afford to take loans to improve their dwellings. In some cases, very similar subsidy/loan strategies are also associated with greenfield site development. Additional loan finance may be provided to help households invest in enterprise development. Both ‘top-down’ and ‘bottom-up’ models have developed in which development is led by state agencies (local and/or national government) and community groups, respectively. In addition to the work of CODI (in Thailand) and SPARC/National Slum Dwellers’ Federation (NSDF) (in India) in supporting bottom-up approaches, the experiences supported by the Swedish International Development Agency (SIDA) in Central America (through alliances of local government and civil society organizations) are also notable. Such programmes provide subsidies for integrated upgrading, enhanced by small loans, and ensure the significant participation of both the community and the local authority. While finance is a very significant direct aspect to the success of these programmes, it is more critical in supporting changes in relationships between the citizens (through community organizations) and the urban development agencies (including state and, in some cases, the private sector).

The role of finance: relationship-building

The significance of social networks and relationships in helping those in need of housing is remarked upon in one pro-market analysis of social housing.¹⁰ The analysis highlights the networks that individuals need to avoid homelessness in the US. However, there is a wider relevance to the argument when analysed in the context of destitution in the South. In this case, those in housing need are rarely in need of specific social support (such as dealing with mental illness and drug addiction); rather, they face much

wider system failings in the lack of affordable legal opportunities to acquire adequate shelter. The notable point about the strategy used by community funds and by neighbourhood upgrading programmes, such as those supported by SIDA in Central America, is the greater use of finance to build improved social relationships. The pattern of urban development in the South, with the extensive settlements of informal housing, patron–client relationships within such settlements, and (sometimes) weak and unaccountable government structures, is such that the relationships necessary for urban development are missing. The experiences here suggest that collectively managed savings and loan finance, together with upgrading strategies, help to strengthen local governance, as well as provide the means for investments in individual and collective physical improvements.

Within the community fund programmes described in Chapter 7, savings strengthen relations between community members, enabling them to be more effective (skilled and cohesive) groups, while the joint development of land and infrastructure for the poor are the basis for new relationships between urban-poor communities and local authorities. As SPARC has found with the CLIFF programme, private commercial financial institutions are interested in finding ways to link to the urban poor, but need local institutional strengthening to be able to do this successfully.

THE ROLE OF MORTGAGE FINANCE: ACCESS TO CAPITAL AND THE LACK OF LOAN FINANCE

As noted earlier, mortgage finance is unaffordable for many of those living in the South and a significant minority in the North. Despite this, great emphasis has been placed by both governments and development agencies on mortgage finance and state subsidies for mortgage finance still appear to be at a considerable scale in more than a few countries. The fairly extensive use of interest-based subsidies for mortgage finance is likely to be reducing competition significantly in some countries and, hence, may be delaying the development of more extensive private provision of mortgage finance. Such interest rate subsidies appear to reach only the higher income levels among the poor, if they reach the poor at all. Even when they are affordable, other factors (notably, informality in property and labour markets) prevent access by those with low incomes. There is reason to believe that the reduction in interest rates is likely to be accompanied by the more extensive development of the market. However, some households may not be able to afford the subsequent rates and, thus, may not be able to access housing finance. While there appears to be good reason to press for the reduction of interest rate subsidies on mortgage loans since it does little to assist the poor to secure access to housing finance, it should also be recognized that such a reduction has been suggested many times before and governments still persist in favouring this strategy.

Collectively managed savings and loan finance, together with upgrading strategies, help to strengthen local governance

In some countries (and particularly in Latin America) there has been a shift to direct-demand subsidies. They are associated with large-scale programmes, notably in Chile and South Africa, which address housing need through the provision of finance. In other countries, programmes are significantly smaller. However, as noted in Chapter 5, issues of quality remain. Programmes in Colombia and Mexico appear to be placing considerable emphasis on larger unit subsidies for complete houses (as is also the case in the Chilean and South African programmes), while, arguably, more extensive programmes to support smaller loans for incremental development would spread the available finance more widely, be appropriate to lower income households and be less attractive an option for higher income groups to capture. The strong association with dwelling construction within these programmes appears to be influenced by the involvement of construction companies in their execution. It is clearly not a priority of the poor.

Governments do need to be concerned about the development of appropriate systems for housing finance, and the existence of strong mortgage lenders is important to both higher income groups as well as low-income groups. Different housing markets are not necessarily distinct, and if possibilities are not created for higher income groups to secure the housing improvements that they seek through the market, they are likely to take up those that are being offered to the poor.

While subsidies are often justified by the expectation that they will assist the poor to secure housing improvements, in practice, higher income groups have been successful in gaining access to such subsidies. This suggests that programmes to address the housing needs of the poor need to be more carefully designed.

Returning to the role of mortgage finance and support for such finance, in both Latin America and Asia, there have been initiatives at the government and multilateral agency level to support the development of secondary markets to increase wholesale finance to mortgage lenders. Generally, these efforts appear to be overdone. As discussed in Chapter 4, in many cases these have not been successful because market conditions have not been right. While it is possible that it is a shortage of capital that is preventing the expansion of mortgage finance, many other reasons have been identified in this report. What appears to be of most significance is the scale of informality in property and labour markets. Hence, there is a group excluded from mortgage finance, not for reasons related to the scale of their incomes (or lack of land title), but due to the informal nature of their employment.

It appears that much emphasis has been placed on formalizing land titles; but, as seen in Peru, this has not necessarily increased the take-up of either mortgages or enterprise loans. A detailed examination of sources of income in the context of Europe demonstrates that this problem has not been solved, and those who cannot verify their incomes (due to small-scale or informal entrepreneurship) are also unable to get loans in most countries and have limited access in others. The problem is less evident because this group is proportionally much smaller in the North due to the nature of the labour market. This suggests that access to loans may

be limited in ways that cannot be addressed by reforms to property titles, increasing the ease of foreclosure or the scale of finance and competition in the sector. Land titling should not be relied upon as a single solution to the lack of loan finance reaching groups who can apparently afford to take mortgage loans. The example of the new housing banks in Mexico, Sociedad Financiera de Objeto Limitado (SOFOL), and their apparent ability to reach such groups is important (see Chapter 4). However, the information that they have moved up income groups since their creation should also be acknowledged. This implies that they may be successfully working with higher income levels in the informal sector – but still not reaching the poor.

Despite these problems, mortgage lending does appear to have expanded in a number of countries. This may be associated with economic growth and with growing affluence. Competition has increased and the market for mortgage finance is moving beyond a small number of lenders in several countries. As shown above in the case of India, even in these circumstances, down-marketing mortgage finance can be difficult. However, there appears to be a significant group that is being reached by the market due to more extensive housing finance in some Northern countries and the wealthier countries of Asia and Latin America. More competition in the finance sector and greater efficiency in the delivery of loans, together with increases in real incomes, have increased the numbers and percentages of people who can afford mortgage finance.

There are risks for individual households in taking on these loans, and some of these risks have been evident when housing prices have fallen, notably in the UK and Japan. If mortgage finance continues to be extended to low-income households, there is a strong case for more attention being given to the potential negative consequences for low-income households. While mortgage insurance has been extended, it appears that much emphasis has been placed on protecting the lender rather than the borrower.

At the national level, mortgage finance has survived difficult circumstances in Asia and Latin America during the last decade. As seen by the examples of Colombia, Mexico and Thailand, there is evidence of systemic strain and of recovery. Governments have been involved in managing the outcomes of the financial crises that took place during the 1990s and mortgage lending is continuing (albeit with a high level of state involvement in some contexts).

THE BIGGER PICTURE AND WHAT THE MARKET CANNOT MANAGE

Despite a general emphasis on the expansion of market-orientated mortgage finance and housing support, more generally, the analysis does point to a number of areas in which markets alone appear to be struggling. Three have emerged as being particularly important: systemic financial risk, institutional failings related to necessarily collective rather than individual investments in shelter, and issues related to urban planning and land-use management.

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Expansion of housing finance has helped to fuel house price increases

Financial risks

As suggested in the discussion of house prices above, there is evidence that the expansion of housing finance has helped to fuel house price increases. This suggests that sufficient consideration has not been given to measures to address the restrictions that have prevented an increase in the supply of housing.

In addition to inefficiencies in the construction markets, as noted in Chapter 4, a recent survey suggests that strong regulation of the banking sector is necessary to ensure that financial deregulation does not permit speculative investment in property.¹¹ Experiences have been mixed, with some evidence of weak regulation in Thailand and (to a lesser extent) Malaysia, but few problems in Singapore and Hong Kong, Special Administrative Region of China. In the US, housing finance has become closely linked to the capital markets, with government involvement (in some form) in both primary and secondary markets.¹² Total mortgage debt in the US is now US\$6.2 trillion. If house prices fell rapidly in a number of countries, resulting in the risks of negative equity and a sharp reduction in housing investment, then the effects might be felt on a larger scale within the global economy.

The need for local organization

The housing finance market is strongly orientated towards providing loans to individual households. In two of the situations discussed in this Global Report, there is a need for collective investment – to maintain multi-family dwellings in transition countries and to invest in land and infrastructure for those without tenure in the South. In both cases, it appears that the market is unable to make an adequate response due, in part, to reasons of affordability, but also because local institutions that can manage the finance are missing.

There is a significant problem in the transition countries with the very poor quality of much of the multi-family dwelling housing stock (that is, apartment blocks). During the transition process, there was a significant transfer of dwellings into homeownership; but a lack of household incomes and institutional weaknesses have meant that little maintenance has taken place. Indications of the scale of the problem are given in a 2003 study, which reports that in Romania only 17 per cent of the housing stock was assessed in 1992 as being likely to provide reliable shelter in 2020.¹³ The cost of renovations is estimated to be 30 per cent of gross domestic product (GDP) in Latvia and 8 per cent of GDP in Poland.¹⁴ The problems of maintenance are exacerbated by poor construction technology, lack of maintenance prior to transition and a lack of affordability during recent years. But a core problem is simply that there is no appropriate institutional structure.¹⁵ Even when households can afford to maintain their dwellings, they often do not have an appropriate institution that enables them to do this.

These buildings were previously managed by state-owned companies. With the transfer of ownership to the individual households, such companies no longer had a

demand for their services. By the middle of the 1990s (after some delay), new laws were introduced to support the development of homeownership organizations. Further problems are that the administrative procedures may be complex and the laws often provide inadequate guidelines regarding voting procedures, cost-sharing mechanisms and enforcement possibilities. For example, in Romania, the Housing Act of 1996 meant that the multi-dwelling properties had to establish a Homeowners' Association, a legal entity, to ensure property management. However, in 2003, it was reported that only an estimated 20 per cent had done so.¹⁶ In addition, there remain problems of affordability for many households.

Similar problems can be found in multi-family dwellings in the South. In Mumbai, for example, some of the families resettled in medium-rise buildings after the clearance of shacks alongside the railway have been struggling to pay the running costs (electricity bills).¹⁷ While the suggestion proposed by government agencies is often the establishment of formal management committees, care needs to be given that these do not discriminate against the poor.¹⁸

Moreover, as discussed above and considered in detail in Chapters 6 and 7, mortgage finance is for higher income formal workers and small loans are orientated towards those with secure tenure. Many in the South rent accommodation or squat in precarious situations with little security of tenure. In numerous cases, improvements are unaffordable because individual purchase (even of an insecure site) is beyond the cost of such households. Collective land purchase may be affordable (particularly if households are renting in the informal housing markets). However, such collective land purchase requires financial capital. It may also require relationship-building with the local authority in order to ensure that building regulations are flexibly enforced and, hence, that the development remains affordable. This is the process that community fund mechanisms have often sought to support. However, there remain many areas in which such strategies are not being used and, in this case, there are few alternatives offered to the poor.

To address the housing needs of the poor, housing finance systems need to provide loans for such collective purposes, and appropriate local structures need to be in place if this is to occur.

The issue of urban development

Finally, the market seems to struggle with ensuring the quality of the urban environment (in a physical and social sense). In the discussion above, the problems associated with urban development patterns and form seem to be greatest in relation to the extended reliance on the market in social housing programmes, and two specific issues have arisen. First, the greater emphasis on targeting and reduced social provision in the North appears to have resulted in a greater concentration of low-income households in specific areas. This applies both in the case of the transition countries and for richer countries of Western Europe. In the case of the transition countries, it is also linked with the lack

If housing prices fall rapidly, there are risks of negative equity and a sharp reduction in housing investment

of investment possibilities in multi-family dwellings. Hence, the privatization of state housing has resulted in the increasing spatial segregation of rich and poor. The richer groups have tended to move to detached houses and more up-market housing estates, while the poorest have been drawn together in areas that lack maintenance. In the context of Western Europe, 'lower levels of owner occupation seem to facilitate less polarized housing systems because the rental sectors can be less residualized'.¹⁹

The second issue is the nature of the developments that are being supported by the direct demand subsidies, for example in South Africa and Chile. In both cases, the private sector is constructing housing paid for by government-financed capital subsidies. In Chile, the amount that can be spent on (serviced) land is explicitly limited to 30 per cent. In South Africa, there is no such limit; but a minimum size of house has been introduced, encouraging investment in the dwelling itself. A consequence in both countries is that low-income housing has been located on low-cost sites often a considerable distance from jobs, services and other facilities, with little consideration of the social cost that results from such physical exclusion. This suggests that the market is unable to respond to the needs of the poor without greater interventions from the state – either the funding agency and/or the local authority. This suggests that a key task for government is to ensure adequate supplies of well-located and well-serviced land – which could fit well with the small loan-based strategies discussed earlier in this chapter.

In the North, there are also environmental (as well as social) issues about the patterns of development emerging from the housing market. At the end of World War II, roughly 70 per cent of the US population lived in central cities; but in the decades since, that figure has dropped to below 40 per cent.²⁰ This has been partly fuelled by the accessibility of the home mortgage. However, environmental problems are emerging. In addition to the problems of air pollution and high energy use from the dependence upon cars, the quick construction of mass settlements in greenfield sites outside urban centres often relied upon the use of septic systems rather than sewers. Yet, the failure of septic tanks in many parts of the country has been responsible for outbreaks of infectious diseases, as well as the pollution of groundwater, streams and lakes.²¹

CONNECTIONS AND DIVERSITY WITHIN GLOBALIZATION

The broad context within which this discussion is situated is one in which financial markets are deregulating and the state is withdrawing from direct involvement in the economy. It should be recognized that there are distinct limitations to this model. Governments continue to invest in housing support in order to meet poverty reduction goals and for social reasons. There are also continuing programmes, in a number of countries, to support homeownership among higher income groups. In addition,

governments have intervened to stabilize difficult financial situations and have, in some cases, offered support to housing finance institutions. However, despite this, in general there is a broad trend in favour of greater reliance upon financial markets and less direct state involvement.

No global financial flows in housing

Despite this financial deregulation, there is relatively little evidence that financial globalization is taking place in the housing sector.²² Markets for housing finance have internationalized rather than globalized.²³ Hence, at present, while money can flow across borders and assets are sold offshore as well as domestically, there is not a globalized market in which there is a continuous flow of funds into assets whose risks and returns are independent of national regulatory and banking structures and where prices are identical across national borders (for areas with similar risks).

Internationalization, it has been argued, has occurred in place of globalization because, although the state has withdrawn to some extent, it remains involved and housing finance markets are still particular, depending upon their specific historical and structural contexts. As a result, rather than there being a single market, many national markets exist. Moreover, it has been noted that in European markets 'attempts at cross-border lending have been small scale, frequently loss-making and often brief'.²⁴ It is the scale of local diversity and the lack of understanding of the local context that deter such investments. For example, mortgage lending involves a security on a property which is very fixed and valuation systems vary between countries, as does the ease of foreclosure. 'The evidence from advanced economies suggests that not only do housing finance systems play an important role in determining the nature of housing systems, they are also fairly resistant to convergence.'²⁵ These conclusions are reinforced by other studies which conclude that there is little international investment in the UK market for mortgage-backed security²⁶ and that international funding of social housing in Europe is an exception.²⁷

Despite these conclusions about specific investment flows that are directly concerned with housing, there is evidence that economies are becoming more interdependent and this is affecting housing finance markets. A recent study emphasizes that there is evidence of the synchronization of housing price increases in Northern markets.²⁸ The growing significance of international capital flows has affected housing markets through exchange and interest rates.²⁹ There are also commonalities in housing markets due to the increased use of market mechanisms in addressing housing need.

However, with regard to state activities, the global trend is very difficult to establish. National and regional experiences are different. It has been argued that, in the context of Western Europe, 'it is not possible to detect a general, unidirectional and irreversible retreat by government from financial assistance for homeowners'.³⁰

The creation of the Euro zone in the European Union (EU) has reduced the variation in national-level monetary

The market is unable to respond to the needs of the poor without interventions from the state

Markets for housing finance have internationalized, economies are becoming more interdependent and this is affecting housing finance markets

Instability in financial markets encouraged some governments to be proactive in ensuring availability of finance for housing

policies. Increased incomes and, thus, affordability have made a real difference for some households (and therefore opened up new market-based opportunities), notably in Asia but also elsewhere. The experience of New Zealand highlights the potential of governments to change policies. While in 1991, the government moved away from homeownership and towards 'a tenure-neutral form of income supplementation called the accommodation supplement, available at the same rate to all eligible households', a few years later it moved back to create a mortgage insurance system that encouraged the extension of mortgage finance possibilities for lower income households.³¹ Although the scale of instability in financial markets during the late 1990s encouraged some governments to be proactive in ensuring that finance for housing was available (illustrated earlier in the case of Colombia, Mexico and Thailand), such instability was not experienced by all countries.

In summary, with respect to financial flows, studies of Asia and Europe find that housing finance markets remain distinct despite the presence of international investment. There is evidence of the convergence of housing markets, notably around current price increases; but local factors remain important, particularly in some countries. With regard to housing policy, there has been a widely accepted trend of relying more upon market mechanisms; but many governments still intervene for multiple reasons.

CONCLUDING REMARKS

It is evident that many of the poor cannot afford access to mortgage loan finance to improve their shelter because of the conditions attached to loans and the scale of poverty. This presents a significant challenge to the world as it seeks to achieve the Millennium Development Goals. This is not to say that mortgage finance is unimportant. Shelter finance is critical to improving the situation of urban and rural citizens across the world. Mortgage finance systems have to address the needs of those who can afford financial markets and have to do so efficiently. But the groups that are targeted by the MDGs are not those who can afford mortgage finance.

Additional measures are needed for those who cannot afford mortgage finance and/or who live and work in informal markets and who cannot obtain mortgages. Small loans will help these households to address their desire and need for shelter improvements. However, the experience of shelter finance suggests that it is limited in what it can contribute directly to the MDGs. Most small loans through shelter microfinance agencies go to households with land tenure. Moreover, such loans are rarely used for infrastructure, partly because such loans are not on offer and because, without support, few communities have a suitable social organization through which to borrow for infrastructure improvements. Hence, these loans improve dwellings but do not address other development priorities. The experiences with community funds are particularly interesting because their target group is people with low incomes and few assets. However, development may be slow and limited if finance depends upon loans to assist the incremental building process. As noted above, with respect to the needs of the poor in the South, the greatest potential appears to lie in integrating neighbourhood development strategies with small loan packages (including income generation, housing improvement and community fund methodologies for additional needs). Loans and grant packages that enable the poor to identify and collectively develop land may also be useful, in addition to support for the upgrading of existing areas.³² It should be noted that neighbourhood development packages tend to concentrate on those who already have some claim to land within the designated areas (even if it is not a legal title), and tenants may be neglected even if they are also interested in securing tenure.

Housing finance markets have developed significantly during the last two decades. The extension of the market for housing finance has offered assistance to more affluent citizens, particularly urban dwellers. However, the problems for the poor remain and difficulties related to the scale of income, the degree of informality and the affordability of housing mean that mortgage housing finance markets offer little to the poor. If the MDGs are to be achieved, much greater consideration has to be given to how this group can access effective financial systems and strategies that build assets and do not increase vulnerability.

NOTES

- 1 This chapter is based on a draft prepared by Diana Mitlin, University of Manchester, UK.
- 2 Renaud, 1999, p761.
- 3 Okpala, 1994.
- 4 As the loan-to-value ratio moves closer to 100, the down payment required to secure the property falls.
- 5 Pardo, 2000.
- 6 World Bank, 2004a, p13.
- 7 Smets, 2002.
- 8 Van Rooyan, 2004.
- 9 Muller, pers comm (2004).
- 10 Renaud, 1999, p759.
- 11 Collyns and Senhadji, 2002, p73.
- 12 Carolini, 2004, pp5–6.
- 13 Hegedüs and Teller, 2003.
- 14 Yasui, 2002b, p23.
- 15 Hegedüs and Teller, 2003.
- 16 Hegedüs and Teller, 2003.
- 17 Railways Slum Dwellers Federation, pers comm (2004).
- 18 There is evidence that the poorest members are less likely to participate in formal organizations. See, Cleaver, 2004; Thorp et al, forthcoming; D'Cruz and Mitlin, 2005.
- 19 Stephens, 2003, p1020, and Priemus and Dieleman, 2002, p198, substantiate these concerns.
- 20 Frey and Fielding, cited in Carolini, 2004.
- 21 Rome, 2001, p89.
- 22 Stephens, 2003; Dymiski and Isenberg, 1998, 2002.
- 23 Dymiski and Isenberg, 1998.
- 24 Stephens, 2003, p1018.
- 25 Stephens, 2003, p1021.
- 26 Kofi Karley and Whitehead, 2002, p35.
- 27 Gibb, 2002.
- 28 IMF, 2004.
- 29 D'Arista, 1998.
- 30 Stephens, 2003, p1020.
- 31 Stuart et al, 2004, p8.
- 32 In Phnom Penh, many communities were evicted in 2003 and they were only offered land some distance from the city centre with very limited transport facilities. The stronger communities negotiated with the city for a contribution and, using additional savings and a loan, purchased land much closer to the city (Urban Poor Development Fund, pers comm., 2004).

POLICY DIRECTIONS TOWARDS SUSTAINABLE URBAN SHELTER FINANCE SYSTEMS¹

The scale of the need for urban services and housing in the coming decades is both huge and unprecedented. Starting from a position characterized by backlogs, developing countries will add about 2 billion new urban residents during the next 20 years, all of whom will need services and shelter in some form. They will be concentrated in 48 countries, mostly in South, Southeast and East Asia, with 660 million in China and India. In most countries, in the absence of some major global change, there will be continuing and deepening urbanization of poverty. As stated in Chapter 1, the current backlog of people living in slums is approximately 925 million. They will probably be joined by a further 1900 million (more than twice as many again), resulting in 2.8 billion slum dwellers by 2030.

The bureaucratic institutions currently in place in most countries are too unwieldy for rapid and efficient urban development. The costs of bypassing regulations and providing services that city authorities fail to provide (including water, electricity, waste disposal and security) or only provide intermittently (for example, with frequent power failures) are not insignificant and reduce the competitive position of many cities in the global economy.

Urban development and housing policies often appear to be unconcerned with whether any goods are actually supplied and often appear to be really targeted at stopping anything regarded as undesirable by policy-makers. For example, if an occupant of a plot decides to build a second dwelling on it to rent out, they may well discover that it is illegal to have two dwellings on a plot. Housing supply is less important than maintaining plot ratios. Similarly, water-connection pricing policy based on actual cost rather than average cost can severely discourage providers from extending the mains system. In another vein, taxation systems that tax rental income more highly than 'earned' income, or rent control that reduces the profitability of providing rooms to low-income households, can severely affect housing supply, especially for those in need. There is a fundamental need to put the supply of housing and other urban goods at the centre of urban development policy and its financing.

Although there has been a great deal of recent focus on establishing well-functioning financial markets into which householders can dip in order to finance their dwellings, most households in most developing countries have no access to housing finance, nor are they likely to feel that they have access to any. There are many societies in which low-income people are too risk averse to borrow money.

In the supply process followed by millions of householders, if low-income people want to own a house they must build one, employing a local contractor to do the work incrementally. They must save up enough money to be able to pay the contractor for each stage of the work, in cash, as expenses are encountered. The contractor is unlikely to give credit, even in the form of wages paid to workers ahead of a payment by the owner. Indeed, most small contractors cannot raise credit for their operations and therefore must pass on all costs to the client immediately or in advance. It is not unusual for the client to have to pay the workers' wages at the end of each day or each week. In addition, the client may have to purchase and arrange delivery of the materials to site, the contractor going along to advise, but not to meet any costs. As the savings run out, so the work stops, often mid process, in a hiatus that will last until more money is saved. In this way, as a result of lack of capital, many homes which could be completed within a few months take many years to reach a stage where they can be occupied. This ties up peripheral land around countless cities under haphazard and wasteful quasi-residential land uses, with few people in residence and under-use of any service lines fitted ahead of development. In consequence, authorities are loath to fit services ahead of the development process and pioneer residents may have to wait many years before service lines are installed.

In an ideal world, there is a compact between householders and the public realm represented by city authorities and the providers of services. Householders expect that their dwelling will exist within an efficient public environment that supplies them with convenience and location. They will receive the benefits of road access; water supply; sanitation; waste disposal; energy and

The scale of the need for urban services and housing in the coming decades is unprecedented

telecommunications; commercial, educational and social services; and the other benefits of city life. In exchange, they will pay for what they receive at a level that is both affordable and recompenses the providers for the public services they provide. This will not only happen at the beginning of the development of their dwelling, but will also persist through their lives and those of their children in perpetuity.

In order to fulfil this compact, the following are required:

- efficient and well-funded city authorities and service providers;
- appropriate and affordable technologies;
- appropriately distributed service lines and locations;
- appropriate charges for services, agreed to by both users and providers;
- the ability and willingness of the city authorities and service providers to levy and collect the charges; and
- the ability and willingness of householders to pay for services received.

This is the ideal; but the preceding chapters have shown that this is not usually the reality, especially for low-income households.

This chapter will, on the basis of the experiences reviewed in this Global Report, discuss the ways in which shelter finance systems could be strengthened in terms of both performance and sustainability. Its main purpose will be to point the way forward, highlighting best policies and practices. Currently, the great majority of households in many countries are unlikely ever to afford a formal-sector dwelling, but are usually left financially unassisted in their struggle for shelter in the informal sector. Furthermore, the scale of need for shelter is and will remain at levels unparalleled in the past, requiring finance in much greater quantities than ever before. The implications of failure to provide finance for shelter for all are stark. This must form the context of the following discussion of the way forward.

TOWARDS INCLUSIVE URBAN INFRASTRUCTURE AND SERVICES

The essential basis of the municipal side of the compact is a system of financing public goods so that they can be provided across the city in appropriate quality and quantity, and at affordable cost, and so that the city can be managed effectively. Unless urban areas can produce more income at the same rate that they absorb more people, the resources to develop infrastructure and build shelter will not be available.

Pro-poor municipal financing requires that effective levels of finance reach the municipality to enable services to be provided to all neighbourhoods and households regardless of their influence or income. Thus, funding for municipalities should be adequate to the task, paid on time

and reliable over the medium term, and should allow the municipality some flexibility over its level and source.

The means by which municipalities receive their finance and the balance between their funding and obligations are considered below.

Financing for municipalities and service providers

It is vital that powers, duties and revenues are congruent. If the municipal authority is responsible for social housing, it should have the power to take policy decisions on how it will act and receive the required revenue or be able to raise the finance. Furthermore, it is important that the balance should express where power is best exercised and revenue can be most effectively disbursed. This is in line with the current trend to decentralize power to municipalities.

■ Public-sector inadequacy to the task

Most developing countries labour under large public budget deficits, with public resources scarcely able to meet salaries of civil servants and operating costs of schools and hospitals. Infrastructure maintenance is regularly deferred and new infrastructure cannot remotely keep pace with development. Reliance upon official development assistance (ODA) for new infrastructure leaves it prey to competition from other countries for the scarce resources on offer. When events such as the 2003 Bam Earthquake and the 2004 tsunami in the Indian Ocean occur, ODA is inevitably diverted to relief efforts because public opinion in donor countries drives the political agenda.

Without a revolution in how it is raised and managed, public-sector finance is unlikely to be an appropriate resource for service and housing provision for the majority, or even any significant fraction of the population. The macro-economics of how currently poor countries become richer tend to be determined by trade terms and the flow of international finance, which are largely outside the remit of this Global Report. The following sections discuss how improvements can be made in how governments, municipalities and service providers raise and manage their resources; but only major restructuring can remove the underlying causes of urban servicing and housing shortfalls – the effect on poorer countries of the inequalities in global resource distribution.

■ Balancing local, provincial and national financing

There are many ways to balance different levels of government, with services provision and responsibilities for such issues as housing, education, policing and many others residing in municipalities or provinces with more or less equal effectiveness. Incongruities, such as municipalities having most of the duties but provinces receiving most of the revenue, fundamentally affect the ability of households living in poverty to improve their circumstances.

The needs of local government bodies to raise revenues are expressed in many different ways, and it is not the purpose of this report to recommend a single way

Unless urban areas produce sufficient income, the resources to develop infrastructure and build shelter will not be available

forward. However, the balance of argument seems to favour municipalities being able to raise at least part of their revenue from local taxation, at levels which reflect local conditions. As a consequence, municipalities and governments need to build the institutional capacity to levy and collect these taxes, and to spend them responsibly. Indeed, legislation may be necessary to guide the responsible use of municipal revenues.

■ Importance of a municipal capital financing fund

It is vital that there is some source of loans for capital projects to which municipalities can apply to allow them to develop major projects that cannot be financed out of annual budgets. There are many models. Funds may be made available through loans from central government or an agency thereof, a mortgage bank, a finance company, a provincial-level institution, or a group of municipalities working cooperatively. Such an institution can be used for raising and passing on grants and loans from commercial banks and/or multilateral and bilateral funders. If there is central control, care can be taken that the projects funded fit into a national strategy; but smaller municipalities may miss out in favour of larger, more internationally competitive, cities. However, local discretion is required so that municipalities can compete and work on managing local differences to their advantage.

■ Debt swaps

Just as protecting endangered environments can be funded through debt swaps, so such exercises can be used to fund housing and urban services, as shown in the case of Bolivia described in Chapter 3. As in many other financing arrangements, having a poverty reduction strategy paper (PRSP) in place that influences urban policy enables debt swapping in that it gives the parties confidence that the money will be spent within a strategy for poverty reduction rather than *ad hoc*.

■ Betterment levies

The rising value of urban land is a significant potential source of finance for cities. It is argued that landowners who benefit from the increased value of their land as a result of its conversion from agricultural to urban uses, or as a result of the provision of infrastructure, should contribute to the costs of new infrastructure from their 'windfall' gains. This revenue could finance interventions to increase access to land for the poorest groups. Extracting public value out of the development process has been practised in many countries, some with great success. The US linkage process, in which city authorities leverage funds from the profits derived by developers of real estate to fund social projects, might be effective in cities in the South.

■ Improving tax collection

As a means of increasing revenue for a municipality, it is important to actually collect the taxes and revenues to which it is entitled from those who are liable to pay. Many municipalities have abysmal records in collecting taxes and

service charges. To enable this to improve, there is a need for:²

- up-to-date information on who should pay (this should be in a form that is easy to access; many municipalities will need assistance to change from outdated paper methods to computerized record-keeping – this is especially important for property taxes, but is also applicable to market traders' and hawkers' licences);
- transparent charging structures adhered to during collection and recording;
- efficient collection methods with regard to reaching all who should pay (ranging from cash daily to monthly or annual bank standing orders);
- career progression prospects and other reward systems for tax and charge collectors so that they have incentives to collect efficiently;
- effective penalties for those who do not pay, especially those who exploit positions of power to escape payment; and
- appropriate means to keep tax levels in line with inflation and changes in costs.

■ Strengthening property tax systems

The above characteristics of currency of records, transparency and efficiency of collection are particularly relevant with respect to property taxes where systems are often poorly provided with records, where tax levels appear arbitrary and have not kept pace with property values, and where taxes are inefficiently collected. The level of accuracy required in land records for collection of property taxes is lower than that for avoidance or resolution of land disputes. Thus, such systems as half cadastres and the use of regular low-resolution aerial photography can provide a level of accuracy well able to support property taxation systems at relatively low cost compared with an expensive, high resolution land survey. Where available, geographical information systems (GIS) and satellite imaging can provide an ideal basis for property tax records. Tax levels and payment records could be seeded into one layer of a GIS dataset, with access limited to tax collection staff as appropriate.³

It is also important that the tradition of allowing informal settlement occupants to free-ride on the property tax base should be abandoned. The dilemma that this presents of taxing people for occupying land that is not recognized as theirs to occupy, and from which services are withheld for that reason, should be addressed instead of continuing to ignore it. In Egypt, the link between taxing and regularizing has been broken, and residents of peripheral settlements pay up in exchange for receipts that provide them with documentary evidence of occupation. Other locally appropriate solutions are required elsewhere.

■ Managing borrowing and debts

There is a need for municipalities to raise capital and there are several methods in use around the world. However, many have become severely embarrassed by debt-servicing

Transparency and efficiency of tax collection are particularly important

burdens. Debt management is a field in which there is an urgent need for capacity-building within local authorities in rapidly developing countries.

■ Adjusting charges for local services

It is important that municipalities are paid economic charges for their services. Thus, functions such as land registry, building regulation and planning control should be subject to a charge that covers the cost. This is essential if the institutions are to survive and attract high-quality staff on progressive career paths.

Similarly, user fees for municipal services (markets, abattoirs, car parks, transport interchanges, bus services, assembly halls, etc.) should cover life-cycle costs and, where appropriate, generate revenue. Where concessions are to be granted, this should be done through demand-side interventions, such as tokens for low-income users supplied centrally rather than by compelling the service to give supply-side concessions to some users. The exchange of recyclable waste for transport tokens in Curitiba, Brazil, is a good example of a method of granting concessions while maintaining the profitability of a transport system.

■ Improving maintenance to reduce expenditure

In many cities, there is a culture of replacing regular maintenance with irregular capital projects. Rather than annual road repair cycles, keeping them up to standard, roads are allowed to disintegrate over a few years and are then rebuilt using capital funds, often sourced through ODA.⁴ It is better practice to cost infrastructure over its whole life (life-cycle costing) and put aside money for periodic maintenance over a long life. The savings are considerable compared with rebuilding at the end of a short life. In this way, low capital cost solutions that involve expensive maintenance or have short life can be avoided in favour of those with a lower life-cycle cost, even though their initial capital costs are higher.

There are also gains to be made from servicing costs through maintenance. When New Delhi loses 40 per cent of its water through leakages and unauthorized connections,⁵ there are obvious savings to be made through following up leaks and stopping them. New technologies, including in-pipe monitors, which reduce the inevitability of major leaks escaping attention are now available. More efficient use of the current water flow will also delay the need for, and limit the size of, new reservoirs and other major capital investments.

■ Private finance

Private-sector finance is probably the most important engine for urban development, providing large shopping malls and corner shops, high-rise apartments and informal housing. However, it cannot keep pace with demand, especially where there is insufficient profit to make it worthwhile for outside investors to participate (that is, most housing developments). Foreign direct investment (FDI) is vital in most countries; but in all regions, it averages less than 6 per cent of gross domestic product (GDP).

One of the most important segments of the private sector in financing shelter is the domestic (household) economy, in which households save money and invest incrementally in their housing and the services around it. Not only will this improvement affect the dwelling and its water, sanitation and energy services, it will also affect the supply of shops, social facilities such as crèches, schools, clinics and employment opportunities. It is likely that this will continue to be a vital part of shelter supply and should be encouraged as a matter of priority. The ability of the small-scale private sector to run local supplies of water, waste collection and other services in partnership with the public authorities is well documented and should be explored by municipalities not already using such partnerships.

Improving the efficiency of resource use

■ Multi-year programmes and budgets

Just as life-cycle costing is important to maintain the momentum of maintenance,⁶ planning budgets ahead of the next financial year also allows for programmatic investment. As stated in Chapter 3, multi-year capital investment planning has proved very successful in Szczecin, Poland, as the city carried out a programme of transformation during the 1990s. The confidence established through the medium-term planning allowed the city to leverage non-municipal resources for its capital investment programme, which could be adopted in many other cities to improve efficiency.

■ Participatory budgeting

Where municipalities in Brazil have implemented popular participation in budgeting, four key features have been introduced in the budgeting process:⁷

- 1 representation of residents through popular assemblies;
- 2 accountability by officials;
- 3 transparency, with open voting; and
- 4 objectivity in prioritization – for example, through a quality-of-life index.

Participatory budgeting has changed the dynamics of citizen–municipality relationships from confrontation and corrupt political bargaining to trust and constructive engagement. Its success depends, however, upon there being sufficient funding to give people participating in the process some hope that they will see improvement in their own lives, as well as those of others.

■ Government as creditor of local authorities and service providers

It has become almost established practice for governments and their agencies to delay payments to municipal councils. This is also the case for service providers who may wait years for government ministries to pay for electricity, water, waste disposal and other services. The service providers may have little ability to use their usual tactics to ensure payments. For example, when a prison is disconnected from the water

It is important that municipalities are paid economic charges for their services

Private-sector finance is probably the most important engine for urban development

supply, inmates may die of dysentery. The minister of prisons is unlikely to tolerate disconnection of supply and the water authority will continue supply even without the bill being settled. Multiplied by the many other ministries – and good reasons for not cutting off supply – arrears build up to unsustainable proportions. Similarly, if government fails to pay the agreed proportion of municipalities' revenues on time, or the property taxes on its premises in a city, it impoverishes local government. When changes in levels of cost chargeable for service delivery are ordered by government, it is quite likely that funding for the service will not increase. Even where governments recognize the importance of local government through devolution, these practices are all too common.

Such exploitation of its position by central government should be stopped in the interest of effective local government and service provision. Similarly, municipalities should pay service providers on time and at the levels agreed.

■ Eliminating corruption

Wherever it occurs, corruption saps the ability of central and municipal governments to meet the needs of their constituents through diverting money away from the development and maintenance of services.⁸ The eradication of corruption would allow greater benefit to be passed on to people living in poverty, instead of benefits simply passing into the hands of small elite groups. Not only could international finance perform more effectively, but people trying to obtain small loans would receive better value, and all cases in between could be more effective per unit of finance involved.

International advocacy – such as through the United Nations Convention against Corruption, the work of Transparency International in, among others, publishing the annual *Global Corruption Report*, UN-Habitat's Global Campaign on Urban Governance and the World Bank Institute's theme on governance and anti-corruption – are all steps in the right direction. However, only when real progress is made on making corruption simply unacceptable in business and government, and involving people in eradicating it wherever it is found, will the vicious cycle be broken.

■ Reducing the cost of urban services

It is likely that government funding can have the greatest effect if it is directed towards infrastructure and services for low-income neighbourhoods and welfare services for the poorest. In the provision of land, basic infrastructure and social services to the poor and poorest, subsidy is likely to be required unless the cost of services is low indeed. Public taps, public toilets and neighbourhood waste collection points have all been utilized to reduce cost per household. However, there are often seemingly insuperable problems arising from maintenance and payment when such services are shared among many people. A mid point at which services are shared among a limited group of people who all know each other, especially those who live in a multi-occupied house of the type common in cities in Nigeria and

Ghana, may provide a means of sharing without the usual problems of public services.

Enhancing households' willingness and ability to pay

■ Income and employment

Unless urban areas can produce more income at the same rate that they absorb more people, per capita incomes will fall and urban poverty will deepen. Thus, employment and income are central to the financing of urban development. It is, therefore, vital that employment and economic opportunities are available for as many people as possible in the cities. Improved income allows people to better afford services and to achieve more choice in their housing. Housing and service provision present important potential for employment.⁹ The potential of shelter provision to generate employment for low-income workers should be utilized to generate income to improve people's ability to pay for housing. The income multipliers (the number of times income circulates in the local economy before being saved, paid in tax or spent on imported items) are very high for construction and even higher for low-technology, labour-intensive construction.¹⁰ In addition, backward linkages (in which economic activity is generated in other sectors) and forward linkages (in which the building is used in generating economic activity either in equipping and maintaining it or by using it for work) are also high in construction.¹¹ Thus, the very activity that the housing finance allows is capable of generating further wealth and economic development very effectively, largely concentrated in low-income households.

In parallel, the provision of efficient infrastructure and appropriate shelter is critical in ensuring the economic productivity of the work force in urban areas and countries as a whole. Although it is very difficult to demonstrate empirically, it is intuitively evident that where people are well housed, they can be more productive. In addition, workshops, offices and other workplaces need good service connections. Where workplaces are in or adjacent to the home, services to residential neighbourhoods are additionally important for employment and productivity. Thus, investment in urban infrastructure and shelter are essential components of national economic success.

■ Reducing transaction costs

Local governments should reduce the costs of economic activity by streamlining land allocation, development control and other regulatory activities while retaining appropriate ability to act in the public good. Municipalities should carry out audits of their regulatory procedures and reduce their complexity for the user. One-stop shops allowing planning and building control to be streamlined are capable of radically reducing the transaction costs of development and encourage more people to take the formal development route. Despite high initial set-up costs, record-keeping on GIS and other electronic systems can reduce bureaucratic complexity in addition to their primary task in land registry, urban planning and infrastructure planning.

Improved income allows people to better afford services and to achieve more choice in their housing

STRENGTHENING THE SUSTAINABILITY AND PERFORMANCE OF SHELTER FINANCE SYSTEMS

There is both a need and a demand for different types of finance for different sectors of the housing supply process. Mortgage finance, for relatively large sums over a long period of repayment, is essential for those well off enough to buy a complete formal dwelling. However, small loans, taken out over short terms of between one and eight years, loaned at market rates, are growing in importance in the housing sector, as shown in Chapters 6 and 7.

Reducing housing costs

The problem in many developing and even in some developed countries is not that housing is too expensive but that incomes are too low. It should be noted that in many countries housing is very inexpensive in international terms and it is difficult to significantly reduce the cost any further. The real problem is that incomes are too low. As seen in Chapter 2, more than 60 per cent of the population of South Asia and sub-Saharan Africa survive on less than US\$2 per day. Thus, the locus of attention should not only be on the minimum quality and cost of housing, but also on the level of payment received by workers. This demand-side focus is in line with current trends in subsidies and concentrates attention on the systemic problem of poverty, which is responsible for generating poor housing conditions.

In many countries in the South, the cost of urban housing is increased significantly by the high standards to which it must comply. The standards in force often specify the use of building materials and components that use imported materials and/or inputs. This not only increases the cost substantially, but also necessitates expenditure of scarce foreign exchange. It is often the case that these standards are either a colonial legacy or have been adopted from a foreign context, and are therefore of little practical relevance to the prevailing socio-economic situation. The introduction of lower standards that are more appropriate to the local context could potentially make housing more affordable to a far greater proportion of the urban population. Lower standards would still, however, have to safeguard the health and safety of the occupants and protect the public interest.¹²

Enabling household decision-making through more effective policy

The context of shelter provision can be summed up thus: households will make housing arrangements that they can afford for the amount of their income that they are willing to spend on housing. This may vary through many household circumstances, including:

- spending the occasional dollar on bribing a policeman to allow them to sleep in a sheltered place on the pavement;

- renting an un-serviced room in an informal settlement;
- spending about half the household's income on the rent of a flat so that they can have a secure base in the city;
- building a shack in a land invasion on the edge of the city;
- after years of saving, engaging a builder to construct a cement-block dwelling in an informal settlement; and
- using a mortgage to buy a formal dwelling in a fully serviced area.

Although there may seem to be an upward income gradient from the first to the last of the above circumstances, this may not be the case as the old idea of households devoting a fixed amount of their income to housing is no longer plausible.

Housing decisions depend upon the proportion of income that a household is willing to spend and how they are willing to spend it. Thus, destitute households may choose to pay for a room in a shack or may prefer to sleep rough and use the rent money another way, including sending it back to their home village. Similarly, households who could easily afford a formal-sector dwelling may choose to stay in an informal settlement and use their money to put a child through college overseas. A similar household may choose to own a large informal dwelling rather than a small formal one, or to stay in the squatter settlement among friends and business clients rather than move to better housing on the periphery, or any of a multitude of circumstances. All households need a policy environment in which these choices can be taken and sustained.

Addressing the need for rental accommodation

Most policies behind ODA and national policies are based on the provision of independently serviced, single-household dwellings, owned by their occupants. However, this is by no means the main form of occupation by households living in poverty. Instead, large numbers of households live in buildings occupied by many households. These may be, at the upper end of the market, spacious fully serviced apartments or, at the lower end, houses with many households sharing services and having a single room each.¹³ Except for their development by entrepreneurs for sale or renting, there is little finance available for co-operative construction and ownership. For example, tenants wishing to redevelop their tenements (*chawls*) in Mumbai had to become involved in 'black' money to finance the project because of restrictive rules over selling prices.¹⁴ There is much to be gained from encouraging multi-occupied housing development where it fits in with local norms. If someone is willing to build accommodation for many people, financing conditions should take account of rental income or the combining of many incomes to assess the scale of a loan for construction.

Small-scale landlords in informal settlements are a major source of affordable housing for a growing majority of

The problem is not that housing is too expensive but that incomes are too low

households living in poverty in the urban South; but there are few initiatives to assist them.¹⁵ In many cities, over half the population live in such settlements, and the proportion of those occupying rental accommodation is increasing by the day. Evidence from past experience shows that *in situ* upgrading to improve access to water supply, sanitation and other basic urban services often results in higher rent levels. When this happens, there is little to prevent displacement of poorer tenants by higher income households. The former, consequently, have to move to another settlement where living conditions are less satisfactory but within their means. It is imperative, therefore, to understand how best to assist the informal rental sector, and at the same time to preserve affordability in order to preclude gentrification (see Box 9.3).

Contractor financing

In the spirit of the Habitat Agenda, and if the housing backlog is to be cleared at all, it is vital that all actors in the housing process are involved in the role in which they are most efficient. The most important suppliers of the dwellings themselves, and their ancillary services, are the millions of small-scale building contractors, the single artisans or small groups of skilled people and the labourers who service their needs. However much demand there is for housing, it can only be supplied as quickly as the construction industry can build it. The small-scale contractors take on most of the work but are ill equipped to operate efficiently because they are underfinanced. It is far too common for a client to have to pay the workers and buy the raw materials because the contractor cannot even borrow enough money for a week's work ahead of payment. For the same reason, technological improvements are slow in coming – even the smallest power tools are unusual on small-scale construction sites.

The resources provided in the past to self-help builders involved in sweat equity consolidation should now be provided to those individuals who do not stop when they have built a single house for their own use, but who will go on to construct several each year for the rest of their career as contractors.¹⁶ Finance to provide healthy liquidity among small-scale contractors and single artisans is an essential prerequisite to effective housing supply to scale. Unless finance and other assistance are available, the contractors, whose efforts build vast swathes of our cities, are unlikely to be able to adopt efficient methods of employment, material purchasing and customer payment schedules. Neither are they likely to adopt tools and technologies appropriate to their making best use of local materials and labour conditions. Suitable finance is urgently needed to allow them to buy tools and materials, and to pay their workers for periods before being paid for a job, and to retain them between jobs. They are likely to be able to pay market rates for loans, so there is no need for tax revenue to be expended in helping them to make better profits (see Box 9.1).¹⁷

Development of 'developers'

In countries where the housing supply system is efficient and speculative of what the market demands, developers are

Box 9.1 Pitfalls of providing financial support to private developers in India

The following is a cautionary tale from Ahmedabad in India where the state housing finance company funded a large private developer to build low-income housing. Although the developer was well known for its cost-cutting low-income housing, its involvement with officialdom and the expectations that built up in the customers caused severe problems and drove the developer out of low-income development. No longer able to cut corners with regard to land acquisition and finishes, and under pressure to use the secure tenure land for higher income groups, the developer cut down on the cheaper dwellings to make more profit from better-off clients. This example of a large contractor being assisted in carrying out a very large contract provides some caution for helping small contractors, mainly with regard to the changes wrought by enabling secure tenure and providing government agency imprimatur. Most of the problems found in the Ahmedabad case would be avoided by arms-length loans from commercial banks to small-scale contractors. Self-interest-orientated and opportunistic behaviour from each of the actors in the housing process, rather than naively hoping that everyone will act for the common good, should be expected.

Source: Mukhija, 2004a.

often an important part of the process. In this sense, developers are not builders. Instead, they are investors who locate and buy land, engage and brief designers, gain permissions and infrastructure provision, engage and supervise contractors, and sell the completed properties. They drive the process of housing development, especially when it uses private-sector funds.

The process of development can be taught, typically at management schools, but is also one that some people can do instinctively. However, they need finance for their risky, but often highly lucrative, business. Some mechanism for recognizing their contribution with financial assistance, especially for bridging loans, may be very beneficial for the housing supply process and could institute the efficient speculative building of housing that is common in industrialized economies.

Reducing financing constraints and risks

■ Financing informal development

Following a long history of increasing acceptance of the validity of informal development and that which does not conform to prevailing high standards, it is easier to finance the informal housing development efforts of people living in poverty now than it was 20 years ago. There is still a need, however, for a pro-poor enabling policy environment in which households living in poverty can obtain secure land tenure and build housing within their affordability range. Recent research into regulatory frameworks for urban upgrading and new housing development has recommended the removal of constraints that prevent the poor from borrowing from financial institutions or accessing credit through other formal channels. In particular, administrative procedures that delay investments and/or increase risks should be reviewed as they add to the cost and deter the poor from conforming.¹⁸

■ Savings and debt

The countries in which most of the urban growth will take place in the next 25 years have very low domestic savings,

Where the housing supply system is efficient, developers are an important part of the process

There is a need for a pro-poor enabling policy environment

measured as both per capita and as a percentage of GDP (13 and 14 per cent, respectively, in South Asia and sub-Saharan Africa). As savings are the foundation for investment, this does not auger well for urban development. These countries are heavy with debt, especially external debt to public and private institutions in developed countries. Many of the countries, especially in sub-Saharan Africa, are unable to offer the environment required by private investment and must rely upon ODA and loans from international development agencies.

It is important that developing countries maintain as much of the investment and savings arising from local economic activity within their borders or benefit from net inflows from investments overseas. In many countries, assets are stripped out as profits are stored in foreign exchange in Swiss or other Northern banks, or used to buy property and education in the North in a way that does not lead to benefits back home. Such capital flight contributes to investments in shelter and infrastructure in Europe or America, but not in cities at home. It is difficult to overstress the importance of reliable banks and low inflation in discouraging capital flight.

Improving the accessibility of mortgage finance

Mortgage finance, in the sense of long-term fixed or variable interest rate loans sufficient to buy a whole dwelling when combined with a deposit, is helpful to the middle- and upper-income groups in most societies. It is in governments' interests to extend mortgage markets down the income scale since homeownership is beneficial economically, socially and politically. Measures adopted have included:

- reducing the cost of lending, especially through lowering interest rates;
- supporting the system of mortgage financing, especially through extending secondary markets and reducing risks; and
- direct capital grants to reduce the size of the household's mortgage in comparison with the dwelling cost.

Some governments are still heavily involved in mortgage finance; but experiences vary from great success to embarrassing failure. In the transitional countries, national housing funds offering loans to lower income groups have become very popular.¹⁹ In addition, some Southeast Asian countries have major government housing finance programmes. The Thai Government Housing Bank lends to about 40 per cent of homeowners. It offers some lessons in:

- making loans to lower income groups at lower rates subsidized by higher rates charged to higher income groups; and
- offering fixed rates to borrowers for three to five years to reduce their risk.

The Thai government uses housing development as part of its economic strategy and is willing to stimulate its economy

through shelter development.²⁰ The Philippine government also has the role of primary lender for housing and has helped nearly 1 million households into homeownership between 1993 and 2003. Even so, the number of households not served and living in informal housing grows, and this must be noted while attempting to use mortgages to reach low-income groups.²¹

There are examples, particularly in Latin America, where mortgage companies have arrangements to reduce risks in lending to the informally employed, particularly through establishing a savings record before the loan is granted and the lender is willing to receive repayments out of normal banking hours.²²

Secondary mortgage markets have been successful in providing funding outside the 'borrowing short, lending long' cycle of deposit funding. In the US, Europe and transitional countries, secondary mortgage markets are in place or are being set up. They are also being instituted in many countries in Latin America and Asia, sometimes with multilateral donor support. The limited experiences with secondary mortgage markets in developing countries allow some conclusions to be drawn:

- Keep it simple – success is more likely with simple bonds and simple forms of secondary mortgage instruments.
- Macroeconomic stability is essential.
- There must be demand from housing finance providers for secondary mortgage market funds.
- Investors must want longer-term financial arrangements.
- Standardized mortgages simplify pooling for selling on to the secondary lender.²³

Within the fraction of the population for whom they are helpful, mortgages inevitably lead to issues about land tenure and the need for long-term security, even freehold, owing to the lenders' need to be able to foreclose and liquidate the asset in the case of default. The importance of legal property titles for developing sound economies cannot be overemphasized.²⁴ In itself, the need for secure tenure disqualifies hundreds of millions of low-income households from mortgage finance. Providing secure tenure for the poor is seen to be a key to opening the door to leveraging household expenditure on the dwelling. A recent study shows that willingness to invest in housing is likely to be over 30 per cent for owners with secure tenure, but no more than 15 per cent for those with poor tenure or renters. Less than full title may be sufficient, however, and even beneficial in that it may reduce raiding by higher income groups. Many microfinance institutions do not use title deeds as collateral; therefore, secure land title is not a prerequisite.²⁵

Nevertheless, not all experience has supported the idea that legalizing land holdings leads to a greater availability of some of the benefits of capitalism, including bank finance. Many countries have no loans for people wishing to buy existing low-income housing. For example, resale of formal housing in South Africa's former 'black townships' is hampered by a lack of suitable loans.²⁶ It must

be remembered, however, that many cultures and urban circumstances preclude the development of a market in second-hand housing; once bought or built, low-income housing is rarely sold.²⁷

In Peru, many squatters without title deeds were improving their settlements in the confidence that they were secure; but only 1.3 per cent of the 1.25 million households who had obtained legal title were applying for mortgage loans.²⁸ The link between investment and legal security seems much more tenuous and localized than is often argued. Indeed, other characteristics may be more important, such as lack of formal employment, transaction costs, and, vitally, low income in comparison with the cost of a dwelling.

Even where they can gain access to it, long-term lending implicit in mortgaging may be very unsuitable for low-income households as they are unlikely to be able to keep up an unrelenting stream of payments over many years owing to irregular incomes or external circumstances, such as economic recession leading to unemployment and/or increases in interest rates. Mortgages tend to have substantial transaction costs that can put them outside the affordability of most households. There is a need to reduce such costs.

Well-run mortgage facilities are undoubtedly important to the health of the housing supply system in the North and may be a major contributor to housing improvement in transitional countries. They are also important in providing upper- and middle-income groups with housing finance, without which they would claim the shelter provision directed at those lower down the income scale. However, the introduction or continuation of mortgage schemes in developing countries must not be thought of as a way of financing more than a minority of households' need for shelter.

Since mortgage finance is unlikely to assist the majority of the people, it must not be allowed to divert attention from financing that is helpful to lower income groups, or to drain resources away from low-income households towards those in the middle- or upper-income groups. In the past, it has commonly done this in several ways. Perhaps the most influential has been when governments have supported mortgages in order to stimulate the formal building industry and improve homeownership rates, especially among their own power base. However, such supported mortgages have, typically, underperformed on numbers, especially those directed towards even the higher echelons of the lower income majority, and have transferred large sums from the majority to the better-off minority. Even in developed and transitional countries, mortgages redistribute resources from the poor to the not so poor where there is government assistance in the form of tax relief on interest payments (as there still is in France) or any other concessions for mortgage holders. Where such transfers occur, they are usually much greater than any direct subsidies offered to support low-income housing and are insupportable on equity grounds.

In transitional and developing countries, it is not unusual for governments to subsidize interest rates on

mortgages, or to fix rates arbitrarily so that the mortgage lender cannot maintain liquidity. A further significant concession is the tolerance of large amounts of arrears from borrowers. Although they only deal with relatively well-off households and eschew moving down the market because of fears of default, many mortgage companies have relatively poor loan recovery rates. In sum, in the South, mortgages should avoid blanket concessionary interest rates, tax relief and tolerance of arrears as these all favour the better off at the expense of the poor. Their political sponsors should also be clear that they in no way assist the poor majority.

■ Terms of housing loans

Loan periods and loan-to-value ratios (LTVs) are vital components of mortgage loans that are determined by the lender rather than the global macroeconomic environment. Decisions about them can be the difference between success and failure of the mortgage company and can determine who can afford to borrow, at least at the margins. Low LTVs (and, therefore, high initial deposits) reduce risk but increase the need for upfront capital. However, the UK Department for International Development (DFID) experience in Indore shows that a low LTV may simply drive borrowers into the clutches of dealers in unsecured, high-interest loans to cover the gap between price and formal loan, greatly increasing risk of default and impoverishment of the borrowers through high monthly payments.²⁹

The level of repayments can be varied to help households meet their obligations. Variable-interest loans allow low payments at the beginning, increasing as income improves to repay the loan on time. Loan repayments can be linked to cost of living, with payments indexed to minimum wage levels. All 'save now, pay later' programmes such as these, however, are vulnerable to economic fluctuations that adversely affect household incomes.

■ The price of housing

In some contexts, recent rises in housing prices compared with incomes and other prices have occurred. Particularly sharp rises have transpired in Australia, Ireland, Spain and the UK.³⁰ The picture in the developing world is, however, less easy to determine and may not present the same rise in property prices against others. There was an understanding that it was becoming more difficult to own a dwelling during the 1980s and 1990s; land was no longer available free for the invading. This was accompanied by an assumption that housing was more expensive than before, which was not dented by the early housing indicators results that showed very high house cost-to-income ratios in many countries.³¹ However, detailed studies in Ghana gave no support to this idea that households need to be better off now in order to be owners than they had to be in the past. They demonstrated that recent owners were no better off than more established owners and that, although prices had risen sharply, they were not out of step with other price rises and those of incomes from all sources.³²

Well-run mortgage facilities are undoubtedly important to the health of the housing supply system

Recognizing the need for incremental loans

The majority of housing in developing countries is developed incrementally in stages, separated by many months or years. In new building, this is usually implemented a room or a few rooms at a time; but it may, less commonly, occur in construction stages (for example, all the foundations, followed by all the walls, etc.). In the ongoing process of consolidating and improving an existing dwelling, or replacing worn-out materials, there is investment in newer, stronger and more durable materials – perhaps dismantling a wood-and-tin structure and replacing it with bricks and tiles. It is imperative that national and international institutions recognize that low-income people build incrementally and provide microfinance suitable for that process. This may also call for reform of building regulations that often do not allow incremental building in formally recognized dwellings. Currently, they rarely tend to legalize a more incremental approach even if it is planned to produce a fully compliant structure in the end. Thus, it is time to remove the assumption that a single process will complete a dwelling and to accept the reality of incremental building over many years so that lending can be tailor-made for incremental construction.

There are many incremental activities that add to the housing stock, and extension activity is one of the most important. A study of extension activity in former government estates in four countries found that finance had been the most important problem facing extenders; but most had coped despite having to pay cash.³³ Household income characteristics had relatively little influence on the decision to extend, but they did constrain what was actually built. Larger and better-quality extensions could be built and the process could be much more efficient if suitable loans could be raised to allow one or two rooms to be added efficiently and without delay. Short-term, small-scale loans, on one-year to eight-years loan terms and in amounts of US\$500–\$5000 are more useful for incremental development than the long-term, large value loans favoured by the mortgage markets.

Improvements and efficiency gains possible through incremental building with small loans, rather than with savings, include:

- greater likelihood of building well (though on a small scale), building immediately and avoiding high annual maintenance costs arising from poor construction;
- avoiding the wasteful process of improvising a dwelling in temporary materials and then discarding them as they are replaced with permanent materials; and
- reducing the age at which a householder can afford to be an owner as stages do not have to wait for money to be saved but can be paid for in arrears.³⁴

Problems regarding the valuation of incrementally constructed dwellings may be avoided if building cost, rather than resale value, is taken as the measure for valuation.

Lending based on the idea of housing as a productive good

There is a well-documented link between finance for income generation and improvements in housing. Many homeowners operate one or more home-based enterprises from the structure on which they raise housing finance. In their household portfolio, such enterprises are important as a contributor of about half the household income, on average, or all the household income for a large minority of operators.³⁵ Without the home-based enterprise, the household would not be able to afford the house. Many such households should have their home-based enterprise income-factored into the loan affordability criteria.

The same goes for rental income. One of the most important sources of low-cost rental property, which is becoming more important as the years pass, is the extra room built on to a home and rented out to a stranger for rent, or to a co-villager or relative for no rent but for some other benefit (if only to satisfy family obligations).³⁶ Such petty landlord behaviour is very common and often involves an owner who has a lower per capita household income than the tenants.³⁷ In societies where rents approximate to a good return on capital investment, such activity can increase a household's ability to pay for housing, and plans to rent out rooms should be factored into their affordability calculations when considering a housing loan. The buy-to-let loans available in the UK may be a model for this.

Many of the large microlenders are quite sanguine about their enterprise loans being used for improving housing. It is obvious that improvements in housing can benefit home-based income generation, including room rentals. Thus, lenders should take account of the likelihood of income improvements in the application procedure through a process which factors in future income generated by the housing goods to be provided under the loan.

Enhancing pro-poor formal housing finance systems

It is important that financiers recognize that the poor are more concerned about access to credit than its cost. Experience shows that there is great demand for microfinance even if interest rates are high. Interest rate ceilings distort the lending environment, as do forgiveness of arrears and default, as well as subsidies. Since housing is a productive asset for many low-income households (30 to 60 per cent of housing finance clients have a home-based enterprise), borrowers are able to service their loans.³⁸

A hospitable macroeconomic, financial and regulatory framework is necessary for the development of sound and sustainable housing finance institutions. In Bolivia, freedom from unfair competition from a state-run bank and temporary waiving of regulations helped financial providers to become established.

■ Subsidies

In the past, subsidies were the accepted way to help the poor. The theory was that if goods could be cheaper, people living in poverty could afford them. Thus, reducing the price would

Experience shows that there is great demand for microfinance

make housing more accessible to the poor. However, this did not work out as planned. As the subsidy increased real cost to the government, only a few could be provided in comparison with the need or demand. The scarce subsidized dwellings were then rationed – vertically, by being only available to some income groups, and horizontally, by being in insufficient quantities to serve all who qualified. This was further distorted as the subsidized housing tended to be captured by households who were not living in poverty, but who had influence or were regarded as ‘deserving’ through some criteria other than income. These criteria may be income neutral, for example, having lived in the city for a time, or involve some indirect income redistribution, for example, by numbers of dependants (redistribution towards the poor) or by having secured a loan (redistribution away from the poor). Indeed, subsidies rarely reach the poor.³⁹

Subsidies come in many guises, including:

- direct interest rate reductions;
- allowing mortgage interest payments to be deducted from income tax;
- supporting housing-related savings;
- supporting insurance of mortgages;
- supporting the secondary mortgage markets; and
- direct grants for shelter.⁴⁰

The last can be through housing allowances paid with salaries, a mark-down of the house purchase price, or the provision of a bundle of shelter benefits at cut price or free.

Subsidized loans are still offered by many governments, including Brazil, Hungary, Mexico, Panama, the Philippines, India, Tunisia, Thailand and many more. However, to qualify, a household must be able to afford the loan. This may disqualify a majority of the population from benefiting from the subsidy and increases inequity. Subsidies offered by governments tend to prevent the development of a commercial market, not only in loans but also, in extreme cases, in house building. Indeed, free government housing offered to citizens in the oil-rich Gulf States can even reduce the quality of the current housing stock through allowing the older stock to fall into disrepair in order to qualify for new housing.⁴¹

Interest rates are often subsidized to increase affordability – indeed, some ODA finance has been used to fund interest rate subsidies. However, this has been seen to be both unsustainable at a large scale or in the long run and to redistribute income towards the upper-income groups. However, market rates may be so high (perhaps above 20 per cent per annum) that they make it impossible for all but a very few households to afford repayments, leading to political pressure to reduce rates through subsidies.

Subsidy is a function of the failure to afford the market price of shelter solutions. If appropriate housing finance is in place, the proportion of households requiring subsidy should be minimized to only those too poor to afford the real cost of the shelter available. The need for subsidy can, thus, be reduced by adopting effective financing systems.

The work of some non-governmental organizations (NGOs) in providing funding for the individual’s contribution to attract a subsidy is very helpful to many households. In

Box 9.2 Hogar de Cristo, Chile

Hogar de Cristo is a non-governmental, non-profit, Church institution, whose mission is to provide appropriate and loving shelter to the poorest among the poor and, particularly, to the helpless aged, to the homeless, to the terminally ill and irrecoverable who lack any form of support, and to children and youths who are abandoned, excluded and lacking in opportunities. It also seeks to generate an awareness of the real extent of the problems of the poor in order to encourage drives to relieve them, and to denounce what can be solved.ⁱ

Founded in Chile over 50 years ago, and featuring many programmes to help the poor, Viviendas Hogar de Cristo (VHC) has grown into a major provider of wooden sectional housing to the poor. Its Ecuadorian branch produces 100 dwellings daily from bamboo, which it grows in its own plantations. Seventy-seven per cent of its beneficiaries have incomes of less than US\$20 per month. About half are widows or female single parents.ⁱⁱ

The overall costs of the house are US\$450; but there is a government subsidy of US\$144 (US\$4 per month for three years). The client has to pay US\$186 through payments of US\$4–\$5 per month. If they pay at the VHC office, the client can simultaneously receive medical attention and lunch for themselves and their youngest children, subsidized by the government. They can pay with their social welfare of US\$11 per month or with other income. Some are supported by VHC’s charitable funds.

Currently, VHC has 16,000 clients, of whom 80 per cent pay every month; some even pay several months in advance. Only 1 to 2 per cent of clients are regarded as permanent defaulters.

Notes: i Hogar de Cristo, undated.
ii Costa, 2002.

Source: INBAR, undated.

Ecuador, a revolving fund provides the down payment necessary to obtain a national housing subsidy grant. NGOs in South Africa, such as the Kuyasa Trust, lend money for improvements to be made to housing provided by the subsidy programme. Although the amounts per household are often quite small, such loans are frequently pivotal in providing improved housing to low-income households. The Community-led Infrastructure Financing Facility (CLIFF) in India provides grants so that professional help can be acquired to help communities ‘package’ projects in a way that will attract loans from banks and draw down applicable subsidies from state authorities. Then, CLIFF bridging loans are granted to slum development projects so that initiatives can start while negotiations go on with formal finance institutions and public officials. Housing finance institutions should be vigilant for such opportunities to enable target groups to benefit from their entitlements.

■ Social housing

Social housing is, almost by definition, subsidized housing. As stated earlier, the reasons that governments subsidize shelter include improving fairness and social stability, especially in ways that do not occur through market mechanisms. The subsidy element is a financial credit to the occupier and, thus, often constitutes an important element in a nation’s housing finance system. Many countries have followed the example given by several European countries during the early 20th century in their large state rental sectors. Former colonies inherited systems of social housing from their respective colonial powers.

In Europe, recent shifts from government as provider to government as funder has reduced the level of its risk,

The subsidy element is a financial credit and, thus, often constitutes an important element in a nation’s housing finance system

Box 9.3 Low-income rental housing: encouraging self-help landlords

Few developing countries have in the past put in place incentives to encourage private landlords to develop or improve the quality of rental housing. A recent review proposes the following ways of encouraging self-help landlords to create more and better rental accommodation for low-income households:

- **Providing subsidies to poor owners, or poor private landlords, who create living space for others.** If landlords are as poor as their tenants, equity objections to this approach do not present a problem. Subsidies could also be in the form of tax relief, the difficulty being, of course, that very few small landlords pay formal taxes.
- **Building rental incentives into upgrading programmes.** Planners and managers of slum upgrading programmes should take the needs of tenants into consideration and encourage homeowners to increase the supply of rental housing by, for example, offering credit or subsidies. Good examples of this approach are the Plan Terrazas Programme in Colombia, implemented in the 1970s in the cities of Medellín, Cali and Bogotá, as well as the more recent Mawani Squatter Resettlement Programme in Voi, Kenya.
- **Providing microcredit for self-help landlords.** The idea of extending credit to informal sector landlords is now widely recommended, particularly since the emergence and rapid growth of shelter microfinance during the last decade. Governments should also encourage banks to move into the low-income housing sector and to lend to landlords wishing to enlarge or improve their rental properties.
- **Modifying planning regulations.** House extensions are often discouraged by planning regulations on maximum use of plots. In addition, the projected impact of densification on the supply of urban services is often used as a reason for prohibiting owners from adding rental rooms to their existing houses. Incorporating rental housing into upgrading programmes or encouraging its development in upgraded settlements may therefore require some modifications to existing building regulations.
- **Reassuring self-help landlords.** Existing and potential landlords often feel threatened by government policies that either give tenants the right to claim a house that has been rented to them illegally or that do not sufficiently protect them when tenants fail to pay rent. The adoption of rental regulations that protect the rights of both landlords and tenants, subject to the housing meeting specified minimum standards, will go a long way in encouraging landlords to invest more in rental housing. Governments and local authorities could also facilitate use of standard written lease agreements and establish mediation and reconciliation tribunals to address tenant-landlord disputes.
- **Application of more carefully designed rent control measures.** Many governments have in the past used rent control measures to achieve housing affordability. Unfortunately, such measures have often turned out to be inequitable and inefficient, as they tend to distort market values. They have also tended to discourage good maintenance, as they often rendered rental housing unprofitable, and have sometimes been applied in a haphazard way. Where it is necessary to apply rent control measures, care should be taken to avoid these negative results.

Source: UN-Habitat, 2003c

but has not removed the necessity for government to be involved in housing for lower income groups.

Although social housing is becoming residual in Europe and transitional countries, the need to provide more housing that is affordable to low-income households is still present. Those who cannot afford homeownership or market rents in the private market need shelter through public rental housing. In the South, however, few countries have been successful in large-scale public rental housing. It is unlikely that any country which does not already have a considerable stock could successfully develop public rental housing as a major component of housing supply during the 21st century.

Building for occupant ownership, either in whole or combined with a housing association or some other not-for-profit partner, is practised in some countries – for example, Brazil, South Africa, Chile, Colombia, Costa Rica and India – with reasonable success, but still carries the problem of how to target subsidies and how to reach the low-income group that is the target population. The effective target group is those who have been described as ‘moderate and middle income households’.⁴² Reaching the lower income groups is especially difficult when considerable contributions are required from the recipients or the move into the formal

sector involves paying taxes and service charges, where none were required in their previous, informal, neighbourhood. Costa Rica seems to have reached the target population most effectively through collaboration with an active NGO sector.⁴³ NGOs, especially faith-based organizations, appear to be better at targeting the poor than governments. Hogar de Cristo (Hearth of Christ) has been particularly effective with simple timber dwellings; but other successful programmes are often featured by the Latin American and Asian Low-income Housing Service (SELAVIP) in its newsletter.

■ Incentives for investment in low-income rental housing

As pointed out in Chapter 5 and earlier in this chapter, most low-income shelter policies and programmes in developing countries focus on promoting homeownership, in spite of the preponderance of rental housing among urban poor households. While little attention has been paid to rental housing in the past, there is now increasing recognition of its importance to the many urban poor households who cannot afford homeownership. Box 9.3 summarises some of the ways that have been proposed to support self-help landlords, who are the suppliers of most low-income rental accommodation in developing country cities.

Small loans and housing microfinance

As stated earlier, the links between housing finance and income generation are many and should be taken into account in policy-making.⁴⁴ Numerous agencies offering housing microfinance may require housing borrowers to have a successful credit record on enterprise loans before raising a housing loan. This also has the advantage that enterprise loans are likely to increase income and, therefore, the ability to repay the larger housing loans. Indeed, some microfinance institutions (MFIs) came into the housing loans business because it was acknowledged that house improvements to enable more effective home-based enterprises were a valid use for their loans.

Small housing loans, disbursed through housing microfinance institutions (HMFIs), are some of the most promising developments in housing finance during the last decade. They are suitable for extending existing dwellings, building on already serviced land, adding rooms (often for renting out), adding services such as toilets, and housing improvements within *in situ* neighbourhood upgrading. Only in a few cases – for example, from the Grameen Bank in Bangladesh – are they intended for land purchase because secure land is often a prerequisite for collateral. They tend to reach much further down the income scale than mortgage financing, but not to the households close to or below poverty lines.

Small loans are seen as a way of lifting many low-income households out of the necessity to build their housing with cash or savings. As pointed out earlier, the incremental building process, carried out in a cash-only context, tends to begin with poor-quality materials that need replacing repeatedly and demolishing when the next stage of construction is carried out. This is a wasteful use of resources and expensive in relation to the total investment. Small loans, even when the market rate is quite high, provide the capital to make incremental building more efficient through more durable materials earlier in the process. Repeatedly borrowing small amounts is good for a household's credit rating and imbues confidence in lenders and their guarantors. Fully secure tenure has not been found to be essential for improving housing through microfinance, as highlighted above.

In the context of large numbers of new low-income households in cities over the next two decades, it is important to increase the number of lenders in the housing microfinance sector rather than to concentrate only on mortgage finance which, inevitably, serves the middle- and upper-income groups. Many HMFIs have come in from enterprise-focused microfinance as it is a simple 'next step' and the commercial advantages are evident. Currently, housing microfinance tends to be a small portion of the current business of enterprise MFIs; but they are growing quickly. Their loans tend to be small and short term, reflecting their enterprise loans and a reluctance to saddle the poor with much debt.

However, there is room for other financial institutions, governments, NGOs and community groups to be involved. The number of HMFIs is very large – there are between 400 and 500 in India alone – but their reach is

currently quite small. A recent study in India reports that HMFIs reach no more than 2.5 million of the 60 million households in need of microfinance.⁴⁵

There is a serious issue of funding for on-lending by HMFIs. Many have received concessionary funds and their lending reflects the low price of the capital. If they are to expand their operations, they will need to cope with borrowing at international market rates and to reflect this in their loans.

HMFIs may charge very high interest rates. For example, the very successful Mibanco MFI in Peru launched Micasa for housing microfinance, which lends at between 50 and 70 per cent per annum.⁴⁶ Some MFIs that offer housing microfinance charge lower interest rates for the housing loans than for their enterprise loans. Where concessionary finance can be accessed, however, interest rates can be lower than the market would dictate. Where MFIs (even large ones such as the Grameen Bank in Bangladesh and the Self-employed Women's Association, or SEWA, in India) receive preferential loans from governments, they can keep interest rates and costs as low as possible to reach as far down the income scale as possible. This could be a very effective use of government subsidies and is a good reason to divert them from mortgages and other finance, which is more difficult to target to the low-income group.

There are cogent arguments about why HMFIs should operate without subsidies, especially so that they can expand as the market allows. Where subsidies are made available, they should be through capital grants or service provision, rather than through interest rate discounts or the tolerance of arrears.

Housing microfinance is an important potential resource for increasing the rate, scale and quality of housing supply. Small loans should be incorporated within policy in a number of contexts, as follows:

- loans to improve and extend existing units, to supply services within the dwelling, and to add rooms for more generous domestic space or for renting out or for active home-based enterprises;
- loans linked to land development, whether it be led by private enterprise, NGOs or government;
- loans linked to developments for which a capital subsidy is payable; and
- loans linked to neighbourhood upgrading and available to improve the dwellings affected.

In comparison to enterprise microfinance, however, these are long-term and large loans, and they generate a need for group security or some security of tenure backed by documentation. Some microlenders only offer housing loans to those who have had enterprise loans and have successfully established a credit rating through their payment history. Others gain a lien on pension funds, future income or movable assets; or require savings, sometimes at a monthly level of payment equivalent to the loan repayments, for a year or so in advance; or accept group or co-signers' guarantees. These mechanisms address different sectors of the low-income population, small entrepreneurs and formal-

Housing microfinance is an important potential resource for increasing the rate, scale and quality of housing supply

sector workers, demonstrating that a palette of acceptable collateral methods could cover just about everyone.

In the context of group lending, mandatory savings periods before loans are issued not only build up an understanding of finance, but also strengthen community ties among savers through regular group meetings. Then the group becomes the collateral as the members will support each other in times of difficulty and take the complication of following up defaulters away from the lender.

There is a need for an international exchange of experience about how different forms of collateral perform with regard to default levels and feasibility of recovering value in case of irredeemable default.

■ The issue of default among low-income borrowers

While it may seem self-evident that lower income borrowers are more likely to default on their loans than those with higher incomes, the evidence does not support this. In contrast, many housing microfinance agencies achieve very low levels of default, indeed. The repayment rates can be further improved by flexibility in where and when payments are made. Travelling banking vans visiting low-income neighbourhoods, banks which are open outside office hours, repayments through local supermarkets: all these and others can assist lenders to minimize defaults and encourage borrowers to keep up with their payments.

The Kuyasa Fund in South Africa has an innovative way of dealing with defaults. It uses the same means as the furniture hire-purchase companies so familiar to its clientele: it sends in bailiffs to take possession of household goods, such as televisions and furniture in distraint until housing repayments are up to date again. It does not, however, repossess the home since the result of this could be catastrophic.

Habitat for Humanity International, which gives interest-free loans through grants from Christian institutions in the North, relies upon group pressure to ensure that individuals keep up with their repayments. It also does not repossess dwellings from defaulters.

■ Guarantees

Notwithstanding the above, guarantees are important in broadening the appeal of housing microfinance to lenders as they will look for ways of reducing their risks, even though the lowest income groups tend to be assiduous at repayment. The catalytic value of guarantees is evident in the Dharavi housing co-operative process, in India, in which a formal housing finance company (the Housing and Urban Development Corporation, or HUDCO) would only lend when an NGO (the Society for the Promotion of Area Resource Centres, or SPARC) guaranteed the community's repayments. This is being continued in a wider context through CLIFF, which has a guarantee fund to reduce banks' perceived risks in lending to groups of low-income people. The National Urban Reconstruction and Housing Agency (NURCHA) in South Africa guarantees a portion of loans at a cost of 2 per cent of the portion covered. In the absence of government action, some NGOs have sufficient institutional capacity to act as guarantors for community groups.

In many circumstances, the establishment of formal guarantee organizations is an important prerequisite to lending. Governments have much to gain from setting up guarantee funds to allow HMFIs to lend to low-income households at reduced risk. ODA should be directed towards them so that the full value of guarantees as catalysts for shelter development can be captured for low-income groups.

■ Widening the scope of housing microfinance

There has been comparatively little government involvement so far; but some recent developments in Colombia and Peru demonstrate that there is a great potential for central and local government to channel housing funds through small loans. Voluntary-sector organizations often find their efforts hampered by the lack of funding on which they can draw. Funding from below, such as from savings associations and rotating savings and credit associations (ROSCAs), is mostly inadequate to the task (Indonesia's Bank Rakyat Indonesia, or BRI, and India's SEWA are major exceptions). Funding from financial agencies is often lacking because of the default risk perceived by the potential funder even though actual defaults can be shown to be low. Medium-term funding is required and tends to be in short supply. Some HMFIs resist government involvement, while others welcome it. There is scope for governments to consult HMFIs and to respond in an appropriate manner as to whether their financial backing would be welcome or not.

■ Credit for building materials

Throughout the days of sites-and-services projects and other aided self-help, efforts were made to reduce the financial burden of low-income homeowners by allowing materials to be drawn from dedicated warehouses, or to be supplied on credit through local commercial suppliers. Recent experience in Mexico and elsewhere has shown how there may be great potential for this to expand alongside housing microfinance and the downscaling of mortgages to lower income households, using the longstanding credit culture operated by furniture and household goods retailers.

■ Remittances

Remittances from overseas residents of local nationality are an important part of housing finance in numerous countries. Many people can remit enough to build a house in a few years overseas in quite lowly employment, which would be impossible if they stayed at home in higher level employment. Indeed, in countries such as Ghana, remittances have been a substantial contributor to housing supply for at least 20 years.⁴⁷ In many African cities, it is often only the 'been-to', 'wa-Benzi' and 'burger' (former expatriate) populations who can afford palatial housing, alongside their peers who have become rich through opportunism. This is good news for a country's gross fixed capital formation; but there is a danger that tastes, standards and ability to pay from a different context take over the local markets and drive other residents into poorer housing than they would otherwise have. In Ghana, formal-sector housing developments in Accra are likely to be sold to residents of London and Hamburg and are way above the prices that Accra residents can afford.

■ The role of charity in low-income housing

Some of the initiatives that have been successful in reaching households living in poverty have had considerable funding from charity. Many charities give large amounts of money towards housing improvement and shelter for the poorest. Habitat for Humanity International augments such monetary support with volunteering, recruiting groups of short-term volunteers, mainly from the North, who offer free and enthusiastic labour for a week or two in exchange for a feeling of doing something of worth and seeing an unfamiliar country at first hand. There has recently been a flurry of charitable support for shelter and urban development following the tsunami in Asia in December 2004.

There is a place in funding shelter for the poor for that which arises from altruistic humanitarian support. However, there is a need to target such support towards those who need it most and to avoid reinforcing dependency. Most charities would probably admit that, however hard they try, they do not always manage this as well as they would wish.

Strengthening community-based funding mechanisms

Community-based financing of housing and services has been used for both settlement upgrading and for building on greenfield sites. In a context where small loans are evidently successful and where there is an increase in poverty, it has many advantages for low-income and otherwise disempowered households. It provides the benefits of scale – strength in lobbying, the ability to affect neighbourhoods comprehensively, rather than just single dwellings, and the ability to raise capital funding – and it builds the cohesion of the community because its members act together. It takes strength from the willingness of people to work together as communities through traditions such as *gotong royong* in Indonesia.

The experience of the affiliates of the Shack or Slum Dwellers' Federation (SDI) has demonstrated that there is great potential for community-based organizations to manage development finance to the benefit of large numbers of relatively poor households. Community-based funding is focused on the comprehensive development process, not just on raising finance. Through cooperation in this way, low-income households can raise finance and influence policy, even changing by-laws, in a way unthinkable if they acted individually.

Through the growth in community-focused NGOs, particularly the SDI network, development funds are now regularly directed towards community initiatives. Grassroots organizations demonstrate a high degree of ownership of improvements achieved through channelling assistance directly to their members and neighbourhoods. They have achieved high levels of added value and low levels of drop-out and default. They have been effective in directing existing funding sources and maximizing the direction of subsidies to their members.

If community-based funding is to be successful, the following must occur:

- NGOs should act as intermediaries with funders and assist in providing links with local authorities, government departments, local funding institutions and other stakeholders. In some cases – for example, the Build Together programme in Namibia – this role is taken by a government or quasi-government institution. The appropriateness of this will vary among countries and hinges on the balances between such characteristics as funding, control, influence and independence.
- A guarantor should safeguard funding so that financial institutions feel confident enough to lend.
- Decision-making should be decentralized and funds disbursed to community-based organizations (CBOs).
- Community organizations should be able to act as legal entities. This, in turn, requires a history of working together, which is often achieved through savings groups.
- Finance sources should exist to augment savings and local resources.
- There must be help for prospective borrowers to take the smallest loans over the shortest period possible, or not to borrow at all. This is contrary to conventional banking practice where the assumption is to maximize the loan.
- Stable interest rates should continue through the life of the loan as low-income households can be severely affected by upward fluctuations in payments. This increases the appropriateness of short-term loans since they are less vulnerable to interest rate fluctuations over time.
- Care must be taken not to lend so that a household has total debt repayments of more than 25 per cent of income.
- Technical advice on infrastructure installation and house improvement should be provided. When offered free, this becomes a subsidy. SDI avoids this subsidy element by encouraging group exchanges where a successful community group in the network shares experience with newly established groups.
- Policy on defaults is vital as some community funds experience serious default levels – for example, the Community Mortgage Programme (CMP) in the Philippines has 61 per cent of its accounts more than six months overdue.⁴⁸ In serious cases of group money being embezzled, peer review has been used in India where the NGO involved will send one community in to investigate another. This may be impossible in many cultures.

Working in groups allows communities to negotiate cheaper building materials, to buy land in large plots for subdivision, and to install infrastructure without the piecemeal, wasteful approach inherent in individual connections. The long period of community loans may prove to be a problem, however, especially with the issues of fixed interest rates and ensuring continuity of committed leadership over periods of up to 25 years.

The evident success of community funds has attracted some governments to take part in their financing. The

Community-based funding is focused on the comprehensive development process

Philippines Social Housing Finance Corporation is a good example. Community funding tends to benefit from a number of funding sources, including members' savings, ODA, government grants and subsidies, bank loans, short-term credit from suppliers and contractors, and leveraging of property values through development rights transfers. Often, subsidies can only be accessed by a group.

The expectation behind the CLIFF programme is that community groups of low-income households will be able to establish enough strength and creditworthiness that they will be able to negotiate loans directly with banks.

Nevertheless, there are issues about how far non-members of such community groups are excluded by the activities of groups who so successfully lay claim to limited resources. Are the groups simply capturing rationed benefits at the expense of the majority in the same way that the middle- and upper-income groups have done for decades? Even if benefits are potentially open to all comers, in reality, most benefits are rationed because of limited budgets. In this context, those who successfully receive benefits reduce the chances of others. Similarly, where groups negotiate particularly favourable terms – for example, in low interest rates – they may exacerbate the intrinsic rationing. In economies of shortage, there will be winners and losers. How it is determined whether particular groups win or lose should be as transparent as possible, and measures should be taken to remove obstacles and give everyone as near an equal chance of benefiting.

Care must be taken not to transfer problems that would happen at government or municipal level down to a community level where they may be more difficult to control. For example, community group leaders are probably as likely to act factionally or to defraud funds as are national politicians and officials, but social pressures may inhibit

criticism or censure. Community groups formed around confronting or negotiating with state bodies may find resolving sensitive internal conflicts beyond their ability.

Savings are now seen as not only one of the most important prerequisites for obtaining finance, but also one of the most effective ways of building social cohesion in neighbourhoods. They are central to housing microfinance and community funds. The savings process can be used to:

- Establish lender confidence in the group of borrowers, thus reducing risk in the transaction. The ability of prospective borrowers to save consistently over several months is a valuable measure of reliability for the lender.
- Equip communities with the cohesion, skills and consciousness to engage with the state over the distribution of resources and regulations in order to gain better tenure, services and housing.
- Form the groups to which land is allocated, subsidies granted, funds loaned and infrastructure provided.
- Build an understanding of the management of money.
- Set up internal funds for lending to those in greatest need or going through crises.

Where regulations limit the establishment of savings groups, careful attention should be directed to whether they can be withdrawn so that the benefits arising from community savings groups can be garnered.

Interest rates are often subsidized for community funds; but this is likely to reduce their sustainability and ability to expand to cover most people living in poverty. The balance of advantage arising from such subsidies should be kept under review, especially with regard to whether the recipients are drawn from the poorest households.

NOTES

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| <p>1 This chapter is based on a draft prepared by Graham Tipple, University of Newcastle upon Tyne, UK.</p> <p>2 UN-Habitat, 2004.</p> <p>3 UN-Habitat, 2003a.</p> <p>4 Satterthwaite, 2000.</p> <p>5 Sharma, 2005.</p> <p>6 Ashworth, 1993.</p> <p>7 See Chapter 3 for detail.</p> <p>8 UN-Habitat, 2003a.</p> <p>9 UNCHS/ILO, 1995.</p> <p>10 UNCHS/ILO, 1995.</p> <p>11 Klaassen et al, 1987.</p> <p>12 Payne and Majale, 2004.</p> <p>13 Or, even further down the market, shared dormitories with 'hot beds' slept in by several people in a 24-hour period. Tipple and Willis, 1991; Schlyter, 2003.</p> <p>14 Mukhija, 2004b.</p> <p>15 UN-Habitat, 2003b.</p> | <p>16 Tipple, 1994.</p> <p>17 This is similar to the experience in Malaysian developments, where higher income dwellings can only be built in developments including a certain percentage of low-income dwellings. The contractors build the more expensive ones and then neglect to build the cheaper ones.</p> <p>18 Payne and Majale, 2004.</p> <p>19 Hegedüs, 2004.</p> <p>20 Kritayanavaj, 2002.</p> <p>21 Ballesteros, 2002.</p> <p>22 Joint Center for Housing Studies, 2004.</p> <p>23 Lea, 2000; Chiquier et al, 2004.</p> <p>24 De Soto, 2002.</p> <p>25 Malhotra, 2003.</p> <p>26 Nell et al, cited in Baumann, 2004.</p> | <p>27 Tipple and Korboe, 1998; Gilbert, 1999.</p> <p>28 Calderón, 2004.</p> <p>29 See Chapters 6 and 7 for detail.</p> <p>30 IMF, 2004.</p> <p>31 UNCHS (Habitat), 1993b.</p> <p>32 Even though formal-sector salaries appeared to be lower. Tipple et al, 1999.</p> <p>33 Tipple, 2000.</p> <p>34 The mean age of becoming an owner in urban Ghana, where no incremental housing finance is available, is in the late 40s. See Tipple et al, 1999.</p> <p>35 Tipple, 2005.</p> <p>36 UN-Habitat, 2003b.</p> <p>37 UN-Habitat, 2003b; Tipple, 1991; Tipple et al, 1999.</p> <p>38 Tipple (2005) suggests that 25 to 40 per cent of households may be a reasonable comparable figure in low-</p> | <p>income neighbourhoods as a whole. Since many loans are connected with home-based working (for example, SEWA) and others tend to be offered to clients who have had micro-enterprise loans before (such as the Banco Sol and the Grameen Bank), these could influence the high frequency of home-based enterprises among borrowers.</p> <p>39 Hoek-Smit and Diamond, 2003.</p> <p>40 Hoek-Smit and Diamond, 2003.</p> <p>41 Al-Mansoori, 1997.</p> <p>42 World Bank, 2004c, p8.</p> <p>43 Ferguson, 2001.</p> <p>44 UNCHS/ILO, 1995.</p> <p>45 Biswas, 2003.</p> <p>46 Ferguson, 2002.</p> <p>47 Diko and Tipple, 1992.</p> <p>48 Ballasteros, 2002.</p> |
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TOWARDS SUSTAINABLE URBAN SHELTER¹

Among the issues addressed in this *Global Report on Human Settlements 2005* is the financing of shelter for the urban poor. This focus is but the latest manifestation of a broader concern that has been at the centre of the preoccupation of social activists, reformers and public authorities since the dawn of the Industrial Revolution, when the issue arose of providing humane living conditions to workers and poor families crowded in the rapidly growing cities of Europe. The same issue has become one of a global nature after the concept of 'human settlements' found its place in the international development agenda as one of the main challenges facing countries experiencing similar processes of rapid urbanization, but without the resources to provide adequate living conditions to their low-income urban populations.²

Until recently, the classical response to the shelter problems of the urban poor was social housing, both in developed and developing countries. However, the massive demand for affordable housing in developing countries, coupled with the limited resources of the public sector, would have made this solution inapplicable, even in the presence of a well-organized and transparent public housing delivery sector. Notable exceptions were states such as Singapore, which implemented huge and very successful public housing programmes, as well as successful policies in other larger countries such as Tunisia and isolated exemplary projects in many others. By and large, however, social housing was abandoned. Unfortunately, none of the alternative solutions developed during the 1970s and 1980s proved capable of addressing the problem. Sites-and-services programmes, for example, simply lowered shelter standards without reaching the scale required. In the absence of adequate solutions, and with city authorities being incapable of guiding development or preventing uncontrolled growth, shelter delivery for the poor was largely left to 'spontaneous', informal mechanisms.

The notion of 'financing shelter for the poor' corresponds, in a way, to the abandonment of the traditional concept of public responsibility embedded in the 'social role of the state'. With the commodification of the economy, where housing is but another good to be produced, sold and bought, the solution to the shelter dilemma is based on the notion that 'the poor' will always exist, and that their access

to a fundamental human need, adequate shelter, will always require special measures and special solutions. At the same time, this premise implies that there will always be a category of citizens who will never, on their own, have access to decent shelter – hence the need for special approaches and solutions aimed at 'helping the poor'.

This Epilogue starts from the premise that 'special approaches' and *ad hoc* solutions, however ingenious, will never work at the scale required. Three points are made. First, the percentage of the urban poor in the cities of the developing world is far too high to be considered a residual issue. Second, the demand for affordable shelter is increasing at an extremely fast pace, notably in the rapidly growing cities of the developing world.

Third, the standards and costs that city life requires are high and complex. Shelter is only one, albeit the central, requirement of all citizens. Given the rapid spatial growth of cities in the developing countries, transport, for example, becomes a crucial necessity for survival. The living, working and spatial circumstances of city life require standards and services for all that are far superior in quality and sophistication to those usually associated with minimal shelter – a roof over one's head.

The definition of 'adequate shelter' in the Habitat Agenda alludes to the multiple and complex characteristics of minimum standards in an urban setting:

*Adequate shelter means more than a roof over one's head. It also means adequate privacy; adequate space; physical accessibility; adequate security; security of tenure; structural stability and durability; adequate lighting, heating and ventilation; adequate basic infrastructure, such as water supply, sanitation and waste management facilities; suitable environmental quality and health-related factors; and adequate and accessible location with regard to work and basic facilities: all of which should be available at affordable cost.*³

This definition highlights the idea that all citizens should be able to afford adequate shelter, as described. Affordability goes beyond the ability to secure some form of tenure – that

The classical response to the shelter problems of the urban poor was social housing, but the massive demand for housing, coupled with the limited resources of the public sector, would have made this solution inapplicable

is, a title of ownership or rental of a legal dwelling unit. It also means the capacity to hold on to this asset through a regular source of income, to pay taxes and utility user fees, as well as to absorb recurrent costs of maintenance.

Given these considerations, the issue is not simply financing shelter for the poor. The issue is making adequate shelter affordable to the poor. This approach may be called 'sustainable shelter': shelter that is environmentally, socially and economically sustainable because it satisfies the Habitat Agenda requirements of adequacy. Its acquisition, retention and maintenance are affordable by those who enjoy it. It does not overburden the community with unaffordable costs. Finally, it is located in areas that do not constitute a threat to people or to the environment.

There is no single magic formula to achieve this. Individual self-help can only produce solutions that are admirably suited to the harsh circumstances of urban migration, but are also the most fragile of all. Community-based funding has proven a valuable and indispensable asset, particularly for improving services and, in some cases, infrastructure in informal settlements; but it is not likely to reach the scale required, at least in the short term. It must also be noted that the admirable solidarity mechanisms found in poor urban communities stem from the common will to stave off a common threat, often rooted in a state of illegality and a risk of eviction. They also depend upon the cultural and ethnic composition of the informal settlement. Strongly desirable and supported outcomes such as regularization, infrastructure upgrading and the improvement of economic circumstances can also bring the attenuation of community solidarity and mutual self-help mechanisms. Therefore, they cannot be assumed to work in all cases and for indefinite periods of time.

At the opposite end of the spectrum, one of the major inadequacies is the inability of the market to provide adequate, secure housing at affordable prices for poor people.⁴ There is no need for sophisticated analysis to prove this argument. If this were not the case, 43 per cent of the urban population of developing countries would not be living in slums – an indicator that is estimated to be as high as 78 per cent in the least developed countries. It is interesting to note, in this regard, that the private sector does not ignore the poor – it simply provides housing only when circumstances make it profitable. In many slums, shacks are built by private investors on public land illegally appropriated by them to extract rent from the poor. Many argue that this kind of housing market, thanks to the rapid turnover of the 'investment', can be even more profitable than formal housing. Often it is the connivance between private interests and unscrupulous public authorities, rather than humanitarian concerns, which permit the consolidation of informal urban settlements and the perpetuation of their fragile tenurial balance between silent acquiescence and sudden forced eviction.

Other informal shelter delivery systems found everywhere, but particularly in Latin America, are illegal subdivisions. This is also a thriving market, where private landowners cut out tracts of land in small lots to be sold to low-income families. The occupants own their land, but still in a situation of illegality, often with insufficient

infrastructure. There, two examples of 'unsustainability' are found: an individual one, due to the illegality of the settlement; and a public one, as municipalities are eventually forced to bring necessary infrastructure to settlements that were never meant to be developed for residential purposes.

Ironically, neither example presents a problem of 'financing' or 'affordability'. Rental fees in slums accurately reflect the maximum affordability level of slum dwellers: if this were not the case, this particular market would not exist. The prices of plots in illegal subdivisions are tailored to the affordability levels of the buyers, while investments in layout and basic infrastructure are kept to a minimum to maximize profits.

So far, the unsuitability of two kinds of existing mechanisms – informal and 'legal' – for providing sustainable shelter has been highlighted. The first one is unsuitable because it is 'affordable', but not adequate. The second – conventional housing built by the private sector – is adequate but not affordable. What solutions can then be found for sustainable shelter for the poor – including the two basic components of adequacy and affordability?

Slum upgrading is the solution offered to make 'affordable shelter' adequate. This solution has been championed by all international agencies and is strongly supported by the United Nations Millennium Project Task Force on Improving the Lives of Slum Dwellers. It is seen as a necessary and humane remedy to consolidated situations where the urban poor have created communities. The main argument is that the costs of regularization and upgrading to be borne by society can be largely offset by the benefits that can accrue to the residents and to the city as a whole. There are many elements of sustainability involved in this process. One of them is that regularization and the granting of secure tenure creates a sense of security and a solid justification for self-help investment in the improvement of housing and its immediate environment. Therefore, investment in regularization and physical upgrading releases important resources on the part of the residents. Moreover, it creates hope and self-esteem, which are the basis for expanding small business activities and, in turn, for generating higher income. With increases in income, residents can begin to afford basic utilities (water, electricity and solid waste management). With time, therefore, at least part of public investments in basic infrastructure can be repaid and the delivery of services and utilities can become more sustainable. Upgrading also achieves two important objectives: it allows more successful residents to be able to access the conventional housing market, and it eliminates demand for other sites suitable for low-cost housing, which can therefore be reserved for new residents and low-income in-migrants. Therefore, the two solutions advocated by the task force – upgrading and the development of assisted self-help housing on greenfield sites – are mutually reinforcing. Existing slum dwellers are given the option of not encroaching on new land, and new city dwellers have an alternative to squeezing in already overcrowded informal settlements.

Ultimately, the affordability question hinges on costs and real demand. Therefore, a good starting point is to act on all the elements that make adequate housing unaffordable

One of the major inadequacies is the inability of the market to provide adequate, secure housing at affordable prices for poor people

to the poor, keeping in mind that the whole enterprise is an oxymoron of sorts: making adequate shelter an increasingly expensive commodity, affordable to people who, at best, have only enough to survive on a daily basis. Making adequate shelter affordable to the poor has two requirements: reducing housing production and delivery costs and increasing income levels. These are examined in succession.

FIRST ELEMENT: ABATING HOUSING COSTS

Housing is becoming an increasingly expensive commodity in all countries. As in other socio-economic areas, information and data are more readily available for industrialized countries. Between 1997 and 2004, according to a very recent survey, average housing prices grew by 131 per cent in Spain, 147 per cent in the UK, 179 per cent in Ireland, 113 per cent in Australia, 90 per cent in France and 65 per cent in the US. The only developing country listed in the survey is South Africa, which registered the highest growth in the sampled countries: 195 per cent.⁵

Of course, these sharp increases in housing prices can, in many cases, be due mainly to speculative bubbles. But there is little that policies can do to prevent or control these phenomena. On the other hand, while average housing prices are lower in the developing countries, they are also influenced by steeply rising costs of land, building materials and other cost components.

Affordability, therefore, rests to a large extent on policies capable of bringing down housing production costs. Housing production cost components are known: capital, land, infrastructure, building materials, standards, design, location and modes of production. To be affordable, all of these elements will require a substantive element of subsidy; but in some cases they will only need intelligent policy changes. Some examples are offered below.

Capital

Activities that create wealth for the richer segments of the city population must be tapped in order to subsidize sustainable shelter. The obvious one is an important source of wealth in rapidly growing cities: the rapid increase in land values. Efficient collection of property taxes, as well as taxation of land and property transactions, is the basic capital resource that cities can tap in order to cross-subsidize social investment, including sustainable shelter. Subsidies of various types, in turn, can encourage the private sector to produce less expensive housing while still retaining a profit, the co-operative sector to expand its activities, and the community sector to play a larger role in what it does best – building cheap housing.

The report of the Millennium Project Task Force on Improving the Lives of Slum Dwellers argues that development aid will be necessary in order to finance part of the costs of slum upgrading and new low-cost housing. The difficult part is to justify it. This can be done if donors are made to perceive that aid funds for sustainable shelter are an investment, and not an expenditure. The fundamental

argument here is that improving the lives of the urban poor and turning them into citizens by regularizing and improving their shelter conditions is the best investment in ‘making cities work’, which is a precondition for sustainable national development and, ultimately, the gradual elimination of aid as a necessary, and often major, component of many national budgets of developing countries.

One factor that still stands in the way of greater flows of development aid is the perception that the governance performance of most developing countries is too low to allow for external funds to be employed fairly and effectively. The Millennium Project argues that if the Millennium Declaration Goals, including improving the lives of slum dwellers, are to be met, there is no luxury of waiting for perfect governance to be in place. The important thing is for countries who want to receive development aid to give substantive signals that they are reorienting their budget allocations to the social sector. This can be done in many ways. One of them is the reduction of military budgets. Another, particularly important for the sustainable shelter agenda, is to increase budget allocations to the social housing sector. This does not mean massive public housing projects – although, as mentioned before, not all large-scale public housing projects have been a disaster – but, more generally, to develop nationwide enabling policies for cities, shelter and related infrastructure, as argued in *The Global Strategy for Shelter to the Year 2000*.⁶

The argument for donor assistance to housing for the urban poor is implicitly confirmed by the fact that ‘rich’ countries have the same problems themselves. For example, one of the main conclusions of a recent report to the US Congress by the Millennium Housing Commission, released in May 2002, states that:

... there is simply not enough affordable housing. The inadequacy of supply increases dramatically as one moves down the ladder of family earnings. The challenge is most acute for rental housing in high-cost areas, and the most egregious problem is for the very poor.

The same report highlights some of the built-in biases of domestic subsidies to owner-occupied housing. In the US, about 90 per cent of the total benefits of the mortgage interest deduction system accrue to homeowners with more than US\$40,000 annual income. This observation is an important reminder of the need for subsidies to be concentrated on the neediest. This principle was stated clearly in *The Global Strategy for Shelter to the Year 2000*, which recognized that economic growth and the creation of well-functioning housing markets are not always sufficient to ensure that shelter conditions are adequate for specially disadvantaged households, and that such subsidies should be ‘targeted’ (designed to focus on, and reach, the people in need whom they are devised to help).

Land

Cities in developing countries still hold large tracts of unused land, both publicly and privately held. Although

Affordability rests to a large extent on policies capable of bringing down housing production costs

The task of planners is to identify suitable locations in the city for sustainable shelter development for the urban poor

Now is the time to establish realistic and reasonable minimal standards for sustainable shelter

some efforts to avoid land hoarding for speculation purposes have proven unsuccessful, as in the case of the Land Ceiling Act of India, other countries have enacted legislation to encourage the utilization of idle urban land. This is the case in Brazil, whose 'Statute of the City'⁷ recognizes the social value of property and provides disincentives for landowners who deliberately hold land, hoping to accrue unearned gain on its value arising from the investments of other public and private actors in urban development.

Cities must engage, as a first priority, in identifying public land to be developed for sustainable shelter and related income-generating activities. Unused land is unused capital; but keeping land idle when half of the city's population is housed in appalling conditions and new potential slum dwellers are on their way is irresponsible. Paradoxically, the idea stems from the concept of 'sustainable slum': a greenfield site, preferably already owned by a public body or institution, developed from scratch, but retaining the same incremental characteristics that make informal settlements an affordable settlement solution for the urban poor. Accordingly, sites would be identified and reserved for sustainable shelter development, furnished with essential basic infrastructure and services, and used as a 'building platform' for minimal, low-cost housing solutions to be developed according to the principles of assisted self-help housing. The sustainability factor, in this case, would be guaranteed by the fact that the choice of the site would be governed by sound environmental criteria, excluding, for example, ecologically fragile locations and reserved sites, such as water catchment areas; by social criteria, as they would cater to the economic circumstances of the urban poor; and by economic criteria, as their development would follow principles of the most economic use of land and infrastructural investment. In fact, public sites can remain in public hands as long as their users are granted a long-term title for their occupation. Private land could also be used this way through a number of incentives: property tax exemptions, 'leasehold swaps', building rights vouchers, and rental fees subsidized by municipalities, government, donors, foundations and other stakeholders. Intelligent innovations for the use of public land can also have unexpected results. The United Nations Human Settlements Programme (UN-Habitat), in cooperation with the government of Finland, is testing an innovative approach in Kenya whereby part of that country's bilateral debt would be forgiven in exchange for the earmarking of a tract of public land of equivalent value for low-income housing.

Infrastructure and land-use planning

With sound planning, trunk infrastructure developed for upper- and middle-income housing and commercial development can be extended at marginal additional costs to nearby areas reserved for sustainable shelter for lower income groups. There could be nothing more intelligent and environmentally, socially and economically sound than locating sustainable low-cost shelter in the proximity of industrial and commercial areas. One must only think of the

hours saved in commuting and the advantages for easing traffic congestion and pollution.

Upgrading does not leave the planner much choice as the task is dictated by existing functions in an existing location. But an equally challenging task is to plan ahead of development, instead of regularizing *post-facto* situations. The task of planners is to identify suitable locations in the city for sustainable shelter development for the urban poor.

As argued in *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, the Millennium Project's overview report,⁸ community-based slum upgrading and earmarking idle public land for low-cost housing is one of the 'quick wins' that need to be embedded within the longer-term investment policy framework of Millennium Development Goal (MDG)-based poverty reduction strategies.

Building materials

Assisted self-help housing is the most affordable and intelligent way of providing sustainable shelter. It is cheap because it is based on minimum standards and incorporates a substantive amount of sweat equity. It is useful because individuals and communities engaged in it acquire precious skills. It is practical because it responds to people's actual need and levels of affordability. It is flexible because dwelling units are often designed to be able to expand over time. But all construction, and particularly incremental upgrading, requires a suitable supply of building materials, components and fittings. These markets already exist and thrive in virtually every city of the developing world because they respond to a huge solvent demand. They have to be supported by the public and large-scale private sector because they abate housing costs and provide precious jobs and incomes.

Standards

For decades, UN-Habitat and other international agencies have recommended reforming building codes and standards in order to allow for housing construction that is affordable for the poor.⁹ Now is the time for developing-country central and local governments to engage in sweeping reforms to establish realistic and reasonable minimal standards for sustainable shelter. This reform alone would cut housing production costs considerably and, equally importantly, legalize a huge chunk of the existing and future housing stock.

Regulations both for upgraded and new shelter should allow, and indeed encourage, the development of small-scale manufacturing and service activities in the home (such as tailoring and small repairs) and in workshops especially designed for the purpose, and all kinds of other activities that do not endanger public health (for example, kiosks, small restaurants and cinemas). Of particular value are all non-housing activities that can enhance the dynamism of any given settlement and encourage social interaction: they often constitute the best 'acupuncture' against boredom and crime.¹⁰

Design

Design is a cost factor that has also been neglected for too long. Often, large-scale, high-rise housing projects result in very high costs per unit because they entail high overheads and are a typical target for corrupt contracting practices. The scale, brutality and anonymity of the high-rise housing found in most developing countries also often accounts for social traumas in people and communities engaged in a difficult transition from rural to urban settings and accustomed to a more minute and 'horizontal' scale of human interaction. At the other end of the spectrum, non-assisted self-help housing can be cheaper in the long run, but can result in flimsy and hazardous construction. The happy medium are design practices that combine the skills and briefs of clients/users with the abilities of dedicated trained professionals (architects, engineers, planners, surveyors) and reconcile the need for an efficient use of land with human-scale design. Sustainable design can also help to identify the best and cheapest building materials and components and reconcile the needs for stability and durability with the imperative of efficient and low-cost construction solutions. Architects, planners and public-sector professionals from all over the world must be mobilized in this effort.¹¹

Location

Although, as a rule, land and housing costs tend to decrease with distance from the city, it is important for sustainable low-cost shelter to be located as close as possible to the widest range and concentration of income-earning opportunities, which is found in or near the cities' central areas. This is why it is important for slum dwellers located in central and peri-central parts of the city to be able to hold on to their most important asset – consolidated settlement in a favourable location. This is the imperative of *in situ* slum upgrading, and this is why the retention of established settlers in centrally located informal settlements through regularization and upgrading is the best investment that public authorities can make in guaranteeing the economic survival of their poorest citizens. It is also possible to take advantage of lower land costs in parts of the city more distant from prime locations for greenfield development of low-cost housing, but only on the condition that such development includes good income-earning opportunities and affordable and efficient transport services.

Modes of production and delivery

Clearly, the final cost to the user also depends upon the mode of production and delivery of a housing unit. The cheapest form of housing, for example, is shelter built or assembled by individuals on a piece of land occupied without any formal title. This is the mode of housing production commonly found in the conventional slum. But its drawbacks are also well known – insecurity, lack of services and poor construction. This mode of construction is the cheapest available, but also the most expensive in terms of health and security. The most expensive mode of production, on the other hand, is standard and legal housing produced on a

market basis. This kind of housing incorporates all the costs found in all contexts, developed and developing, including land, capital, various fees and construction, as well as the profit component. And by its nature, it is this mode of construction that is the least eligible for government subsidies.¹²

However, there are other modes of housing construction that, by their own nature, involve lower costs to the purchaser/user. One of them is self-help housing, which replaces built-in labour, time and resources employed in conventional housing with the labour, time and materials provided by its future occupants. 'Assisted self-help housing', which incorporates a large component of donor and domestic government technical and financial inputs is, in fact, the mode of production recommended by the United Nations Millennium Project's Task Force on Improving the Lives of Slum Dwellers as the best and cheapest alternative to new slum formation in the developing countries.¹³

Another successful approach is cooperative housing. This approach does not necessarily reach the poorest of the poor, but it does produce housing that is more affordable, by virtue of the elimination of the profit component and the advantage of government subsidies granted by law by virtue of its social nature. Its traditional form of organization is based on affiliation to the same trade or profession: often, however, the aggregation of cooperators can reach beyond affiliation and be based on kinship. This later element is a strong factor in creating a sense of community around the 'build together' concept. This important social asset is not found in conventional housing, which is bought, sold or rented on an individual basis.

Another mode of production, or delivery, is social housing. Traditionally, social housing involves the construction, with public funds, of low-cost housing units, usually as comprehensive projects, for rental to deserving low-income families. A recent report stresses the importance of rental housing as a far too neglected means of satisfying the shelter needs of lower income groups.¹⁴ Social housing is built on the premise that public funds should be employed for the provision of housing to the neediest on a subsidized rental basis. This approach, however, has come under severe criticism during recent years on several grounds. One of them is efficiency. But it must be remembered that social housing – or public housing, or council housing, as it is known in different countries who pioneered it on a vast scale – historically drew its justification from different grounds. One of them is the sense of collective responsibility that nations felt towards the shelter needs of the less fortunate members of society. Other reasons were social stability, political support, public health and hygiene. And another was purely of a macroeconomic nature – the advantages of using large public funds to revive the economy, support the domestic construction and building materials sector, and create employment. Some of these factors still exist today, and it is, indeed, remarkable that social housing programmes have been virtually abandoned where people need them most – the developing countries.

Rental housing is important in terms of affordability because it is particularly suited to the economic circumstances of the urban poor: lack of capital and lack of

Rental housing is important in terms of affordability because it is particularly suited to the economic circumstances of the urban poor

The urban poor could not be reached without abating housing production costs and reducing the price of sustainable shelter

access to it. It is not surprising that in most slums, particularly in sub-Saharan Africa, the poorest of the poor are not owner occupiers, but renters. The solution here is to abate the costs of rental housing by devising a system of subsidies capable of stimulating the production of rental housing for the poor by accessing all possible and practicable avenues – built-for-rental housing; housing purchased or built as an income-producing asset; housing built by companies for their workers; and social housing.

So far, a variety of approaches that can help to abate housing production costs and reduce the price of sustainable shelter to the target client – the urban poor – has been discussed. However, sustainability also has to do with the increase of purchasing power. The higher the disposable incomes of the urban poor become, the wider will their access be to housing markets. The next section addresses this second element of adequate shelter affordability strategies: increasing the purchasing power of the urban poor.

SECOND ELEMENT: INCREASING PURCHASING POWER

Is this goal too ambitious? The 2003 issue of the *Global Report on Human Settlements* offered some prudent scepticism:

*It has to be remembered that slums have always been part of market societies. In the long run, the goal of cities without slums is only going to be achieved in a predominantly market economy once a good majority of the urban work force has middle-class incomes. How to achieve this major aim of development is rooted in controversy and is somewhat beyond the scope of this report.*¹⁵

A recent observation portrays one of the many slum families in New Delhi.¹⁶ A shack, about 2 metres long and 2 metres wide, is home to a family composed of husband, wife and four children. It is just one of 7700 such shacks in a street behind the residential area where the mother of this family works as a domestic help. Her husband is a plumber and her children study at a nearby government school.

The striking aspect of this situation is that the wife holds a steady job, and her husband has a skill that is considered to be highly rewarding in industrialized countries. Yet, they are forced to live in a shack with considerably less than 1 square metre of space per household member. By the same standard, a small 100 square metre apartment in a rich country could hold roughly 150 people – all of whom, however, would enjoy the considerable advantage of protection from the elements, a well-functioning communal toilet, the luxury of running water and electricity, and protection against forced evictions (at least as long as public health officials did not report the intolerable overcrowding condition of that particular dwelling unit).

The circumstances described above are very similar to those experienced by the vast majority of the more than 900 million slum dwellers all over the world, whose adult members often hold jobs or rely upon some kind of regular revenue-generating activity. In the developed world, a household with two sources of income, wife and husband, however humble the occupation or the source of income may be, normally can gain access to decent shelter on the market, however modest. In the developing world, this is virtually impossible – hence the virtual necessity of finding affordable inadequate shelter in a slum. People who live in slums are known as ‘slum dwellers’. In reality, they are ‘working poor’: people who work for a living, but whose income cannot guarantee them access to the basic needs that everybody in developed countries take for granted – adequate shelter, proper nourishment, health, education and decent and non-threatening living environments.

The Delhi example shows that there is something terribly wrong about the inability of the working poor in developing countries to gain access to adequate housing. Part of the problem is the rising costs of conventional housing addressed in the previous section; but an equally important issue is the extremely low income in both the formal and informal sectors. This is why making shelter affordable to the poor also depends upon increasing the poor’s income.¹⁷

The issue, of course, is not simply that of higher wages. A regular income is also a standard prerequisite for accessing mortgage or shelter microfinance markets. Continuity in income earning is also important once one enters a mortgage agreement in order to avoid the risk of losing all of one’s investment through the painful process of repossession. But a decent income is the minimum basis for accessing decent shelter, particularly in the situations of virtually all developing countries where workers’ benefits and pensions are virtually non-existent and where the prices of basic necessities rise as rapidly as those of housing.

It is often argued that low wages in developing countries, particularly in sub-Saharan Africa, are justified by a variety of factors, including the low skills of the work force, low productivity, the volatility of the economy, capital restrictions and various forms of risks for the capital invested. However, some of these negative factors may not play such a large role today as they did previously. Rising levels of literacy, even in most of the poorest countries, coupled with the rapid removal of capital and profit-repatriation restrictions, have introduced much more favourable conditions for domestic and foreign direct investment (FDI) in the industrial and services sector. The fact that migrants with little or no formal education tend to find all sorts of jobs in developed countries shows that their skills are dramatically underutilized in their countries of origin. China, which boasts an extremely skilled and active pool of labour, still registers very low wages in comparison with the massive and rapid growth of its economy. From the point of view of sheer equity, it is hard to explain to a construction worker in a developing country that he may never afford to live in any of the houses he builds or drive on any of the roads he paves, while his counterparts in richer countries can.

Making shelter affordable to the poor depends upon increasing the poor’s income

On the other hand, economists and policy-makers tend to disregard important factors that dramatically lower productivity in developing countries, all linked to the residential circumstances of the working poor. Among them are lack of hygiene, leading to health vulnerability and consequent loss of working days and, more dramatically, high mortality rates; living environments that are the least conducive to decent recuperation after a day's hard work; constant exposure to the risks of violence, assault, theft and forced eviction, leading to mental stress, physical injury and long-term traumas; long commuting times spent, at best, in crowded, dangerous and unreliable means of public or para-public transport and, at worst, walking at pre-dawn, dusk and after sunset on often unpaved paths. Is it unrealistic to assume that improving the residential circumstances of the working poor would ultimately lead to higher productivity, higher profits, higher wages and, more generally, to a virtuous cycle that could ultimately make the living and shelter conditions of workers more comparable across the North–South divide?

The argument above is in favour of investments in improving the living conditions of the urban poor through sustainable shelter as a precondition for sustainable economic and social development.

A second argument is questioning the level of working wages and benefits in developing countries. An informed guess is that there is no reason why wages in the sectors where the urban poor are usually employed – domestic work, retail shops, warehouses, security services, factories, construction, repairs and maintenance, public institutions, schools, hospitals, and so on – should be so abysmally low all across the board. It may well be that this relates more to a non-signed understanding among all kinds of formal and informal employers than to a real reflection of the costs and benefits of decently paid work. More likely, wages are generally set on the basis of the classic parameter of the 'reproduction of the work force' – the bundle of expenditures required to survive, rather than to live a dignified life. On the other hand, it is reasonable to assume that well-to-do families could very well afford to pay more for domestic help. Most factories could probably well absorb reasonable increases in workers' salaries and benefits; and even public employers could raise low-end salaries to a decent level and provide in-house training in exchange for more efficient, reliable and regular delivery of the required services.¹⁸ All of this would certainly result in more productive and efficient outcomes with benefits for all: the earning power of the employed and a better quality of products and services.

Transnational corporations, for example, are making growing recourse to job outsourcing in order to take advantage of the huge salary differential between salaries at home and those in developing or transition economies. This is an inescapable trait of globalization. However, such corporations are also under strong pressure to show that their activities are not over-exploitative. In this particular area, is it unrealistic to assume that some of the most important and visible of them, while retaining this comparative advantage, could give the good example of paying their workers salaries

that allow them to lead a decent life for themselves and their children? The suggestion here is that salaries should not follow a 'race to the bottom', but the inverse route. It is quite likely that all of this would result, in addition to the achievement of adequate shelter conditions, in a less violent and threatening world for all.

Many specialists also point at ways of easing the burden and increasing the earning capacity of the huge numbers of people who draw their livelihood from the so-called 'informal sector'. The following recommendations have been made by such specialists:¹⁹

- providing the physical infrastructure for business development and job creation, including home-based enterprises;
- adopting pro-poor and labour-based methods when creating and maintaining infrastructure and providing basic services;
- easing the regulatory and fiscal burden for starting and growing enterprises;
- facilitating financial and business support for local enterprises;
- adopting community contracting on a much larger scale; and
- facilitating the regularization and operations of informal-sector activities.

SYNERGIZING THE TWO: LOWER HOUSING PRICES AND HIGHER INCOMES

One important aspect is the synergies between lower housing prices and higher incomes. This section considers the mutually supporting benefits of acting on both sides of the spectrum.

Capital

Increasing both wages and income opportunities for the working poor augments the saving potential of the same earning group. As documented in the Millennium Project Task Force report, the urban poor show a marked propensity and ability to pool part of their incomes into community funds and other forms of saving arrangements. This triggers virtuous circles: the more capital is saved, the more is available for improving shelter conditions, productivity, skills formation and income-earning activities. With upgrading and adequate shelter solutions, more disposable income can become available to contribute to basic infrastructure and services, thus making public capital investment in this area more sustainable.

Infrastructure and land-use planning

Investments in infrastructure and land-use planning can provide important income-earning opportunities for the working poor. One of them is 'community contracts', whereby contracts for physical improvements are offered to

Investments in improving the living conditions of the urban poor through sustainable shelter is a precondition for sustainable economic and social development

the communities themselves, thus internalizing at least part of public investments in upgrading and rehabilitation.

Building materials and standards

The revision of standards in favour of locally produced building materials, in addition to enabling 'home-grown' construction practices, can give a strong impetus to the local building-materials industry, which typically employs low-income workers and a large part of the so-called informal sector. Similarly, the revision of planning regulations in favour of home-based and community-based economic activities can stimulate local economies and enhance the income opportunities of the working poor. Women, in particular, have proven particularly active and able in the production of simple and low-cost building materials, such as bricks and tiles. More generally, stepped-up public and private investment in infrastructure development and maintenance and citywide services, essential to improving urban productivity (roads, transport, utilities, health and educational structures), typically create income for the working poor and create and improve badly needed skills.

Design

The development of appropriate design solutions for urban living, from fixtures and furniture, to new building material production techniques, shelter design and residential and other development schemes – including environmentally sound solutions for waste management and energy sources and use – can open up wide avenues for employment and skills training. The Cinva Ram machine, for example, developed decades ago in a Colombian appropriate technology centre for the production of compressed earth blocks, proved to be one of the most effective and universally used means for the local production of affordable building materials. Similar, and much improved, solutions in design are being developed in many parts of the world. Their wider dissemination would provide a great impetus to efficiency in sustainable solutions encompassing both cost reduction and employment creation.

Modes of production

The more participatory assisted upgrading and new housing development programmes and projects are, the greater the chance they have to improve the access of the working poor to the foundations of a modern urban economy: from credit to design, planning, management, trade and so on. Participation in the design of collaborative schemes, such as upgrading, assisted self-help and cooperative housing, can bring into clearer focus the strongly perceived need on the part of the working poor to integrate housing functions with income-earning facilities, such as shops, workshops, food processing, arts and crafts, repair shops, carpentry and skills incubators, and light manufacturing.

FORMULATING AND IMPLEMENTING URBAN SHELTER POLICIES: SHELTERING THE POOR FROM 'MARKET POACHING'

The identification of sustainable ways of guaranteeing adequate and affordable shelter for the urban poor requires close attention to a third aspect, in addition to reducing costs and improving incomes. This third aspect has to do with the fact that all shelter sub-markets are permeable, and that different levels of demand (from very low income, to low income, up to middle income) can come into conflict and/or competition with one another. In these cases, it is always the poorest who lose. This undesirable outcome can be defined as 'market poaching': an outcome whereby more affluent social groups, taking advantage of their more favourable positions in the land and housing markets, can end up, voluntarily or not, absorbing resources (financial, spatial and otherwise) that are of vital importance in satisfying the shelter needs of the more vulnerable members of society.

'High-end poaching' in attractive urban locations

Competition among income groups and different land uses can occur in many different ways. Classic examples are drawn from forced evictions of poor populations living in irregularized informal settlements. In some cases, such evictions are determined by attempts to satisfy the perceived needs of the city as a whole (such as improvements in the road infrastructure and public services). In others, they are motivated by the desire to put the land to a more profitable use (for example, commercial or attractive private housing development). In this latter case, a utilization of high social value (affordable shelter for the poor) mutates into another type of use that satisfies a smaller and selected cluster of higher income city dwellers, often with large profits for very few (the landowner and the developer). City authorities, at least in theory, also stand to gain from higher property values and real estate tax revenue.

Similar cases of 'locational poaching' occur in the all-too-frequent instances of 'market evictions'. In these cases, the dislocation of the urban poor does not occur because of forced evictions; but the results are similar. Whether or not in possession of a legal title, the poor who occupy a piece of land in a central location can be easily persuaded to clear out and transfer their property to higher income location seekers. The new occupants usually find it much easier to obtain a title, and as they are imitated by others, a low-income settlement is quietly transformed into a middle- or high-income neighbourhood. In all cases, these transformations are motivated by the value of a location which, with the expansion of the city, has become highly attractive.

Ironically, this kind of competition is, on the one hand, highly penalizing for the poor because choice central

Stepped-up public and private investment in infrastructure development and maintenance and citywide services, essential to improving urban productivity

locations are the ones that offer them the best opportunities for income generation and are hardly affected by the availability or not of conventional housing mortgage financing. This is because choice locations attract high-end market uses for which capital financing is generally available.

The obvious antidote to this undesirable outcome is to adopt policies that accord top priority to the regularization and upgrading of consolidated informal settlements, save for the cases where their existence constitutes a permanent threat to the residents or can cause the irreversible loss of ecological resources.

‘Residential poaching’ in the urban periphery

Location is not the only factor that can determine ‘residential poaching’. One very important grey area is represented by the more peripheral parts of the city, where potential competition between low- and middle-income housing is more acute. A classic case is that of subdivisions, legal or informal. The system works through the actual purchase of building plots and the construction of residential units, whether by the purchasers themselves or by the subdivider/developer. In this case, the discriminating factor can be the availability of finance to purchase the plot, which is obviously beyond the means of the poorest of the poor. Although this kind of acquisition is typically conducted through informal channels such as family or kinship connections, the unplanned way in which it often occurs places the poorest residents in a position of weakness with regard to access to new residential opportunities in the city.

This kind of competition reveals the unsustainability of ‘spontaneous’ informal settlements as a means of satisfying the shelter needs of the poorest citizens. The antidote is anticipatory land-use planning policies capable of increasing the total amount of land available for residential purposes and encouraging mixed development schemes, particularly of public land, that can provide a good social mix and ensure an appropriate combination of affordable shelter, employment opportunities, basic infrastructure and accessible community services. Cross-subsidies can be devised to ensure a sufficient amount of land for assisted self-help housing development for the lowest income groups.

‘Mortgage finance poaching’

Direct and indirect means of providing financial access to shelter can result, deliberately or not, in higher income groups taking advantage of government subsidies and incentives created to address the needs of the most vulnerable groups of society. The case has already been mentioned of the utilization of tax expenditures in countries such as the US, which result in higher deductions for higher mortgages and, therefore, the upper end of the housing market.

In most developing countries, tax deductions on mortgages tend to be less widely used; where they exist, the fairness of their application is more vulnerable to less

accountable practices. That leaves a greater burden on classic mortgage financing. However, ratios of outstanding mortgage loans to gross domestic product (GDP) range from around 35 per cent to 70 per cent in developed countries, and from 1 per cent to 17 per cent in developing countries.²⁰

The lack of mortgage financing for shelter purposes in the developing countries is compounded by difficulties in accessing proper information and reliable professional services. In addition, cases abound of favourable loans being obtained through cronyism and manipulation of the banking sector. Patronage and connections are additional elements that broaden the access-to-financing gulf between the well-to-do and the poor, in addition to the well-known barriers represented by creditworthiness and the existence of collateral. The result is that in developing countries, limited mortgage financing resources tend to be monopolized even more severely by those who normally have much better economic access to adequate shelter.

However, the trend with regard to the use of mortgage financing in the developing countries is on the rise, and it can be hoped that in many of them the availability of financing for the shelter sector will increase. This can, in the long run, bring about beneficial results as ‘mortgage finance poaching’ may become less severe.

One mechanism for financing the shelter needs of formally employed workers – the ones most likely to compete for adequate and affordable shelter with the poor – is the creation of a housing development fund, based on contributions from the government, the employers and the workers themselves. It is through mechanisms of this nature that so many countries, in all continents, made dramatic breakthroughs in improving the housing conditions of their populations. Provided that they are managed in an efficient and transparent manner, such funds can create win-win situations for everybody – the construction sector; the banking sector; the employment situation; the efficiency of cities; the improvement of infrastructure and services; and the improvement in the quality of life of an important sector of the working population.

Political commitment and policy reform as the key to sustainable shelter

While shelter mortgage financing may improve in the future, the destinies of the urban poor cannot be left to the expansion of the markets. No serious and responsible approach to this problem can ignore the necessity for a much stronger financial and policy involvement on the part of central and local government.

The Millennium Project, in developing a practical plan for the achievement of the Millennium Development Goals, pointed out that developing countries, and particularly the poorest among them, can achieve the MDGs only if they manage to devote much greater resources to sustainable policies for the reduction of poverty and the improvement of the living conditions of people. The report of the Millennium Project Task Force on Improving the Lives of Slum Dwellers identifies official development assistance as

Limited mortgage financing resources tend to be monopolized even more severely by those who normally have much better economic access to adequate shelter

an indispensable component of this effort, and suggests that all countries should develop, as a matter of urgency, MDG-based poverty reduction strategies indicating the domestic and international resources required to achieve the goals.

Cities are the key to sustainable development. It is through the development of commerce, services and industry in the framework of a diversified economy that significant gains in economic growth can be made. This, in turn, can generate the resources and the opportunities that the poor need in order to improve their own lives and to optimize their contribution to national development. The urban poor have an indispensable role to play because they are the ones who work in cities and who make cities work. Nowhere is this positive concatenation more evident than in those developing countries that have made the greatest strides in modernization and GDP formation.

Recent trends indicate that more donor countries may be willing to increase the level of their official development assistance as a means of reaching the MDG goals and targets. However, the best catalyst to bring this about and to attract flows of aid will be the proven commitment to invest in sustainable development. Key to this goal are the urban poor, and central to improving the lives of the urban poor is sustainable shelter.

Therefore, governments should consider, as a priority matter, adopting the innovative policy changes required to improve the shelter conditions of the urban poor and to achieve sustainable shelter development. Among them are:

- reallocating a reasonable level of domestic resources to the shelter sector, particularly to programmes specifically geared to slum regularization and upgrading and the provision of low-cost housing;
- mobilizing public resources for urban and shelter development through a transparent and rigorous use of existing public revenue-generation mechanisms, including property taxes;
- actively seeking donor support for funding pro-poor programmes linked to increased public-sector and administrative efficiency, taking advantage of the MDG-based poverty reduction strategy approach;
- identifying blockages and introducing incentives for the expansion of housing mortgage financing;
- creating or strengthening funding mechanisms for the provision of adequate shelter to the urban poor through, for example, national housing funds and direct subsidies; and
- involving the working poor and their organizations in every step of policy review, reform and implementation, from the national to the local level.

Local engagement in the pursuit of the Millennium Development Goals (MDGs): the Millennium Towns and Cities Campaign

The above recommendations apply to central governments and local governments alike, within their distinctive spheres of responsibility. Legislative reform remains a prerogative of central governments, but steady advances in decentralization

of powers and responsibilities has greatly increased the range of action of local governments. Ultimately, progress under the sustainable shelter agenda rests on positive synergies among all spheres of government.

One such synergy is represented by the role that local governments can play in achieving the Millennium Development target of improving the lives of slum dwellers – and, at the same time, creating viable alternatives to new slum formation. The report of the Task Force on Improving the Lives of Slum Dwellers argues that the MDG-related poverty reduction strategies should be based on local concerns (both those expressed by the poor themselves and by the local governments that have the direct responsibility of addressing them) and should generate local poverty reduction strategies. In a way, this suggestion is drawn from the Agenda 21 experience and the success registered by local Agendas 21. The level of global attention that the MDGs are currently receiving provides a great opportunity for local governments to engage in the process and to attract the support and the resources, both domestic and international, that they need in order to discharge their responsibilities in a more sustainable and equitable way. Cities are now offered the opportunity to engage in the MDG implementation process by following the example of pioneering municipal administrations in the North and in the South (Los Angeles and Curitiba, among them) which have voluntarily endorsed the Millennium Development Goals and activated mechanisms for monitoring their performance in this respect. International agencies are shaping initiatives around this goal.²¹ In this regard, cities are becoming key agents in formulating and implementing local MDG-based poverty reduction and sustainable development strategies.²² The new world organization United Cities and Local Governments has taken an important step in this direction by endorsing the MDGs and committing to the organization of an action-orientated global Millennium Towns and Cities Campaign. The potential of this approach is high, particularly in terms of the approach advocated in this Epilogue: an integrated, citywide strategy to the central issue of securing sustainable shelter development opportunities for the urban poor.

CONCLUDING REMARKS

Financing shelter is only a component of the broader goal of securing solutions that can make shelter truly sustainable and fill the gap between the two extreme outcomes that are being witnessed today: affordable shelter that is inadequate and adequate shelter that is unaffordable. One starting point is to look at the inhabitants of informal settlements not simply as 'slum dwellers', but as 'working poor'. Important opportunities exist for addressing the affordability gap by acting on both ends of the sustainable shelter equation – reducing housing production costs and increasing the incomes of the working poor. Given the urgency and growing significance of the 'urbanization of poverty' challenge, it is difficult to think of other areas of development that deserve more attention and investment on the part of the local, national and international institutions committed to

Cities are the key to sustainable development: in the framework of a diversified economy significant gains in economic growth can be made

reaching the Millennium Development Goals, including the target of improving the lives of at least 100 million slum dwellers by 2020 and, more generally, of finding practical and sustainable solutions to the global fight against poverty.

Cities can lead the way, and the urban poor, who are the targets of the Millennium Development Goals, can become the protagonists, leading actors and living examples of a brighter future for all of humanity.

NOTES

- 1 This Epilogue is based on a paper prepared by Pietro Garau, University of Rome, Italy.
- 2 The identification of urbanization and the urbanization of poverty as one of the fundamental challenges facing development is not restricted to human settlements scholars and policy-makers. See, for example, Sir Hans Singer in Meyer and Stiglitz, 2000, p118: 'Soon, the majority of the population and the majority of the poor will live in towns, often in megacities. This will give added urgency to the problem of local government, civic participation, the urban informal sector, and urban infrastructure and environment.'
- 3 UNCHS, 1996a.
- 4 UN-Habitat, 2003a.
- 5 *The Economist*, 2004; IMF, 2004.
- 6 UNCHS, 1990a.
- 7 UN Millennium Project, 2005a.
- 8 UN Millennium Project, 2005b.
- 9 As remarked at one of the meetings of the United Nations Millennium Project's Task Force on Improving the Lives of Slum Dwellers, Italian hill towns could be classified as inadequate by a stern public health official or planner applying conventional 'modern' standards.
- 10 UN-Habitat, 2004.
- 11 Following up on a recommendation by the Task Force on Improving the Lives of Slum Dwellers during the World Congress of the International Union of Architects in Istanbul in June 2005, teams of architectural students in partnership with residents of a low-income community sought architectural solutions to improve the living environment.
- 12 Although in several countries all housing construction, including built-for-profit housing, is eligible for subsidies. For example, tax expenditures benefiting all owner occupants in the US and the housing voucher system adopted in Chile.
- 13 UN Millennium Project, 2005a.
- 14 UN-Habitat, 2003b.
- 15 UN-Habitat, 2003a.
- 16 Sood, 2003, p14.
- 17 Much has been said and written about the obstacles that the poor face in accessing conventional housing loans. However, this is only a small part of the picture and there is evidence that the issue is far wider than 'shelter finance'. The dramatically high level of repossessions of mortgaged housing in many industrialized countries reveals that accessing credit and obtaining a loan is only the first step in the long process towards shelter security. Moreover, insufficient incomes also prevent access to decent rental housing, which continues to be an important way of securing adequate shelter in all countries. See UN-Habitat, 2003a, for detail.
- 18 UN Millennium Project, 2005b.
- 19 UN Millennium Project, 2005a.
- 20 Mintz, 2003.
- 21 United Cities and Local Governments (UCLG) has coordinated the local government contribution to the United Nations five-year review of the implementation of the Millennium Development Goals, stressing the importance of the local implementation of the MDGs.
- 22 Advanced cities should be honoured with the title of Millennium City.

