

FINANCING URBAN SHELTER: GLOBAL REPORT ON HUMAN SETTLEMENTS 2005

By 2030, an additional 3 billion people, about 40% of the world's population to need housing

In a world on the move, where already about 3 billion people, or 50 per cent of the world population, live in urban areas, UN-HABITAT predicts that over the next 25 years, over 2 billion people will be added to the growing demand for housing, water supply, sanitation and other urban infrastructure services. What is critical when considering this number is the *order of magnitude*. Close to 3 billion people, or about *40% of the world's population by 2030*, will need to have housing and basic infrastructure services. This translates into completing 96,150 housing units per day or 4000 per hour.

The housing crisis is already with us. The large scale evictions in the urban areas of Zimbabwe, or those in Mumbai or Malawi are all part of a larger problem of financing urban shelter. The increasing pressure for housing finance is being felt all over the world.

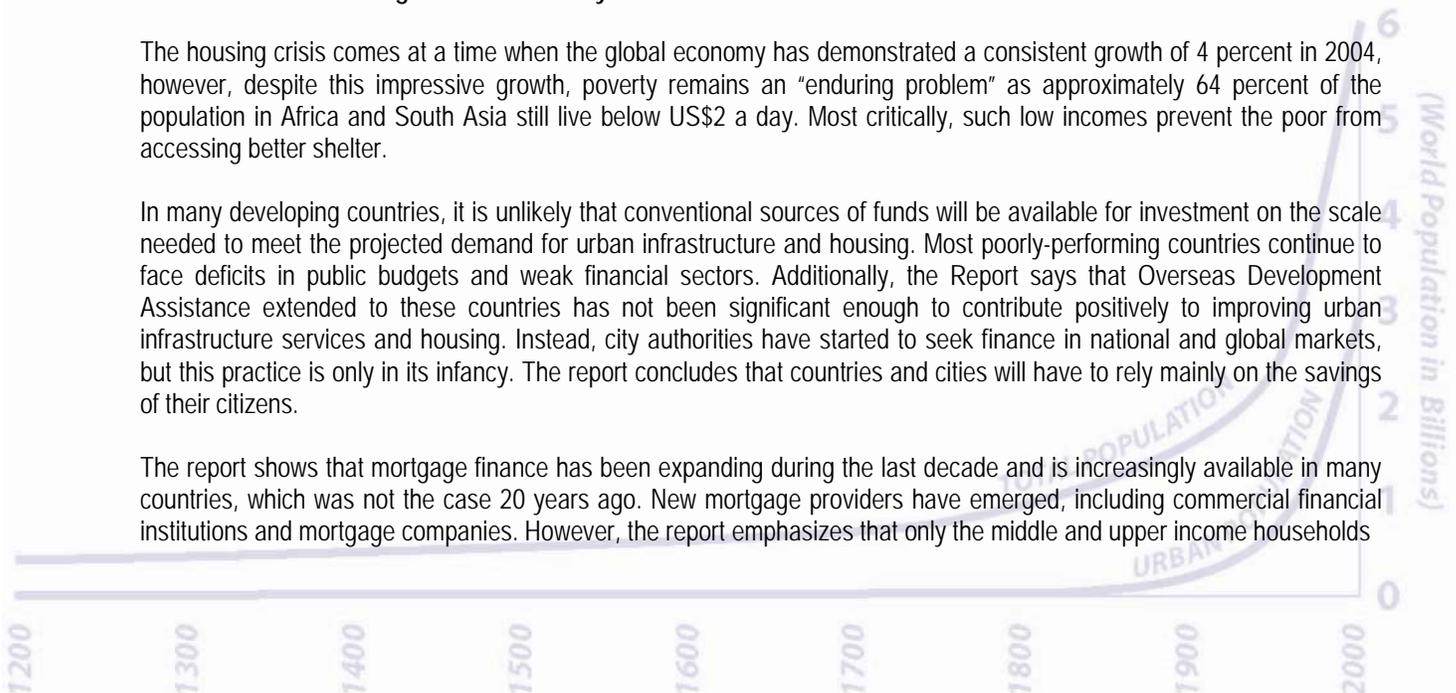
- In Peru, 82% of the 8 million people living in greater Lima are classified as poor. At least half of poor households and 60% of the poorest households express a strong desire to expand or improve their home within the next 12 months. However, only 10% – 15% are borrowing from formal or informal sources.
- In Indonesia, during 2000, the country's urban population of 85 million already represented 40% of the total. By 2010 it will represent 50%, with 120 million people. Annual projections for housing needs for the next ten years are approximately 735,000 new units and an additional 420,000 in need of improvement. 70% – 80% of all housing in Indonesia is constructed informally, with minimal access to formal financial markets.
- In Morocco, two surveys found that 88% of households have or are planning a productive activity in the home and more than 83% of households want to take a loan to finance home improvement, but 93% of households did not have access to formal finance and had to resort to other means.

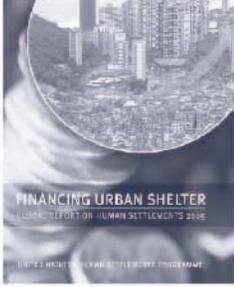
UN-HABITAT's *Global Report on Human Settlements 2005: Financing Urban Shelter* examines the challenges of financing urban shelter development, focusing on the shelter needs of the poor and within the overall context of the United Nations Millennium Development target on slums. If adequate financial resources are not invested in the development of urban shelter and requisite services, this additional population will also be trapped in urban poverty, deplorable housing conditions, poor health and low productivity, thus further compounding the enormous slum challenge that exists today.

The housing crisis comes at a time when the global economy has demonstrated a consistent growth of 4 percent in 2004, however, despite this impressive growth, poverty remains an "enduring problem" as approximately 64 percent of the population in Africa and South Asia still live below US\$2 a day. Most critically, such low incomes prevent the poor from accessing better shelter.

In many developing countries, it is unlikely that conventional sources of funds will be available for investment on the scale needed to meet the projected demand for urban infrastructure and housing. Most poorly-performing countries continue to face deficits in public budgets and weak financial sectors. Additionally, the Report says that Overseas Development Assistance extended to these countries has not been significant enough to contribute positively to improving urban infrastructure services and housing. Instead, city authorities have started to seek finance in national and global markets, but this practice is only in its infancy. The report concludes that countries and cities will have to rely mainly on the savings of their citizens.

The report shows that mortgage finance has been expanding during the last decade and is increasingly available in many countries, which was not the case 20 years ago. New mortgage providers have emerged, including commercial financial institutions and mortgage companies. However, the report emphasizes that only the middle and upper income households





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Financing Urban Shelter



have access to such finance while the poor are generally excluded. While in some countries there is evidence of a new (and emerging) middle class, particularly in China and India, in other countries, the middle class has actually disappeared joining the poor. As a result, the Report points out that the problem in many developing countries and even in some developed countries is not that housing is too expensive, but that incomes are too low.

Therefore the report argues for the continuing and necessary contribution of the public sector towards financing shelter for the urban poor, as many households, even in developed countries, cannot afford homeownership or market rents. While social housing is becoming less important in Europe and in countries with economies in transition, the need to provide shelter that is affordable to low-income households still exists, including in developing countries.

Complete houses available through mortgage finance are well beyond the reach of the lower income groups, because they are unable to meet the deposit and income criteria set by conventional mortgage institutions. Instead, the report describes the innovative, 'informal' ways that the poor finance the construction and improvement of their homes. Poor people's access to shelter finance may depend upon social networks based on religion, family or ethnicity. In this situation, the majority of urban poor households can only afford to build incrementally in stages, as and when financial resources become available.

In response to this, microfinance institutions have started lending for low-income shelter development and have become very important in the last decade or so. The report also shows that guarantee schemes can, by providing credit enhancement, go a long way in broadening the appeal of microfinance institutions to lenders.

Another important trend in the last decade has been increasing interest in shelter community funds, which are often linked to housing cooperatives as well as rotating savings and credit societies. Community-based financing of housing and services has been used for both settlement upgrading and for building new housing on serviced sites. It has also been used to enhance the access of poor households to housing subsidies by providing bridge financing. The report concludes that, in light of the general success of small loans and the increasing urbanization of poverty, community funds have many advantages for low-income households.

Constraints to mobilizing financial resources for investment in shelter development are both financial and non-financial in nature. Non-financial constraints include land legislation that makes it difficult to use real estate as effective collateral, as well as inappropriate national and local regulatory frameworks governing land use, occupancy and ownership. In light of this, the report analyses the role of secure tenure in housing finance and highlights the need for legal and institutional reform designed to protect the rights of both lenders and borrowers as well as to enhance access to credit.

Finally, *Financing Urban Shelter: Global Report on Human Settlements 2005* emphasizes the fact that finance is only one dimension of securing sustainable solutions that can fill the gap between the two extreme outcomes of current systems and processes: affordable shelter that is inadequate; and adequate shelter that is unaffordable. The report therefore concludes that the locus of policy attention should be on both the cost of housing (the supply side) and the level of payment received by workers (the demand side). *Financing Urban Shelter: Global Report on Human Settlements 2005* will help governments, local authorities and all Habitat Agenda Partners to identify opportunities for addressing the shelter affordability gap and to put in place financing mechanisms that are more able to meet the shelter needs of the urban poor.

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