



UN-HABITAT

Financing Urban Shelter



FOREWORD

Reaching the objectives of the Millennium Declaration agreed by all governments will require us to achieve significant improvement in the lives of slum dwellers. That, in turn, cannot be done without sound and sustainable economic development policies conducive to the establishment of a strong shelter sector. As emphasized in *Financing Urban Shelter: Global Report on Human Settlements 2005*, one of the key challenges in meeting the Millennium Declaration objective on slums is mobilizing the financial resources necessary for both slum upgrading and slum prevention by supplying new housing affordable to lower income groups on a large scale.

In response to the Millennium Declaration objective of achieving a 'significant improvement in the lives of at least 100 million slum dwellers by 2020', *The Challenge of Slums: Global Report on Human Settlements 2003* presented the results of the first global slums assessment by the United Nations. It revealed a staggering number of slum dwellers – about 924 million in 2001. The current projection is that, without concerted action by governments and their partners, the slum population will increase by slightly more than one billion in the next 25 years, to about two billion in 2030. Providing better shelter for all these will require better, more effective and sustainable financing mechanisms that truly benefit the poor.

Financing Urban Shelter: Global Report on Human Settlements 2005 provides a timely assessment of current trends in the financing of urban shelter. It examines the characteristics and performance of conventional mortgage finance, highlighting its strengths and limitations. It further looks at the financing of social and rental housing, especially through subsidies, as well as emerging trends in meeting the specific shelter finance needs of urban poor households.

The report shows that small housing loans, disbursed through housing microfinance institutions, are among the most promising developments in housing finance of the past decade. It also highlights the increasing popularity of shelter community funds for upgrading informal and slum neighbourhoods. The growth of both financing mechanisms is a highly encouraging response to the shelter needs of the urban poor, many of whom develop their housing incrementally in progressive stages.

The report also emphasizes the need for robust and efficient conventional mortgage finance institutions, especially for the middle- and upper-income groups that can afford the housing loans offered by such institutions. Experience has shown that, without sustainable mortgage financing, higher income groups often resort to appropriating for themselves shelter opportunities developed for the poor.

It is my hope that, by highlighting the impacts of current shelter financing systems on low-income households, and by identifying the types of financing mechanisms that appear to have worked for them, this report will contribute to the efforts of the wide range of actors involved in improving the lives of slum dwellers – including governments at the central and local levels, as well as non-governmental and international organizations.

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