



**International tripartite conference on urbanization challenges
and poverty reduction in African, Caribbean and Pacific countries**

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**Financing affordable housing and basic infrastructure as part of
slum upgrading**

I. Challenge

1. The financial resources required to tackle the shortage of housing and basic infrastructure are enormous. While the exact worldwide need for affordable housing is unknown, the estimated 1 billion slum-dwellers globally (250 million in Africa) provide a clear indication of the unmet demand for affordable quality housing. United Nations estimates of the resources required to tackle slum improvement and prevention suggest a figure of \$20 billion per year over the next 15 years (\$300 billion in total), which far exceeds the current level of investment in slum upgrading and prevention.
2. Slum-dwellers are already making significant investments to upgrade their housing and communities, particularly when tenure is secure. Most urban poor households, however, can only afford to build incrementally as financial sources become available. These stages may be separated by months or even years. It is therefore imperative for national and international institutions to 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 prohibit incremental building.
3. Furthermore, most national shelter policies are based on the provision of independently serviced single household dwellings owned by their occupants. This is, however, by no means the main form of occupancy by households living in poverty. Instead, many people live in buildings occupied by many households. There is much to be gained by encouraging multioccupied housing development where permitted by local norms.
4. Microfinance institutions have tended to rely on grants to raise equity for financing incremental home construction, but their ability to go to scale has frequently been limited by the amount of grant financing available. These constraints have resulted in extremely limited and expensive finance available for housing and infrastructure. In Malawi, for example, the number of outstanding housing loans did not surpass 2,000 in 2007 and it is estimated that less than 1 per cent of all adults have access to mortgages from commercial banks on current terms.
5. The problems of affordability in the least developed countries are considerable. The supply of mortgages has been limited by many factors, including low incomes that barely cover subsistence needs for a considerable proportion of the population, a lack of formal financial institutions that can capture people's savings and macroeconomic instability. The recent financial crisis has had a negative impact on housing finance systems and has particularly deterred commercial provision of mortgage finance.
6. A key deficit of many slum upgrading initiatives in the past has been that the private sector has usually not been sufficiently encouraged, willing or able to develop and provide solutions that would

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facilitate access to shelter finance for low-income households. An important lesson is therefore that sustainable financing for slum upgrading requires the mobilization of local funds from the private sector, communities and Governments, in addition to the support of international organizations.

7. To make the various interventions effective in the long run, it is therefore important to combine interventions from outside with the mobilization of domestic capital for low-income housing, upgrading and basic infrastructure. Furthermore, improved capacities and regulatory frameworks and well-targeted interventions are needed.

II. Response

A. Advocacy

8. The 2005 flagship report of the United Nations Human Settlements Programme (UN-Habitat) *Financing Urban Shelter* presents successful global experiences and innovative examples of financing slum upgrading. The report advocates various approaches for financing affordable housing and basic infrastructure.

9. Most recently, the special theme of the twenty-second session of the UN-Habitat Governing Council, held in March 2009, focused on promoting affordable housing finance systems in an urbanizing world in the face of the global financial crisis and climate change.

10. In addition, UN-Habitat has also provided inputs to several regional ministerial conferences that focused on this topic. The second session of the African Ministerial Conference on Housing and Urban Development, in July 2008, focused on overcoming the finance and resource challenges for sustainable housing and urban development. To enable funding for affordable housing the Abuja Plan of Action requested Governments to promote public-private partnerships as a viable strategy for providing affordable housing and infrastructure by:

- (a) Developing guidelines for public-private partnerships and building the capacity of public institutions to negotiate such partnerships;
- (b) Promoting innovative ways to support private sector provision of housing finance;
- (c) Facilitating access to private sector resources for affordable housing finance through savings schemes, microfinance, community funds and flexible mortgaging;
- (d) Ensuring the provision of serviced land and infrastructure to encourage private sector investments in housing.

B. Policy

11. In terms of advising national Governments on housing finance matters, UN-Habitat has been involved since 2005 with various Governments in reforming housing finance policies, most notably through the 2005 East African peer exchange meeting and the 2006 West African peer exchange meeting, which brought together key public and private stakeholders in housing finance and raised the issue of pro-poor housing and access to finance. A second crucial outcome was the finalization of country action plans, which set out the crucial challenges and recommendations for change.

12. Policy recommendations mainly tackle the profound gap that exists between the limited supply and the enormous demand for housing, which necessitates private lending for affordable housing. Macroeconomic conditions, monetary policy frameworks and popular participation are increasingly becoming favourable for private lending for affordable housing, but reforms and regulations are not yet in place. Financial intermediaries provide a bridge between banks and the previously un-bankable, and are, therefore, a key ingredient in financing affordable housing and infrastructure. Government enablement of communities and markets is a prerequisite for greater private lending for affordable housing. It also becomes apparent that cooperation in each country between the ministries of finance, lands, housing and infrastructure is essential to promoting investment in affordable housing.

C. Programmes

13. The development of the UN-Habitat programme to promote affordable housing and urban infrastructure as part of slum upgrading is based on following key concerns:

- (a) The identification of sustainable ways of guaranteeing adequate and affordable shelter for the urban poor also requires close attention to shelter sub-markets;

(b) There are various levels of housing demand (from very low income to low income up to middle income) that can come into conflict with one another. This undesirable outcome can be defined as market poaching, which is an outcome whereby more affluent social groups can end up absorbing resources (financial, spatial or otherwise) that are of vital importance for the more vulnerable members of society;

(c) Small-scale landlords in informal settlements are a major source of affordable housing for a growing majority of households living in poverty, but few initiatives to assist them exist. Financing schemes for small-scale landlords in the context of slum upgrading are necessary;

(d) Improvements in housing can facilitate home-based income generation, including room rentals;

(e) Lower-income borrowers are no more likely to default on their loans than those with higher incomes. Repayment rates can be further improved by flexibility in where and when payments are made. Travelling banking vehicles visiting low-income neighbourhoods, banks that are open outside office hours and repayments through local supermarkets can all assist lenders in minimizing defaults and encourage borrowers to keep up with their payments;

(f) The mobilization of local and domestic capital, one of the key missing links in the low-income housing finance equation, is a central component of this strategic vision;

(g) For the implementation of these activities, civil society organizations play an important role at the normative and operational levels. At the normative level, they contribute to global, national and local advocacy, while at the operational level they provide partnerships in connection with project implementation, which ensures wider and more inclusive impacts.

14. Recently, UN-Habitat piloted comprehensive approaches using the Slum Upgrading Facility and the experimental reimbursable seeding operations. The Slum Upgrading Facility pilot programme, established in 2004, seeks to deal directly with what is referred to as the “finance gap” in slum upgrading, to make better use of decentralization and public administration from central government departments to local authorities and to respond to the liberalization of the domestic financial service industry. Today, the programme has been established to design, field-test and scale up financial instruments that will capture domestic capital, whether wholesale or retail lending from banks for affordable construction, mortgages or home improvement loans, or debt financing from local capital markets for infrastructure in slums.

15. The comprehensive approach consists of a blending of grants, capacity-building and technical assistance to poor urban communities and municipalities. Activities are implemented in close cooperation with existing international development stakeholders in housing finance and together with who could be termed the “clients”, the slum-dwellers – those who are taking the financial risk of repayment.

16. The experimental reimbursable seeding operations initiative relates to projects that have been designed to catalyse domestic investment capital. It provides models for national Governments relating to how they can enable financing for affordable housing through the private sector, microfinance or community finance institutions. Seed capital in the form of loans or credit enhancements is provided to banks or microfinance institutions to enable loans for low-income housing, upgrading and infrastructure, implemented in close partnerships with national and local Governments. The target groups of the products are either low-income clients themselves or stakeholders involved in the provision of low-income shelter. The initiative aims to prove that lending for affordable housing is indeed a viable and sustainable activity that should be supported and encouraged as a small step towards sustainable urban upgrading.

D. Capacity-building in municipal finance

17. When meeting the challenge of financing affordable housing and basic infrastructure as part of slum upgrading, capacity-building is a key component to achieve the following:

(a) Improved systems of accounting and revenue collection for the public sector including finance departments and local authorities;

(b) Linking municipal finance systems with land management activities, enabling better urban management and increased revenue from land and property taxes. This can be done, for example, by creating a property database and a computerized taxation system;

(c) Improved service delivery through smart capital investment projects.

III. Key issues, players and roles for improving access to finance in the context of the Participatory Slum Upgrading Programme

18. The challenge of financing affordable housing and basic infrastructure and the most recent approaches by UN-Habitat in response are incorporated in the Participatory Slum Upgrading Programme. Urban profiling provides data and initial analyses of the housing and basic urban service sectors. Main bottlenecks and potentials, stakeholders and development needs are identified. In the second phase, the action planning, UN-Habitat urban financing approaches assist in mobilizing resources for implementing identified interventions and contribute to the fact that:

- (a) Activities at the country level capture all relevant stakeholders involved in the urban development process;
- (b) International organizations, national Governments and the private sector in developing countries are engaged to establish policy frameworks conducive to investment in affordable housing and to apply innovative mechanisms for housing finance for low-income citizens;
- (c) Policy and advocacy advice, in addition to technical assistance in programme activities, are provided.
- (d) Knowledge and demonstration projects are shared;
- (e) Investments in the housing and infrastructure sector continue so that the living conditions of vulnerable populations continue to improve;
- (f) Public incentives for private sector investments in housing and infrastructure are developed.

19. The urban financing component contributes to the Programme's goal of mobilizing a variety of urban stakeholders and partners, developing innovative urban investment and funding schemes and targeting urban slum-dwellers directly.

IV. Conclusions

20. The Participatory Slum Upgrading Programme assists Governments and local authorities to consider the adaptation of innovative policy, advocacy, programme and capacity-building activities for improved living conditions by assisting in:

- (a) Reallocating a reasonable level of domestic resources;
- (b) Mobilizing public resources through a transparent and rigorous use of existing public revenue-generation mechanisms, including property taxes;
- (c) Actively seeking donor support for funding pro-poor programmes linked to increased public sector and administrative efficiency;
- (d) Identifying blockages and introducing incentives for the expansion of housing mortgage financing;
- (e) Establishing national housing funds and direct subsidies;
- (f) Encouraging fund disbursement through domestic financial institutions that have to extend their reach to these clients. Complementary grants, in turn, should be allocated for increasing the capacity of local stakeholders in project development and financial management and assisting national Governments in developing conducive policy frameworks to encourage investments by businesses and communities;
- (g) Involving the working poor and their organizations in every step of policy review, reform and implementation, from the national to the local levels.

21. For a successful implementation of the Participatory Slum Upgrading Programme in African, Caribbean and Pacific countries, country-level strategies must incorporate the contributions of national Governments, local authorities and utilities, civil society organizations, the private sector and the international community. The Programme will enable Governments to establish a platform to exchange views, information and experiences on policy changes and sustainable urban financing approaches.