

THE HOUSING CRISIS

Over the next 25 years, over 2 billion people will add 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.

Though this challenge for housing and shelter exists in a context of unprecedented global growth, the reality in most developing countries is that there is widespread poverty and inequality in cities, with millions of people living in slums without adequate basic services. Financing shelter is important if the world is to secure environmental sustainability, economic prosperity, cultural diversity and social equality. However, in the next 20 years, there is little likelihood that in many developing countries conventional sources of funds will be available for investment on the scale needed to meet the projected demand for urban infrastructure and housing.

Already the 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. 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.

In the face of such demand for housing and shelter, many developing countries around the world continue to face deficits in public budgets and weak financial sectors. The size of public budget relative to GDP is only 11 per cent for a country like Bangladesh, while it is about 41 per cent for a country like Belgium. The global funding and assistance provided barely allows for the delivery of service and international financial assistance to poor countries is clearly not meeting the current demand for housing finance.

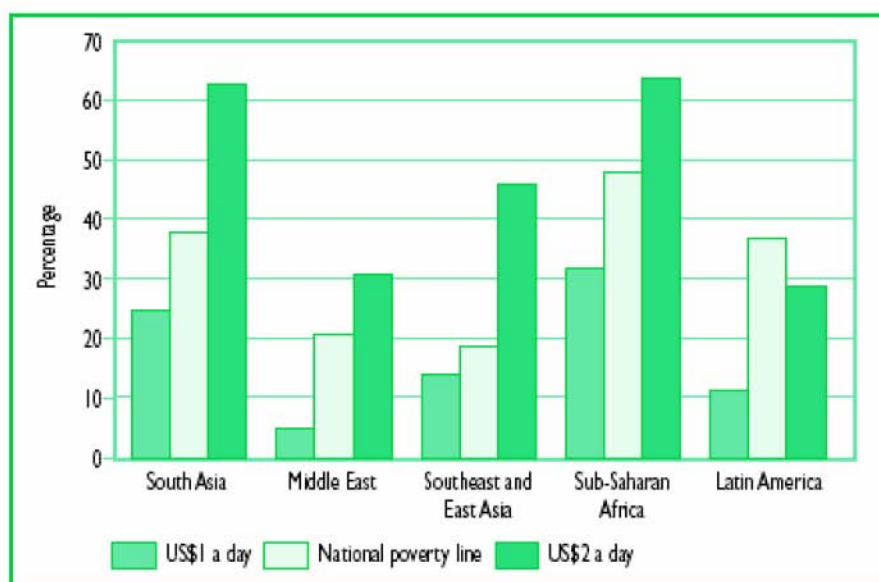
The situation is compounded by the fact that many countries are suffering from a legacy of external borrowing. Some countries in Africa have a debt service to GDP ratio as high as 400 per cent. Developing countries also suffer from a lack of domestic savings within the national economies, with African countries only managing to have a savings rate of about 14 per cent as opposed to 21 per cent in Europe and 35 per cent in South East Asia.

Though local governments are looking to other sources, domestic and external, to supplement their own budgets, while also seeking finance in national and global markets, they are confronted with the additional cost of maintaining existing housing stock. Financial constraints frequently lead to deferment of expenditures on maintaining existing assets leading to crisis management, impairing the efficiency of many cities in the developing world.

In conclusion, it must be recognized that, despite considerable effort to encourage urban and infrastructure policy reform and capacity-building in the developing countries, there is little evidence of any sustained large-scale impact on the housing sector and the provision of urban infrastructure.

It is against this background that the Global Report on Human Settlements: Financing Urban Shelter sets out innovative ways of encouraging greater investment in housing, especially for the urban poor.

POPULATION BELOW INCOME POVERTY LINES IN FIVE DEVELOPING COUNTRY REGIONS



WORLD URBAN POPULATION

| | |
|---|---------------|
| Urban population (2003) | 3,043,934,680 |
| Estimated urban population (2030) | 4,944,679,063 |
| Additional urban population 2003–2030 | 1,900,744,383 |
| Population living in slums (2001) | 923,986,000 |
| People requiring housing and urban services by 2030 | 2,824,730,383 |

Source: Statistical Annex of this report

GROSS DOMESTIC SAVINGS 2003

| | Percentage of GDP | Current US\$ |
|-------------------------|-------------------|-----------------|
| Sub-Saharan Africa | 14 | 1,783,690,767 |
| Middle East | 24.5 | 27,261,325,959 |
| Southeast and East Asia | 35 | 321,936,208,750 |
| South Asia | 13 | 37,536,526,160 |
| Latin America | 16 | 38,121,260,000 |
| North America | 19 | 817,705,450,000 |
| Europe | 21 | 305,467,000,000 |

Source: World Bank, 2004e.

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