

Background Paper on Shelter Finance

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Abstract

UN-Habitat suggests that one in every three people in the world will live in “slums” within 30 years. This paper analyses innovations in shelter finance that may help to avoid this situation.

The urban poor, both as individual households and in terms of their organized collective capacity, face two very serious constraints. The first is their income poverty and their limited ability to invest in shelter. The second is an inability of state agencies to provide adequate land with access to basic services within a regulatory system that does not penalise the poor for this limited ability. This paper describes how lack of affordability is a critical problem with only a minority of residents in most Southern towns and cities able to afford complete houses and hence be considered for mortgage finance. The remaining residents build incrementally, securing shelter by small repeat investments in land, infrastructure and services, and the dwelling. A critical component of the development of these incremental settlements is collective action, both to install services directly, and to lobby the political system for neighbourhood investments.

The paper discusses how four shelter finance sectors have developed to address shelter needs: mortgage finance, social housing or public shelter finance, micro-finance and community funds. Recent state programmes may assist low-income households to purchase complete housing units and/or help with the upgrading of low-income neighbourhoods. The option of completed housing units may still be limited due to the scale of poverty. The spread of small-scale loan finance has been considerable with the growth of micro-finance for shelter and community funds that offer collective finance for residents seeking land security and service investments. The paper discusses, in Section IV, four innovative approaches, the first of which is the attempt to make mortgage finance more relevant to the lower income households, and those working in the informal sector. The other three approaches offer alternative strategies for supporting the process of incremental development; and each is a strategy that has reached scale within a national context. Section V looks forward to

what might next be done. Considerable progress in developing new and effective strategies has been made but these strategies are often challenged because of limited acceptance of incremental improvements, and many self-interested actions by higher income and more powerful groups. The concluding section considers what is needed to catalyse programmes that may operate at the scale of those considered in Section IV, and what may help these programmes grow further.

Executive Summary

Problem analysis (Section I)

Many recognise that the shelter prospects for those living in Southern towns and cities are bleak. UN-Habitat’s Global Report on Human Settlements in 2003 suggests that one in every three people in the world will live in slums within 30 years. It further estimates that 940 million people — almost one-sixth of the world’s population — already live in squalid, unhealthy neighbourhoods, mostly without clean drinking water, sanitation, public services or legal security.

The nature and scale of shelter improvements are influenced by both the scale and modalities of finance. Shelter has become a commodity for increasing numbers of low-income households. The associated costs mean that, in the South, most urban households live in settlements and homes that are developed incrementally with small investments over a period of time to secure tenure and services, and develop the dwelling. Improving this shelter requires significantly more than the capacity to make financial investments; most notably, it requires security of tenure and the acquisition of basic services and infrastructure. The lack of affordable complete housing prevents households from accessing conventional (mortgage) finance. Their financial exclusion is compounded by a preponderance of informal incomes and the prevalence of informal land titles; consequently, they are denied loans from formal financial institutions. In the vast majority of cases, micro-finance facilities are not available. Housing improvements are financed primarily by savings as there are few alternatives. In addition to

finance, families require social and political processes that ensure shelter is affordable and accessible at scale; these are rare. Hence households live with insecure tenure, poor quality shelter, and inadequate services, sometimes at very high densities.

The relationships between inadequate shelter and urban poverty (Section II)

Urban poverty is a significant cause of inadequate shelter. Lack of finance requires individuals or households to rent poor quality accommodation or to build informally and often illegally. For those who build, consolidation is generally slow as a result of both an absolute lack of finance and an inability to spread costs through acquiring loans.

Low-quality shelter compounds the problems of poverty. It is associated with significant health risks, with greater likelihood of morbidity and with premature death. Poor health also increases the incidence of poverty, reducing the opportunities to improve housing. Badly located neighbourhoods increase the costs of securing livelihoods, adding to the difficulties of securing adequate incomes.

What is being done (Section III)

Mortgage finance: The last two decades have been associated with financial deregulation, increasing numbers of financial agencies and growing competition in financial services. Many governments have sought to extend mortgage finance to those previously unable to afford such loans. State measures have focused primarily on reducing the cost of lending, and supporting the expansion of mortgage finance systems (such as secondary mortgage markets and reducing risks) within the broader context of financial deregulation.

Social housing: Initiatives in the last two decades have been centred on the state as enabler rather than provider. Traditional government strategies of building limited completed units and/or subsidising mortgage finance, have proved ineffective in reaching the poor. Recognition of this has helped catalyse a new generation of direct demand subsidies, often associated with

the Chilean housing subsidy system. Capital grants enable low-income groups to secure mortgage finance as they provide top-up loans for selected dwellings. Beneficiaries are generally required to save a proportion of the housing cost.

Micro-finance: The use of micro-finance loans for housing investment has developed more slowly than micro lending for enterprise development, in part due to the larger loan size and perceived lack of loan productivity. Over time this assumption has been challenged and there are now many programmes offering loans of US\$500-5,000 for housing improvements. Micro-finance for shelter has been “discovered” in the last five years although many experiences began before this date. Shelter micro-finance meets the needs of low-income residents with reasonably secure tenure who can afford to repay small loans.

Community funds: Community funds are financial mechanisms that address the needs of those living without secure tenure, adequate services and safe housing by offering collective investments for shelter improvement. These funds may support one or more of the following: land purchase; land preparation; infrastructure installation; service provision; and housing construction, extension and improvement. A common distinguishing characteristic is the way the purpose of funding is perceived. Many community funds use “creative finance” to trigger a development process – not simply to increase the access of the poor to financial markets. Savings activities help to build up social capital in low-income neighbourhoods and provide an institutional structure through which to negotiate for state reforms and pro-poor policies. This strategy seeks to simultaneously address financial and political constraints.

Current innovations (Section IV)

Innovations in addressing shelter needs are currently coalescing around four models, all of which have financial dimensions. The four models have different objectives and target groups, and hence different funding modalities. They should be considered as complementary, as they address different target groups, all of whom need improved housing. The four approaches can be compared along a single spectrum which

is a core challenge for human kind in the twenty-first century, the continuum between individualised and collective responses to needs and demands. The four approaches are:

- **market led** – down-marketing mortgage finance aimed at those who can afford to pay for complete housing (sometimes subsidised) and who are acceptable to mortgage companies.
- **integrated neighbourhood development** – upgrading and greenfield site with optional housing micro-finance. May involve providing support for titling and tenure, infrastructure improvements, participatory planning, housing improvement loans, or housing construction loans for basic units.
- **comprehensive city-wide inclusive urban development** – multi-option development of low-income settlements. Inclusive development requires a shift in focus from particular neighbourhoods to urban centres.
- **federated community-driven development** – locally managed improvements in alliance with state agencies coordinated by an autonomous network or federation of grassroots organisations. Federated savings schemes support collective self-help and negotiate with the state for resources to contribute to improvements.

This section highlights a number of programmes which have been successful in providing shelter improvements to large numbers of low-income families. These experiences demonstrate the need to address issues of access to land tenure, basic services and local authority reforms, alongside shelter finance. They also demonstrate strategies to reduce costs and for cost sharing, together with new modalities for subsidy finance.

What next? (Section V)

The innovations profiled in Section IV have, for the most part, reached over 5 per cent of the target group on a national scale. What is now needed is an understanding of how these initiatives managed to move from the project level to programmes of this size; and an

understanding of how these initiatives and others like them can grow into programmes that offer solutions on a scale that matches the scale of need.

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Section I. The need for shelter improvements

Shelter finance is critical to enhancing access to affordable housing.¹ The development of urban areas reflects who has money and how much. As this paper highlights, the nature and scale of shelter opportunities are influenced by both the scale and modalities of finance. The typical model of residential urban development in the North involves the housing purchase of a complete unit (dwelling, serviced site, land tenure) in a specific financial transaction, or the rental of such a unit from the owner. However, in the South, associated costs make this form of shelter investment unaffordable, and as elaborated below, the historical trajectory of institutional and economic development has resulted in an alternative pattern of housing development. In the South, as highlighted by Annex 1, most urban households live in settlements and homes that have been developed incrementally, also called progressive and phased development. Incremental housing development requires much more than the capacity to make financial investments. Most notably, it requires security of tenure and the acquisition of basic services and infrastructure, both of which are as much social and political processes as financial transactions.

The sort of loan finance needed by low-income households (whose income comes from the informal economy) for investments in incremental dwellings is rarely available through the formal commercial financial sector. In the vast majority of cases, these households are ineligible for commercial mortgage finance and micro-finance facilities are not available. Households seeking to invest in their shelter (land, infrastructure and housing) are forced to use their own limited savings, seek additional resources from family and friends, borrow in informal credit markets or, in some cases, from groups like credit unions. Sources of longer-term finance are extremely limited and interest rates may be high. Without loans, construction is slow and sporadic. Incremental developments usually follow the livelihood fortunes of individual

families. However, infrastructure improvements and secure tenure generally require an element of collective action both through investment in physical construction and in lobbying for the necessary political support; they require state investment in bulk supply in addition to collective and individual investment at the neighbourhood level.

This paper analyses present trends and directions within shelter finance; it includes an analysis of the problem (Section I) and a description of the frameworks for shelter finance currently offered (Section III). This paper considers strategies that are contributing to reducing shelter needs and analyses the operation of successful programmes (Section IV). Section II reviews the connections between shelter finance and other summit themes while Section V looks forward at what might next be done.

Mortgage finance

In 1993, it was argued that most Southern countries no longer lacked a sustainable viable institutional housing finance system.² Further, although such institutions may exist, they are not nearly capable of meeting current need. In most parts of Asia and Latin America, housing finance institutions, orientated to the provision of mortgage finance, remain limited in scale, addressing the needs of a substantive minority of homeowners. In sub-Saharan Africa, such institutions appear insignificant. Home-ownership rates in the South may look high,³ but this reflects the widespread use of incremental development strategies involving families squatting or purchasing plots within informal subdivisions.

Affordability: A major problem is that mortgage finance is only available for complete legal dwellings, and most incomes are too low to purchase such housing. As elaborated in Annex 2, households simply cannot afford the costs of completed dwellings that are provided by the formal construction industry to approved regulatory standards. In summary, in many

¹ Renaud 1999, 761

² Okpala 1994

³ UN-Habitat 2005

countries of Latin America and Asia well over half the population cannot afford formal loans for conventional housing. In countries such as Mexico and Colombia, this proportion falls to about 40 per cent while in countries such as the Philippines and Suriname, it rises to over 70 per cent. In Africa, the use of mortgage finance is even more limited. As noted in Annex 1, the vast majority of households build incrementally. Indicative studies suggest that less than 10 per cent of households can afford to purchase complete homes using mortgage finance.

Other problems related to low affordability are the high costs of administration relative to loan size.⁴ Macro-economic factors are also important. Widespread poverty combined with low levels of economic development means that the financial sector is weak. With many people on low incomes that barely cover their subsistence needs, savings are small and there is a lack of formal financial institutions that can service these savings. Low incomes and macro-economic instability have prevented institutions developing ways to address problems and to facilitate the flow of long-term funds.⁵

Informality: In addition to low incomes, the relevance of mortgage finance is limited because urban land, property development and livelihoods (labour markets) are associated with a high degree of informality that is incompatible with mortgage requirements finance. There are a number of distinct dimensions to this informality; land, construction and incomes.

For many homeowners in the South, titles are problematic. It may be that formal registration systems are lacking, or there may be multiple claims on the land. Often the lack of titles reflects shelter strategies such as squatting or the purchase of informally divided agricultural land. Overlapping customary and western land tenure systems may further exacerbate the problems

4 Ferguson 2003, 25; and Lall and Lall 2003, 16

5 An example of the scale of the problems is given by Zambia; between 1985 and 2000 the average mortgage interest rate oscillated between 20 and 90 per cent per annum (Groves 2004)

related to titling.⁶ Measures to improve access to titles have not necessarily resulted in increased access to mortgage finance. Research on a state programme issuing land titles in Peru suggests that informal incomes are a continuing and significant deterrent to accessing mortgage finance and formal employment may be required to obtain credit.⁷

Mortgage companies refuse to provide finance to those who do not work in the formal sector and/or who cannot verify their incomes. Even if some income is secured through formal labour markets, informal employment is often a further and significant source of income. The size of the informal economy (in terms of output and employment) has long been recognised. One recent study suggested that the size of the informal economy measured by percentage share of GNP is 41, 42 and 26 per cent for Africa, Latin America and Asia respectively.⁸

Moreover, even when land titles and formal employment are in place, formal financial institutions seem nervous about lending for anything other than a completed modern residential unit. The Kenyan Banking and Building Societies Act explicitly forbids financial institutions from lending for plots of land with no or only partially constructed housing on it.⁹ The lending conditions of the Housing Finance Company of Uganda require land title, together with a number of further conditions: the building must be located in an urban area, have full services, be constructed of permanent materials and have local authority approval.¹⁰ Such resistance to incremental housing is due to perceived risks associated with the construction processes and potential contravention of building regulations.¹¹

6 See Llanto 2007, 5 for a discussion on this in the context of the Philippines

7 Calderon 2003; Buckley and Kalarickal, 2004, 22

8 Schneider 2002

9 Malhotra 2003, 225

10 Okwir 2002, 95

11 Even when backed by the state such as in Brazil (Rodriguez and Rolnick 2007)

Additional factors: Those that can afford complete homes and mortgage finance, and who can offer acceptable collateral (either through titles or employment status), may face further barriers. In some settlements, it is difficult for low-income residents to reach the banks during business hours because of their distance from low-income settlements.¹² Gender discrimination means that women find it particularly hard to secure formal housing finance.¹³ The formal requirements of financial institutions may be difficult for those of the poor who have limited literacy skills and are not familiar with formal processes.

The mortgage industry's perspectives on these problems are summarised in a recent study from Angola where the rejection rate by banks for applications for housing loans was 82 per cent in 2002.¹⁴ Some reasons banks offered for refusal of housing loans were:

- The lack of clear land legislation that would allow property to be used as guarantee;
- The long loan periods the bank must endure in order to recoup their investments;
- The lack of a government policy on subsidising housing credit;
- Lack of title documents by most clients;
- Lack of a client culture of repayment of debts.

Few government programmes

Governments have made numerous but generally ineffectual efforts to assist the urban poor to secure adequate shelter (see Annex 3 for some examples). Irrespective of the provision of finance, in many towns and cities, state agencies have added to the problem of inadequate shelter with their inability to provide support at scale, with their reinforcement of the dominant vision of a complete modern housing unit, and with a legal and regulatory structure that results in most incremental development being illegal.

The performance of state-owned housing institutions in the South has been widely criticised. It has been argued that they have been particularly unsuccessful in strategies to support mortgage lending.¹⁵ Many housing programmes were only ever intended for limited groups of workers and offered directly built, complete public housing units sold at a considerable discount with loans that were never repaid.¹⁶ There have been attempts in some countries (notably Latin America) to introduce financial processes to assist formal workers to invest in housing.¹⁷ Although some success has been achieved, little consideration was given to those with the lowest incomes. In some other cases, attempts had greater but limited effectiveness; for example, in India, the Housing and Urban Development Corporation (HUDCO) has provided funding for the construction of 14.4 million dwelling units of which 95 per cent have been allocated to low-income and otherwise disadvantaged households. However, the scale is inadequate and repayments have been poor, particularly in recent years.

Such strategies often represented a significant transfer of public funds to the few who received the dwellings and did little for the many who remained without adequate housing. They re-emphasised a vision of shelter, as a complete modern unit, unaffordable to most. The ubiquitous nature of this vision reinforced a regulatory and legal framework that defined the most common shelter strategy, that of incremental development, as illegal. Official responses recognised, through support for site and service programmes, the inadequacy of the state's strategy of supporting only completed housing units. Site and service programmes have been an attempt to address the supply constraint on legal land titles and, it was hoped, would enable urban dwellers to more speedily secure adequate shelter. Whilst they have been effective, supply has been lacking, location has not always been well selected, beneficiaries are often not the target group, and buildings are often in contravention

12 Biswas 2003

13 Datta 1999, 192-3

14 Ministério das Obras Publicas e Urbanismo, A Privatização do Stock Habitacional Público, Luanda 2003 quoted in Cain, forthcoming

15 Daphnis 2004, 2

16 Ogu and Ogbuozobe 2001, 477; Hardoy and Satterthwaite, 1989, 107-111; Alder and Mutero 2007
17 Stein 2007, 4

of the regulatory process. Such programmes are not being widely used at present.¹⁸

Despite both the acknowledged failure of past policies and the neo-liberal economic orthodoxy, state intervention in housing markets remains a popular government strategy. One author noted recently that "...It appears that countries ... in Latin America allocate from one to 5 per cent of government budgets for housing subsidies."¹⁹

The political interest in housing subsidies has resulted in many attempts to support housing markets through financial measures such as: direct interest rates reductions, allowing mortgage interest to be deducted from income tax, support for housing savings, support for loan insurance, support for secondary housing finance markets and direct grants.²⁰ As is evident from the discussion above, such measures do not address the housing realities of the urban poor.

Incrementalism – The housing reality

Unable to afford either mortgage finance or complete dwellings, low-income residents finance home ownership through incremental development. Annex 1 includes information on the scale of incremental building strategies. For higher-income households, the land purchase may come first, with further investments being made as incomes increase and assets accumulate. For lower-income families, the first investment may be in shelter on a piece of land with uncertain security of tenure. Further investments are made as security increases. Infrastructure may be installed once connections to public networks have been secured. A shack is transformed into a more robust dwelling, with rooms being added, and flooring and roofing being improved with the use of permanent materials. Incremental development is affordable because the considerable investment required for adequate shelter can be made in small steps as finance becomes available and without having to pay the interest costs associated with larger loans. Investments frequently do not comply with

building regulations, further increasing the affordability of improvements. Financial investment is only one strategy; households frequently work together to achieve tenure security and to secure state investment in infrastructure improvements and connections to bulk services. Even in informal settlements there is a market in housing and land sales in such areas.²¹

The major source of finance for incremental developments is savings. In India, more than 80 per cent of housing finance comes from private savings, sale of assets and non-formal sources of credit.²² Only 5 per cent of those moving out of informal settlements into formal areas accessed formal housing finance to facilitate this move.²³ In Botswana, savings were again a critical source of funding for housing investment, with few other alternatives being used.²⁴ A study of 53 households in a *favela* in Rio de Janeiro (Brazil) found that over 60 per cent have used their savings irrespective of whether they had bought the property or constructed it.²⁵ None used an official bank. In Angola less than 2 per cent of the investment that families put into housing came from banks. Most funding for housing is borrowed from the extended family (62 per cent) and from friends (27 per cent).²⁶

Due to the lack of finance, many incremental shelters are built cheaply with temporary materials, and require frequent repairs due to damage (for example, from storms). In Hyderabad, one quarter of a sample of 224 households had recently repaired their houses.²⁷

Their uncertain legal status (for multiple reasons) in terms of land occupation and construction means that the urban poor live with the risk of eviction. As well as many large-scale evictions there are other small evictions that take place in

18 See Alder and Mutero 2007, 4 for an example of their decline in Kenya

19 Mayo 1999, 40

20 Hoek-Smit and Diamond 2003, 11-12

21 Porio and Crisol 2004

22 Biswas 2003

23 Somik V Lall et al 2006, 1031

24 Datta, 1999, 203

25 Sundgren 2003, 54

26 MINUA, Perfil Urbano em Angola, Luanda 2005, quoted in Cain (forthcoming)

27 Smets 2002, 77

Southern towns and cities on a daily basis. The relationships between building rules and standards, and bigger issues of city planning and development are highlighted by events in Zimbabwe in 2005 and by many other smaller eviction programmes.²⁸ The illegality associated with incremental housing development simply reinforces, for many, their second rate status as urban citizens. Illegality compounds the problems of informal shelter, increasing vulnerabilities due to eviction threats, and giving rise to bribes and coercive payments. Lack of legal tenure is the ostensible reason for governments not providing, or under-providing, services, further exacerbating individual and collective access to basic services and housing, and making it harder for families to achieve adequate housing. Furthermore, illegality creates a feeling among those with low incomes, of being “other” and secondary; a feeling reinforced by the stigma of living in some neighbourhoods and their association with crime.²⁹ The eviction of low-income residents from low-income settlements occurs within a discourse that emphasises formality as a necessary condition for urban “citizenship”. This is, in development literature, linked to colonisation processes and the creation of urban settlements with their “native locations”.³⁰ As a result, low incomes (one dimension of poverty) become compounded by social exclusion based on residency in a particular neighbourhood and accommodation in a particular type of dwelling. Political attitudes and strategies towards the poor confirm and consolidate this process. As discussed in Section IV, successful programmes combat such social and political exclusion.

Rental sector

For the poor, an alternative to constructing their homes incrementally is to rent them. In many of the larger cities, land is in short supply so households must choose between acquiring a plot in a remote location or finding accommodation to rent. In addition to the shelter needs of long-

term city dwellers, there is an ongoing demand for rental accommodation from temporary migrants and/or occasional workers.³¹ To accommodate these groups, there is a vibrant informal rental market in many low-income settlements in most Southern cities. In Accra (Ghana), for example, 37 per cent of households rent; and another 20 per cent live rent-free in a family house.³² There are widely differing arrangements with respect to rental markets. Sometimes small-scale landlords rent rooms on land where they are also living. Elsewhere, as in Nairobi, the prevalence of absentee landlords can lead to considerable problems with the quality of accommodation because of a lack of incentive to invest.³³

Tenants may be particularly vulnerable, facing difficult terms and conditions, with few alternative affordable options. In some cases they have restricted access to services.³⁴ Tenants’ demand for home ownership is evident once affordable programmes are available. In South Africa, tens of thousands of landless families (many renting backyard shacks) have joined the South African Homeless People’s Federation (now renamed the Federation of the Urban Poor) in anticipation of securing state subsidies for home ownership. In Goiania, a successful grassroots movement shifted 10 per cent of the city’s population from the rental sector to secure land through invasions of public common land.³⁵

There is currently greater interest in understanding the recent dynamics of housing investment in private rental accommodation, particularly in Africa. A recent study in Dar es Salaam highlighted the importance of rental income as a motivation for housing extension.³⁶ This study, of 33 households in two locations, also identified the shortage of capital as a major factor delaying rental investments.

28 Dialogue on Shelter 2005; for examples from Karachi see www.urc.org.pk

29 Somik v. Lall et al 2006 and Henry 2005

30 Myers 2003, 5

31 UN-Habitat 2003, 110

32 CHF International 2004, 2

33 Gulyani, S. et al. 2006

34 Smets 2002, 75; Mohamed, 1997

35 Barbosa et al 1997

36 Shenya forthcoming

In a small number of countries, the state supports low-income rental markets through direct provision.³⁷ However, this strategy is not widely used. In many countries, governments have been reducing their investment in public housing stock. Like the European transition countries, China has relatively recently begun to transfer to home ownership dwellings that had previously been rented primarily from state-owned enterprises but also from other state housing providers. Solutions include the encouragement of housing cooperatives, housing subsidies for use on the housing market, housing provident funds to assist with house purchase, and the building of housing for sale.³⁸ However, these developments are not relevant for low-income workers employed on temporary contracts and/or in the informal sector as they were previously denied, and continue to be denied, any housing entitlement.

Conclusions

The scale of inadequate shelter in Southern towns and cities is so enormous that it is one of a small number of global indicators to be given a Millennium Development Goal. The magnitude of this problem is such that, unlike other indicators, the aspiration to address half of the present need by 2015 is considered over-ambitious. Therefore the goal is to reduce by 100 million the estimated 900 million living with insecure tenure and inadequate services.

Unsurprisingly, housing markets continue to function within inadequate existing frameworks; outcomes range from (at one end) construction with legal tenure that generally complies with the regulatory conditions to (at the other end) dwellings in informal and sometimes illegal settlements with layouts and buildings that do not meet the stipulated standards. The market cannot ensure either that adequate quantities of land are zoned for residential development or that construction and service standards are affordable. Market transactions can only very partially address the need for infrastructure and

service investments. Arguably markets in housing finance function even less well than those in housing construction because of low levels of affordability and the scale of informality in Southern economies. Because families cannot afford the costs of a complete house, housing finance institutions have shown little interest in addressing their needs. A recent review of housing finance in Ghana by the Cooperative Housing Foundation highlighted the scale of this problem when it concluded that "... at least 35 per cent of Ghanaian households will not qualify for any kind of housing finance, including micro-finance."³⁹

To address this situation, state agencies are needed to ensure an adequate supply of serviced land, and to provide opportunities for housing-related saving and lending. Absolute poverty levels highlight the need for additional support to the lowest income households. Facilitating the spread of incomes across the life cycle through improved credit provision will help some households make required housing investments but will not always be appropriate. Providing credit assists higher income households to spread their incomes, but there is not much point in encouraging those with very low incomes into debt. Repayment difficulties can tax already overstretched incomes; evidence suggests that the poorest exclude themselves from credit programmes, creating inequities within the local neighbourhood, and struggle to participate if included. One of the challenges of housing finance is how to set up processes that are sensitive to both the opportunities and constraints of loan finance.

A range of strategies, tools and mechanisms have emerged to address these challenges, some of which are introduced in Section III. Section IV then identifies those approaches that are most productive in terms of addressing the housing needs of the poorest. One of the characteristics of these approaches is that they work, in an integrated way, to address the complexity of causes that combine to produce and reproduce inadequate shelter. Though they may be

37 Ho 2004, 486; Lamoureaux 1998, 71; South Africa Dept. of Housing www.housing.gov.za

38 Ping Wang et al. 2005, 1875-6

39 CHF International 2004, 23

concerned with the provision of shelter finance, such approaches go well beyond the simple provision of housing loans in their strategies to address the shelter crisis.

Section II. Urban poverty, causes and consequences

The themes of the four one-week seminars represent dimensions of urban poverty and are thus interrelated. Whilst it is difficult to represent the complexity of these relations within the small space available in this section, it is important to understand these themes and the ways in which they are correlated and inter-dependent. Such holistic thinking is required if interventions are to be successful in breaking the cycles identified and discussed below.

As outlined in Section I, urban poverty is a significant cause of inadequate shelter. Lack of finance requires individuals or households to rent poor quality accommodation or to build informally and sometimes illegally; no other options are affordable to many of those living in Southern towns and cities. For those who build, consolidation is generally slow due to both an absolute lack of finance, and an inability to spread costs through acquiring loans. The lack of affordable complete housing prevents households from accessing conventional (mortgage) finance. Their financial exclusion is compounded by a preponderance of informal incomes that do not allow them to get loans from formal financial institutions, and the prevalence of informal land titles. Housing is financed primarily by savings as there are few lenders of medium-term finance. Hence households live with insecure tenure, poor quality shelter, and inadequate services, sometimes at very high densities.

Low-quality shelter compounds the problems of poverty. In particular, poor-quality shelter is associated with significant health risks, with greater likelihood of morbidity and premature death. Poor health also increases the incidence of poverty, reducing the opportunities to improve housing. Also important is that poor location increases the costs of securing livelihoods, adding to the difficulties of securing adequate incomes.

Health risks and health problems related to poor quality housing

The overview of public health and its links by McGranahan (2007, Section Four) offers an understanding of the links between health and housing. In particular, it emphasises that poor quality housing and associated inadequacies in infrastructure and services result in a range of infectious and parasitic diseases and injuries. Particularly critical is a lack of access to adequate water and sanitation, which contributes to a range of diseases, including diarrhoeal diseases. Dense settlements built of low-cost materials are likely to catch fire, with risks of death and injury (as well as the destruction of belongings). Particular groups at risk include children, who may play in refuse dumps or face injury in overcrowded homes. Other issues include the additional risks related to high-density inner city areas; locations at risk from flooding, landslips, and mud slides; air pollution from multiple sources including fuel wood; pollution from local enterprises; and lack of waste collection. Hence it is argued that: "In urban settings of developing countries, the combined effects of old pathogens and new health risks, including environmental pollution and stress, are particularly high among the poor."⁴⁰ It is widely acknowledged that the incidence of HIV/AIDS is creating further problems for millions of poor urban households.⁴¹

The relationship between mental health and housing poverty has been little explored.⁴² In Cisne Dos (Guayaquil, Ecuador) 79 per cent of women said that they thought other women in the immediate area suffered from depression and 76 per cent acknowledging that they themselves had been depressed.⁴³ Poor mental health may be both a cause and a consequence of high levels of violence, which is a particular problem associated with some larger cities.⁴⁴ In addition to the mental stress, violence will lead to increased injuries and result in death.

40 Kabir, Rahman, Salway and Pryer 2000, 707

41 Kedir and McKay 2005, De Swardt et al 2005, Mabala 2006

42 See Hardoy, Mitlin and Satterthwaite (2001, 127-8); Blue (1996, 95) for an analysis in Sao Paulo

43 Moser 1997, 79

44 Sinha and Lipton 1999

Consequences of poor health for incomes

Poor health and poorly located housing combine to reduce incomes and livelihood opportunities. The significance of poor health for urban poverty is widely acknowledged. There is a strong association between chronic poverty and those unable to work in commercialised labour markets or who can only work at a considerable disadvantage. Two recent studies in Dhaka (Bangladesh) have both found that the primary reason for deteriorating financial circumstances was the income earner becoming ill or incapacitated.⁴⁵

Illness in a principal earner was the largest shock faced by slum residents in Dhaka. After the shock, income was lower and assets fewer as a result of illness-induced workdays off. Days at work decreased and earner: dependency ratios were lower, meaning that there were more dependants. Households reduced their expenditure to save money, took out loans and mortgages and sold assets. The financial status after the shock was poor and some households took up begging.

Adverse locations and urban poverty

Adverse locations do not simply increase the incidence of urban poverty because of their health risks but they directly reduce livelihood opportunities, exacerbating low incomes and reducing the amount available for shelter improvements. Residents may be refused access to jobs because of their address in an illegal settlement or 'slum' and a supposed association with criminality. For those who develop homes on the city periphery, because land is more easily found there, transport costs take up a significant proportion of their incomes (often as much as 10 per cent), informal enterprises may be denied customers for part of the year as a result of lack of access for reasons such as flooding. Poor quality infrastructure reduces the turnover for informal enterprises as potential customers are deterred from visiting settlements. A recent study of improved road networks (following the

construction of bridges) in one low-income settlement in Luanda (Angola) reported that:

Prior to the opening of the road, ten enterprises were identified along the road....Of these seven had been in business for more than two years and business development in the area has been slow. After two years of improved access, 44 new income generation activities have been identified along the road. All the ten existent enterprises have invested substantially in their business premises transforming informal structures into more formalized businesses... A detailed participatory exercise ...found that the average daily income of the small businesses in Kilamba Kiayi is around US\$9. The new businesses along the road generated some US\$124,080 per annum in total additional income, in one year this is nearly equal to the costs of the total investment.

Illegal and informal locations, related to the failure of urban planning to provide legal affordable alternatives, create a tangible sense among residents of being second-class citizens. As Raquel Rolnick argues, despite their scale, the residents of informal settlements in Brazil simply "did not exist" for many municipalities.⁴⁶ Negative connections are particularly associated with inner city low-income areas that are often considered to be areas of criminality and degradation (see Section I).

If there is a strong nexus between urban poverty, inadequate shelter and poor health, then how might climate change interface with these realities? The changing pattern of environmental assets is likely to result in transitional problems with reduced economic growth in the short and medium term and hence fewer market-led employment and income opportunities. Although some areas may have new economic opportunities as a result of climate change, these will require investments and hence will not be realised immediately. Reduced macro-economic growth will have implications for many of the urban poor and will reduce their ability and that of state agencies to invest in improved housing.

45 Kabir, Rahman, Salway and Pryer 2000, 709; Pryer, Rogers and Rahman 2005

46 Rolnick 2007, 2

Changing health risks, as outlined in McGranahan (2007), Table 2, show a number of potential health-related negative consequences. Hundreds of millions of urban dwellers are at risk from the direct and indirect impacts of climate change. Most of this risk is associated with development failures, especially the incapacity of local governments to ensure provision for (for instance) all-weather roads, piped water, sanitation, waste collection, drainage and disaster preparedness; or their refusal to do so in “illegal settlements”. Much of the urban population and most urban governments have a very low adaptive capacity in relation to all environmental hazards – and thus low adaptive capacity for climate variability and climate change. This makes them very vulnerable to any increase in the frequency or intensity of extreme weather events or increased risk of disease. Pro-poor adaptation strategies are not possible if the city government refuses to work with the poor, or sees their homes, neighbourhoods and enterprises as “the problem”.

Settlements in low-lying locations face particularly acute difficulties. Many low-income residents live on sites at risk for flooding because the sites are undesirable for higher income housing that would require the expense of landfill or drainage. In some countries such as the Philippines, very low-income residents of coastal cities locate on the edge of the sea because the land is not owned by anyone and hence they cannot be so easily evicted, even in very central locations. The increased frequency and intensity of storms and the rise in sea levels will increase the costs associated with such locations, including loss of life and injury, damage to possessions, lower enterprise earnings whilst areas are flooded, and greater required investments in drainage.

In many locations, climate change is likely to constrain food production and fresh water supplies. The cost of water (and other natural resources) may increase if water scarcity increases, an increased incidence of storms is likely to increase damage to houses and possessions and result in higher living costs and changing livelihood opportunities.

However, it should be added that the risks associated with climate change are only one of a number of potentially adverse environment changes increasing risks for the urban poor.

Section III. Understanding the role of finance in addressing vulnerabilities

Both the number and diversity of financing institutions have increased in recent decades. NGO programmes and micro-finance institutions have joined traditional mortgage finance companies and public housing agencies in providing shelter finance. This section considers what such agencies are doing to address the key vulnerabilities identified in Section I: the lack of affordability; the need to facilitate investment when shelter and livelihoods are, for many, organised within the informal sector; the need to support incremental or phased development; and the need to combine enhanced household investments with political will to make serviced land and sometimes housing support available at scale. This section explores the systemic pro-poor changes taking place through an analysis of four shelter finance sectors:

- mortgage finance – complete house with services and secure tenure, private/state finance to individual home owner who fully repays the sometimes subsidised loan. Commercial land developers are the major delivery agency, and conventional mortgage finance institutions and banks are the finance providers.
- social housing – may involve offering complete house with services and secure tenure, partially or totally state-financed with commercial agencies involved in delivery and financing. Alternatively, slum upgrading is supported, with land and services provided through state finance, sometimes involving private sector contracts. In some cases, shelter micro-finance is provided for housing improvements.
- micro-finance for shelter – almost always for housing construction and/or improvement. The household manages the improvements whilst the micro-finance is provided by specialist

- agencies, commercial banks or state programme.
- community finance – support for incremental development, generally with land and services component and with community as key delivery agency. Multiple financing institutions including state, civil society institutions and some private finance.

Mortgage Finance

Broadly speaking, the last two decades have been associated with financial deregulation, increasing numbers of financial agencies and growing competition in financial services. Many governments have sought to extend mortgage finance to those previously unable to afford such loans. State measures have focused primarily on reducing the cost of lending, and support to the system of mortgage finance (such as extending secondary markets and reducing risks) within the broader context of financial deregulation. In some countries, state measures have included capital grants (direct demand subsidies) to enable low-income groups to secure mortgage finance to provide top-up loans for selected dwellings.

One significant trend emerging in both Latin America and Asia is the effort to enable lower-income groups to secure mortgage finance, expanding the market for commercial housing finance and increasing formal home ownership. Success has been notable in lower-income Asian countries such as Indonesia and India. In Indonesia housing finance grew at annual rates of over 20 per cent between 1993 and 1996.⁴⁷ In India, following slow growth in earlier decades, there has been an increase in the number of specialist housing finance institutions (see Box 1). State measures include attempts to increase mortgage lending through creating a secondary mortgage market and, in some cases, phasing out interest rate subsidies.⁴⁸ In the Philippines, for example, "...there is an intention to integrate low-cost housing (for the employed low-income

households) and socialised housing (for the informal sector) into the mainstream credit markets. This came about as government planners realised that there is no way that government would be able to finance all the requirements in the housing sector, especially given the huge losses under the formula lending approach and the inappropriate incentives that misdirected housing subsidies could create."⁴⁹

47 Seki and Watanabe 1998, 118-9

48 For example, the Philippines government intends to move away from interest rate subsidies to capital subsidies for the poor (Llanto 2007, 3)

49 Llanto 2007, 4

Box 1: Downmarketing in India

Since the late 1990s, the housing finance market has experienced a roller coaster ride in terms of growth and penetration. In the recent past, there are several Non-Banking Financial Companies (NBFCs) who have entered the market. The market has grown by a compounded annual growth rate of 32.1 percent during 1999-2005. The outstanding portfolio of retail housing finance market of commercial banks alone stood at \$42.3 billion as of March 2006 (RBI, 2006). At the same time, the outstanding housing finance portfolio of banks and specialised housing finance companies is around \$63.5 billion. The outstanding housing loans as a percentage of GDP reached 8.5% in 2006 compared to 3.44% in 2001. Current annual mortgages are estimated to account for 4% of Gross Domestic Product (GDP). It is currently estimated that the annual size of mortgage finance is around \$18 billion per annum.⁵⁰ However, the increase in financing appears to have helped to fuel real estate market inflation in the last three years. The majority of even middle-income households can't even afford a decent house in several cities. The housing prices have skyrocketed primarily because of inefficient land utilisation and lack of infrastructure provision in cities. To increase their client base, loan terms have lengthened from 25 to 30 years and there is greater product diversification including loans for home improvements; bridge loans and construction finance.

The reasons for substantial growth in the commercial housing finance market include:

- financial sector liberalisation and greater competition;
- high liquidity in the market;
- reduction of interest rates from 18% in 1997-98 to 8.5% in 2005-06;
- increased levels of household incomes especially those of middle and higher income groups and national domestic savings rate;
- fiscal concessions in the form of income tax exemptions to individuals on principal and interest payments;
- laws to help to foreclose properties on account of default;
- policy formulation to allow Foreign Direct Investment in housing and real estate;
- Reserve Bank of India (RBI) mandate of (a) requiring Scheduled Commercial Banks to lend at least 3% of their incremental deposits for housing; and (b) declaring housing as Priority Sector Lending⁵¹ with directions to banks;
- amendment of National Housing Bank Act in 2000 to allow NHB to establish Special Purpose Vehicle Trusts to undertake Mortgage Backed Securitisation;
- establishment of credit information bureau to track information on customers in 2005;
- Securities and Exchange Board of India has issued guidelines for establishment of Real Estate Mutual Funds in 2005; this is expected to increase flow of resources to the sector;
- Government of India also issued guidelines for establishment of Special Economic Zones for non-industrial/real-estate purposes.

Source: Satyanarayana 2007, 4. Edited for style (brackets are the editor's).

⁵⁰ www.economywatch.com.

⁵¹ As per RBI regulations, the domestic commercial banks must lend up to 40 per cent of net bank credit to priority sectors including for housing. Corresponding figure for foreign banks is 32 per cent.

Despite the growth in mortgage finance, problems reaching those with informal incomes and low incomes remain (see Annex 2). In Mexico, present housing finance institutions can only reach two-thirds of households⁵²; whilst in South Africa only 5 per cent in the target market for mortgage companies have been reached in recent years.⁵³ One notable attempt to increase the relevance of mortgage finance has been to increase access to property titles on the assumption that property titles are essential if assets are to be used to catalyse economic development.⁵⁴ As a consequence of this work, programmes in Peru and Tanzania (and elsewhere) have sought to provide low-income residents living in informal areas with titles to their properties in anticipation that loans for shelter improvements (as well as entrepreneurial activity) will ensue. However, as noted above, this has not been very successful.

In addition to the greater availability of mortgage finance, there have been attempts to extend its relevance by encouraging the construction of incomplete units which, though of sufficient quality to be legal and hence eligible for mortgage finance, enable occupiers to finish them as and when incomes increase. Examples include low-cost units in Ahmedabad (India)⁵⁵ and Manila (the Philippines)⁵⁶. Alternative strategies to reduce costs include, in Kenya, the introduction of new technologies which may have reduced costs by 40 per cent⁵⁷; and, in Tanzania, reducing permitted housing size.⁵⁸ In some countries, greater competition in the retail market for mortgage loans seems to have benefited consumers with some indications of

improving loan to value ratios⁵⁹ and smaller loan margins.⁶⁰ Generally, there does appear to be more money for housing finance in most regions of the world with sub-Saharan Africa being a notable exception. Although there have been initiatives in this region (for example, Ghana, Kenya, Nigeria), they remain small scale and relatively insignificant.

To what extent have these measures been effective in increasing the urban poor's access to shelter finance? Perhaps their greatest impact has been for a reason not yet touched on; i.e., meeting the needs of lower-middle-income households and hence making them less likely to seek to occupy provision for low-income households. Unless housing provision addresses the needs of all income groups, initiatives to support low-income groups are unlikely to be effective. More specifically, mortgage finance remains unaffordable for low-income households, both because of the cost of borrowing over a longer period and the cost of housing. Unless the cost of units can be decreased, then it is likely to remain of limited value. The problems associated with informality of shelter solutions remain. It is significant that, even in many Northern countries, housing finance lenders do not offer mortgage finance to those who are unable to verify their incomes, i.e., those who are self-employed below the tax threshold.⁶¹ It remains difficult for private finance and indeed individual construction companies to address inadequate land and services development by the state; some attempts are considered in the following sub-section.

Social housing

Social housing initiatives in the last two decades have been centred on the state as enabler rather than provider. This has had implications both for housing finance markets and for housing construction markets. Traditional government strategies of building limited completed units and/or subsidising mortgage finance have proved

52 Mulas 2005, 30

53 Baumann 2007, 4

54 De Soto 2000

55 Mukhija 2004; Discussions with Prof. Madhu Bharati, Centre for Environmental Planning and Technology, Ahmedabad quoted in Satyanarayana 2007

56 Freedom to Build in the Philippines

57 Williams 2005, 24

58 Anyamba and Nordahl 2005, 25, a reduction in standards to 25 square metres.

59 I.e. the size of the deposit relative to the property value falls.

60 See, for example, the discussion of Chile in Pardo 2000 as well as Box 1.

61 Stephens 2004

ineffective in reaching the poor. Recognition of this has helped catalyse a new generation of direct demand subsidies, often associated with the Chilean housing subsidy system. These subsidies help households cover the capital cost of housing by providing a subsidy that can be used to cover all or part of a dwelling provided by commercial housing developers or nonprofit agencies. Owner-oriented direct demand subsidies have been introduced in Costa Rica (1986), Colombia, El Salvador, Paraguay and Uruguay (all in 1991).⁶² Beneficiaries are generally required to save a proportion of the housing cost. One aspect of the Chilean programme that is considered essential is its clarity of conditions and transparency of selection – there are attempts to ensure that the programme is not used to buy political support, reward corrupt officials, or simply meet the interests of specific and non-needy groups.⁶³ In this sense these programmes have evolved as a complementary and parallel stream to other good governance initiatives.

Some such programmes are small in comparison with demand, numbering only tens of thousands of units. In both Chile and South Africa, the loan components link to more extensive programmes of grant finance that enable those without tenure security to access completed housing units; both programmes have assisted over one million households. More generally, modifications to, and developments around, the housing subsidy programme in South Africa illustrate more general trends within state supported shelter finance:

- initial model (designed 1994-5)– state-financed contractor development with a full subsidy;
- introduction of the People’s Housing Process in 1998 – community enabled to access subsidy finance for self-build;
- introduction of compulsory savings (mandatory up-front savings contribution of R 2,479) except in the People’s Housing Process (self-build)

⁶² Mayo 1999, 36.

⁶³ Gilbert 2004, 15; Gilbert 2002, 310.

where there is a sweat equity contribution;

- development of a micro-finance option by independent institution (Kuyasa Fund) offering loans for further housing development to subsidy beneficiary households.⁶⁴

A further trend within housing policy evident in some countries has been a willingness to support the process of incremental housing.⁶⁵ For example, a new subsidy/savings/loan programme in Mexico includes an option for incremental improvements. However, it should also be noted that 92 per cent of programme funds are earmarked for the purchase of a completed minimal house (about 60 per cent of the loans).⁶⁶ In some cases, support for incremental development is linked to programmes that address the constraining impact of the regulatory systems. In many cases, these programmes are combined with land regularisation and infrastructure improvements, recognising that many aspects of safe and secure shelter cannot be addressed simply by housing improvements.

A further approach is state financing for community-managed construction, generally as a part of a larger housing subsidy programme. One of the most developed civil society programmes is in India, where an alliance of SPARC (an NGO), the National Slum Dwellers Federation and *Mahila Milan* (a network of women’s collectives) have developed the capacity of local communities to manage a comprehensive

⁶⁴ The Kuyasa Fund was established in 2000 as a pilot project. It provides small loans to low-income clients who have accessed the state housing subsidy and who have secure tenure. This enables clients to extend their homes from the average size of a contract house, which is 23 square metres to 60 square metres. Kuyasa has provided loans to 5,810 clients. Kuyasa targets the low-income sector; 50 per cent of clients earn below US\$1.5 a day and 85% under US\$2.80. (Mills forthcoming)

⁶⁵ Rojas, presentation to the Woodrow Wilson Center, Smithsonian Institute, May 22 2007

⁶⁶ Connolly, 2004, 4; The average subsidy in 2004 was US\$ 4,540 for finished minimum houses and US\$ 184 for home improvements

upgrading and redevelopment process, which is financed primarily by the state (through subsidies) with additional monies through loans taken by communities and repaid by individual members. Working with a not-for-profit company, *Samudhaya Nirman Sahayak*, communities draw down the funds needed to pre-finance land, infrastructure and housing development, and receive the subsidies on completion of construction (see Section IV). Another community approach is that developed by the People's Dialogue on Land and Shelter in South Africa and the South African Homeless People's Federation who, rather than fit within existing programmes of subsidy finance, pioneered the development of the People's Housing Process subsidy stream, which enabled local communities to build for themselves using state finance.

In addition to supporting new build and green field developments, governments also seek to address conditions in existing low-income settlements (slum upgrading programmes). Within this strategy, the development agency, central government and/or municipality finances a process to upgrade the low-income area with efforts to regularise tenure, and provide and/or upgrade infrastructure and services. These programmes may be integrated with housing loan programmes for those seeking home improvement. They involve local government and public private partnerships addressing housing and community development activities. One example, elaborated in Section IV, is the Local Development Programme (PRODEL) in Nicaragua that was set up to enhance development in smaller towns and cities with a number of components, including infrastructure improvements, housing loans and loans for micro-enterprises. Others examples are the Slum Networking Project in Ahmedabad (India)⁶⁷, the Comprehensive Kampung Improvement Programme (KIP) introduced in Surabaya (Indonesia)⁶⁸ and the Programme for Integrated Urban Renewal used in El Salvador to help rehabilitate *mesones* in San Salvador after the

earthquake.⁶⁹ There are some indications that interest in this area is increasing with proposed programmes in Kenya⁷⁰ and the Philippines.⁷¹

How effective are social housing initiatives in addressing shelter vulnerabilities? A number of general comments can be made. Beginning with affordability: programmes vary in their ability to reach those with low incomes. The Chilean and Costa Rican programmes, for example, give most subsidy funds to subsidy streams that include loan components and so are only suitable for higher-income households.⁷² Some other subsidy programmes, with less dependence on loan finance, are more successful in reaching low-income and/or informally employed households. However, even the largest programmes have a scale that appears small relative to need. In South Africa, although over two million have been assisted to secure housing, the 2001 census reported 16.4 per cent of households to be inadequately housed and the housing backlog was an estimated 3 to 4 million houses due to population increase, migration to urban areas, and new household formation outstripping state and non-state housing delivery.

Quality concerns have been raised in large-scale programmes with a high dependence on private sector construction companies such as those in Chile and South Africa.⁷³ The dominance of private sector decision-making and profit maximisation appears to have resulted in poor location as land costs are reduced to a minimum.⁷⁴ Concerns have been raised about the quality of the construction process with small units, substandard building and resulting maintenance issues. In Chile, this issue was more widely recognised in 1997 when heavy rains damaged as much as 10 per cent of the social housing stock. In South Africa the very small size of some units has been criticised, resulting in a minimum size requirement in the late 1990s.

69 Murcia de López and Castillo 1997, 173.

70 Alder and Mutero 2007, 5

71 Llanto 2007

72 Fernandez 2004; Stein 2007, 7

73 Gilbert 2002b, 1929; Mitlin 2007

74 For South Africa, see Baumann 2004, 1; for Chile, Jiron and Fadda 2003 and Gilbert 2004, 28.

67 Cities Alliance 2002.

68 Septanti 2004, 8.

Increased funding has now been offered to improve size and quality. Similar issues have emerged in El Salvador, where subsidies catalysed large-scale land developments but social problems are now evident due in part to the remote location of new dwellings.⁷⁵

The upgrading of inadequately serviced neighbourhoods with insecure tenure and poor quality housing appears to be less problematic in terms of affordability, informality and suitable location. Such upgrading programmes often take place in relatively well-located sites as the strain on services in part reflects their popularity with local residents. In these programmes, support for tenure security and basic services are generally subsidised and hence inclusive of all residents. Optional housing investment increases the ability of these programmes to be flexible to the needs of those living in the low-income settlements being improved. However, the state's attitude to tenure insecurity is critically important in determining whether those living in the most insecure settlements are excluded from benefiting. Annex 4 highlights these issues in the context of Central America. As elaborated in the Annex, countries have different policies and in some cases, lack of tenure security prevents access to improved services, micro-finance loans and/or state subsidies. The Annex highlights the difficulties in making generalised comparisons about the appropriateness of particular financial mechanisms across different contexts.

Shelter micro-finance

The third programme area is micro-finance, the significance of which was widely recognised even before Mohammed Yunus received the Nobel Peace Prize for his work with the Grameen Bank. The use of micro-finance loans for housing investment has developed more slowly than loans for enterprise development, in part because of the larger loan size. A further reason has been the belief that housing investments are not productive and hence do not generate an income to assist with loan repayments. Over time this assumption has been challenged. In some cases,

loans for housing investments have directly improved incomes through helping construct rental accommodation or finance home-based enterprises. Even where productivity is less evident the loans are still repaid on time. Micro-finance for shelter has been "discovered" in the last five years. However, some traditional micro-finance agencies and NGOs have been routinely working with housing loans for more than ten years.

Most housing loans are between US\$500 and US\$5,000, ie., considerably larger than enterprise loans. Loan terms are generally between one and eight years, although usually at the shorter end of this range.⁷⁶ Security conditions vary considerably, depending on local circumstances. Sometimes they are similar to those required for enterprise development, ie., group guarantees and cosigners. In other cases, the micro-finance agency may hold paralegal documents to the property, and other non-mortgage collateral. Some shelter micro-finance lenders hold a conventional mortgage for larger loans. In many cases, they encourage savings (although this may be constrained by the rules and regulations of the financial system).

Loans are generally taken to build additional rooms, replace traditional building materials with concrete, improve roofs and floors and add kitchens and toilets. Investing in improved facilities is very popular and SEWA estimates that "...almost 35% of housing loans from SEWA Bank are utilised for installing infrastructure such as a private water connection or toilet."⁷⁷ The terms and conditions of micro-finance lending favour those who already have some degree of tenure security and housing structure. Lending for land purchase is much less likely because of the high costs and other problems with individualised solutions to tenure and infrastructure needs, and because some degree of land security is generally a prerequisite for such loans. One current initiative being discussed in Guatemala involves commercial banks lending to micro-finance agencies who

75 Fortin-Magaña quoted in Stein 2007

76 CGAP 2004

77 Biswas 2003, 51

would on-lend to communities for basic services.⁷⁸ However, lending for service development is very rare because it requires collective lending.

Shelter micro-finance has emerged particularly in Asia and Latin America. Over the last three years, most leading micro-finance agencies in Latin America and the Hispanic Caribbean have established a housing product. This includes Banco Sol in Bolivia, Banco Solidario in Ecuador, Mibanco in Peru, Banco Ademi in the Dominican Republic, Calpia in Honduras, and Genesis Empresarial in Guatemala.⁷⁹ One recent study identifies 141 institutions providing shelter finance loan products to the poor.⁸⁰ Another, focussing on Latin America, identifies 57 per cent of micro-finance agencies as offering housing loans.⁸¹ Among the 27 financial institutions in the Accion Network, seven have housing portfolios totalling almost 10,000 active clients and US\$20 million in outstanding balances. An estimated 25 per cent of Sewa's 150,000 members (in Ahmedabad, India) have taken housing loans. In recent years there has been more interest in exploring similar programmes in Africa.⁸²

In addition to these "traditional" micro-finance agencies and NGO lenders, there are a number of others active in, or considering entering, this market:

- commercial banks appear to be interested in some countries.⁸³ The Banco de Desarrollo in Chile has a small lending programme for housing with 15,000 current loans with an average size of US\$1,200.⁸⁴ The ICICI Bank in India is planning to provide micro-

finance loans including housing micro-finance.⁸⁵

- building materials suppliers are increasingly willing to make such loans. In Chile, companies such as Easy, Homecenter and Home Depot provide people with building materials and have credit systems which are easy to access, providing that proof of income can be offered. Elektra (a large electrical appliance chain in Mexico) has formed a bank providing credit for building material packages suitable for starter homes. A further Mexican programme, Patrimonio Hoy, run by Cemex (a building materials company), encourages women to save together to buy building materials. By 2006 it had 75,000 customers in 23 Mexican cities.
- The state may also finance decentralised initiatives. In Peru, the state housing authority is channelling housing funds to micro-finance agencies, municipal savings and loan cooperatives and some micro-finance banks in an effort to provide appropriate finance.⁸⁶
- Traditional small lenders such as credit unions may offer small housing loans. The Kenya Union of Savings and Credit Cooperatives established a housing fund in 1998 through an agreement with the National Cooperative Housing Union (NACHU) (see Annex 10). Since 2003 NACHU has facilitated the construction of 185 units for low-income groups and a further 80 for other cooperative clients and has also helped acquire almost 1,000 plots for members.⁸⁷ Housing and/or savings and loan cooperatives and mutuales are a further source of loans in Latin America.⁸⁸

78 Gwinner et al. 2006, 3

79 Ferguson 2003, 26-7

80 Malhotra 2003, 222

81 Escobar, undated, 21

82 See Alder and Mutero 2007 for a discussion on Kenya and Environment and Urbanization 19(1)

83 Tomlinson (2007) argues that competition between the commercial and micro-lenders has not been helpful to the latter in South Africa

84 Escobar and Merrill 2004, 41.

There is now considerable experience with shelter micro-finance. Small loans are of considerable benefit to those in the process of

85 Satyanarayana 2007.

86 Escobar and Merrill 2004, 40

87 Alder and Mutero 2007

88 Escobar and Merrill 2004, 39

incremental development who can afford interest costs and make regular repayments. However, the sector faces two challenges, the first relating to beneficiary groups, the second referring to their ability to go to scale.

Shelter micro-finance meets the needs of low-income residents with reasonably secure tenure who can afford to repay small loans to improve their homes. The target group of those agencies is profiled thus: “. . . these financial institutions describe their clients as the economically active poor in the informal sector. They are largely serving their existing poor clients with this new loan product, and most provide housing loans as a reward for good past performance on micro-enterprise loans.”⁸⁹ Valuable contributions are made to families in these circumstances but many are not able to benefit. By way of illustration, MiBanco’s clients have an income that is around or below the poverty line for Peru (where 50 per cent of the population have incomes below the poverty line). Funhavi in Mexico serves clients who earn between two and eight times the local monthly minimal wage of US\$125. SEWA Bank’s clients are all poor self-employed women, mainly street vendors, labourers, or home-based workers. In 1998 an estimated 76 per cent of SEWA borrowers had annual household incomes below US\$415 and half of these had annual incomes below US\$276. The Kuyasa Fund in South Africa has 59 per cent of its clients earning between R1,000 to R2,500 (US\$140-360) a month.⁹⁰ Clearly, the group that is being reached is poor. However, many low-income households without tenure security are not being reached by these lenders.

The way these agencies operate enables them to avoid having to comply with the building regulations associated with many professional attempts to improve shelter. Their approach is very much embedded in the informality of low-income settlements. This is less true of housing cooperatives (which may also give small loans subdivided to facilitate phased improvements) because they are more likely to be working on

greenfield sites and subject to building regulations. Inevitably this makes it even more difficult to remain relevant to the poorest of those in housing need. Housing People in Zimbabwe, for example, found that many of those turning to housing cooperatives had higher incomes. Although such organisations often try hard to reach down to low-income groups — for example, Housing People helped one group of domestic workers — this tends to be exceptional.⁹¹

Sometimes (as noted previously), micro-finance is linked into neighbourhood improvement and state housing subsidy programmes. In these cases, the income groups reached may extend down to lower-income groups. In a very few cases, micro-finance agencies have become involved in group lending for infrastructure development. However, generally their emphasis on individual investments does not allow this. Annex 5 summarises the experiences of Development Workshop, an NGO in Angola, which highlight both the potential and limitations of shelter micro-finance. A micro-finance programme for enterprise development emerged from NGO income generation strategies and has evolved into an independent agency, KixiCrédito, with over 14,000 clients. KixiCrédito has piloted a housing loan programme with its most successful entrepreneurial clients. In the meantime, the NGO has sought to support land regularisation and neighbourhood upgrading, in part to protect informal residents from a new law threatening their informal tenure security.⁹²

Micro-finance organizations, for the most part, seek to be viable commercial enterprises and many are broadly successful in this.⁹³ Scale is critical to achieving this goal and agencies are dependent on securing adequate capital to expand lending. Opinions are divided as to whether technical assistance is required. With or without technical assistance, micro-finance

89 Malhorta, 2003, 219-20.

90 Mills forthcoming

91 See, for example, the discussion of cooperatives in Senegal, Tall and Gaye 2007

92 Cain, forthcoming

93 Malhotra 2003

agencies need to find sources of loan capital, but accessing this is commonly found difficult.

Aspiring to be financially viable without access to financial support has a number of implications for the nature and development of micro-finance. Many micro-finance organizations must balance reaching down to lower-income households with smaller loans and minimising administration and management costs by offering larger loans. In general, the emphasis has been greater on cost-effective lending. Generally, there is a widespread belief (supported by much experience) that access to credit is rather more important than the price of credit and so many micro-enterprise lenders charge relatively high interest rates compared to the formal financial markets (although low compared to informal money lenders). However, housing loans are often considerably larger, making interest rate charges more significant. In many cases, specific housing products have lower interest rates, with a cross subsidy between different lending activities.⁹⁴

Some bilateral donors, including Swedish Assistance and USAID, have funded shelter micro-finance activities for about twenty years. However, the multilateral donors — such as IDB and the World Bank — have only recently begun to learn about and develop such programmes. The Consultative Group to Assist the Poor (CGAP), a consortium of 28 public and private development agencies working with micro-finance for the Southern poor, recognised the significance of shelter micro-finance in 2004. In the absence of alternative donors, Northern NGOs have played a very significant role in supporting such initiatives. These have included Misereor (Germany) and CordAid (the Netherlands), as well as specialist housing and urban development groups such as Selavip (Belgium) and Homeless International (UK). Interest in this area appears to be growing although there are still relatively few funders.

Community funds

As noted in Section I, many of those with low-incomes in Southern towns and cities live without secure tenure, adequate services and safe housing. A tradition of community funds with an emphasis on collective loans has developed to address the needs of this group. Community funds are supported by a range of civil society and state agencies. For state agencies, these programmes are, in a financial sense, social housing, but they are very different from conventional government methods since, rather than dealing with individuals, they require an engagement with collectives of the poor. One of the earlier state programmes is the Community Mortgage Programme in the Philippines, which emerged from NGO experimentation in the post Marcos era (see Box 2).

The growth of community funds and the emphasis on socially orientated savings and loans have paralleled that of shelter micro-finance. Community funds are financial mechanisms that enable collective investments for shelter improvement and they may support any one or more of the following: land purchase, land preparation, infrastructure installation, service provision, and housing construction, extension and improvement. Their most distinguishing characteristic is the way in which funding is perceived. Community funds use savings and loans to trigger a development process — not simply to increase the access of the poor to financial markets. Through savings and loans, they strengthen the social bonds between community members (building social capital) so that loans can be repaid, existing finance within the community can be used more effectively, and other development objectives can be secured through a strong local organisation able to negotiate with state authorities.

In practice there is considerable overlap of interest between community funds and micro-finance. Micro-finance institutions are anxious to consider new ways of reducing poverty — many of them remain mission-led development agencies — while community funds face similar issues of loan and debt management and are anxious to learn about new tools and mechanisms so that they are better able to

94 Escobar and Merrill 2004, 58

address such management challenges. The continuum includes programmes that emphasise collective aspects (including strengthening local organisations and improving relationships with political/state agencies) and others that emphasise market orientated financial investments. Some agencies, including those specialising in micro-finance, recognise that money is just one aspect of what is needed. As elaborated in Annex 5, in Angola, lending for enterprise development and housing

Box 2: the Community Mortgage Programme

The Community Mortgage Program is a low-income home financing [programme] that allows informal settlers to acquire an undivided tract of land to be [purchased] through a community mortgage. Usually, those informal settlers are occupying tracts of land without the permission of the owner. CMP applications are usually related to the threat of eviction. There are two kinds of projects under the CMP: off-site and on-site projects. The on-site projects allow the illegal settlers to formalize their claim to the land they occupy already by buying it from the owner. Off-site projects entail the relocation of the tenants to another area. The informal settlers have to organize themselves into community associations in whose name the CMP loan is made. The group loan is used mainly for the purchase of a piece of land and has a maturity of 24 years at an annual interest rate of 6 per cent. The size of the group (that is, the community association) ranges from 9 to 300 households and no financial track record is required of each household, the main requirement being their membership in a community association, which will act as borrower and the individual members' commitment to amortize the loan.

The main source of funding is government budgetary appropriation, which is given to the Social Housing Finance Corporation (SHFC) to manage. The originators of the mortgage loan are the National Housing Authority, the Home Guaranty Corporation, NGOs and local government units who provide the community association the necessary technical and legal assistance as it goes through the stages of the CMP process. The community association collects and remits their member's monthly loan to the SHFC. The loan packages under CMP are not only for lot acquisition but also for home improvement and construction. However, the bulk of CMP loans is for land ownership. It is difficult for urban poor households to go beyond the first stage loan because of affordability problems.

CMP has been able to reach the urban poor households, mostly in the informal sector. From 1989 to August 2001, the CMP has developed 883 community projects that benefited 110,632 families at a total cost of Pesos 3.14 billion. As compared to other housing programs implemented by the government, CMP has assisted the greatest number of families in the shortest period of time with the smallest loan fund utilization. It is also cost-effective in the sense that a relatively small loan amount can provide the urban poor households land tenure security and ownership of a small piece of land (residential lot). According to the NHMFC, the average loan amount availed under CMP from 1989 to 2000 was Pesos 28,039 per beneficiary. The amount is 15 percent of the average loan amount per beneficiary of the other government housing programs. Moreover, CMP's average monthly amortization of Pesos 185.00 easily makes it very affordable to poor households. In 1993-1998, CMP performed better than the UHLP and other social housing programs, including those under NHA in terms of collection efficiency rate (CER). The CER is computed as a cumulative percentage of total loan collections over total billing, excluding penalty charges. The CMP's average during the period stood at 77 percent compared to the 63.3 percent average of the UHLP.

Source: Llanto 2007, 7. Brackets are the editor's.

investments is combined with more traditional NGO activities of lobbying and advocacy to develop affordable serviced land in well-located areas. There are many different models for this process, and some are expanded on in Section IV.

However, community funds and shelter micro-finance have different objectives, which explain their different loan orientations. Most micro-finance initiatives promote financial market integration. Most community funds promote inclusive and equitable access to tenure security and basic services.⁹⁵ The emphasis on some form of tenure security and basic services generally involves these agencies and the communities they work with engaging with local authorities. Improvements then have to fit with the laws, rules and regulations governing construction and land development. Sometimes community funds focus on a particular aspect of shelter investments such as the extension of basic services in the context of neighbourhood and/or individual investments.⁹⁶ An important, common characteristic of community funds is that some subsidy is provided – financed either by the state or international development assistance. Subsidies may be used to reduce interest rates and/or to reach everyone in a community or to reach very low-income communities. Rather than viewing money as lost through a subsidy, it is considered that social protection funds are being used more effectively because local ownership is strong and some of the transfer payments are returned through loan repayments.⁹⁷ Subsidies are delivered in various ways, including direct subsidies, interest rate subsidies, additional support (for example, community development and technical

assistance) and unintended subsidies when delayed payment and/or default occurs.

What can we conclude about their capacity to address shelter vulnerabilities? These programmes are primarily oriented towards urban poor neighbourhoods with insecure tenure and inadequate services, and towards families who are using self-build strategies to acquire housing. They are intended to benefit those without secure land tenure, adequate basic services and/or suitable housing. As already noted, in many cases, emphasis is put on collective benefits and on reaching the poorest. Where funds are restricted and incomes low, the scope may be limited and benefits may be limited to particular improvements; for example, the emphasis on land security within the Community Mortgage Programme. Securing land (either by purchase, lease or rent) and installing infrastructure need strong groups with financial management capacity. Communities in Thailand found that although peripheral land on the edge of Bangkok appeared affordable, in the longer term it was too expensive.⁹⁸ A more effective strategy was to join together into city networks and then use collective strength to negotiate for communities to remain in their existing locations.

How effective are these programmes in reaching the poorest? They do seem to reach some of the lowest-income families, particularly if they involve the upgrading of existing neighbourhoods and/or target low-income groups. Research on the Community Mortgage Programme suggests that those securing loans are mostly from the second- and third-income deciles, with the very poorest struggling to be included and/or to maintain their plots.⁹⁹ Groups within one network of grassroots organisations and support NGOs (Shack/Slum Dwellers International) make widespread use of community funds, seeking to establish local community processes that favour the lowest-

95 IIED 2005

96 For examples: Genesis Empresarial in Guatemala lends for electrification (in rural areas) and potable water projects (sometimes with public assistance) (Escobar undated, 40-41); Fundación Pro Vivienda Social in Argentina provides infrastructure loans; WaterAid in Bangladesh finances seven local NGOs working in Dhaka and Chittagong to provide services (Hanchett et al. 2003, 44)

97 Mitlin 2003

98 In these first housing schemes funded by UCDO in Thailand (1992-6), some 54 per cent had previously been renting land and the remainder had been squatters

99 Porio et al, 2004, 72-3; with a trend to formal sector employees, Porio and Cristol 2005, 218

income residents. Their core organisational activities are based around daily saving to ensure that even the poorest can participate. The livelihoods of the poor are generally managed daily (or in three-to-five day cycles), not monthly. Groups that save monthly exclude the poor. Annex 6 illustrates this process in Malawi, one of the poorest countries of the world, where an initiative has recently affiliated with SDI. The development of strong grassroots organisations further assists inclusion as such groups are able to negotiate with the state to transform local planning rules and regulations, increasing the affordability of local improvements.¹⁰⁰ This can be illustrated through a recent experience in Kenya, where a new policy has created Special Planning Areas in which normally very strict building regulations have been relaxed to enable communities to experiment with incremental upgrading.¹⁰¹

Community fund programmes are designed for relatively stable communities needing financing to secure land tenure and upgrade their neighbourhoods. Communities may choose to resettle; alternatively, they remain where they are and invest in their existing location. Community funds may struggle to include all residents living within the settlement. In Nairobi, Kenya, the Huruma programme has managed to overcome differences between landlords and tenants and work together to develop their area equitably.¹⁰² This was helped by the state requiring that all residents must agree before development could take place. However, this process is fairly exceptional and tenants and/or lower-income residents may be excluded.

In terms of the longer-term viability of these programmes, there may be difficulties with loan repayments and hence maintaining the capital in the programme, and with the need for access to subsidy finance. Community funds need to find strategies to empower local groups to manage abuses of the process.¹⁰³ They also need to secure

state funds to enable them to continue their work. Tension is evident between the mainly informal organisation of construction within the settlement and the requirements of state processes and agencies.¹⁰⁴ State support can be secured but is vulnerable to changes in political priorities.¹⁰⁵ In this context, groups may search out their own cross-subsidies. One grassroots group in Cuttack (Orissa, India) is seeking to supplement state subsidies by selling some units within their community-managed development to higher income groups, thereby raising finance to provide an additional subsidy for very low-income families.

Conclusion

Lack of serviced and affordable land and lack of clear titles or tenure guarantees remain the major hurdles in financing shelter.¹⁰⁶

Upgrading is so important for the life of the urban poor, because they are "illegal" they don't have security, they don't have rights. The poor are usually not considered as *bona fide* citizens — once you change their tenure status, their citizenship in the city also undergoes a change, through the upgrading process.¹⁰⁷

As noted at the end of Section I, there are significant limits to the contribution that finance can make to addressing inadequate shelter. Lack of investment capital is part of the problem, but many housing inadequacies are difficult to solve even if finance is in place. Tenure and services, most notably, cannot easily be "bought" by individual citizens — they are collective goods. The absence of such secure tenure and services has very serious implications for low-income

104 As Porio et al. (2004, 60) explains, "...the CMP has also failed to obtain the support of government officials, including heads of housing agencies, because of the perception that it legitimizes the existence of squatters and degraded neighbourhoods in urban areas....At the heart of this issue are the different perspectives informing what constitutes a valid housing solution."

105 See, for example, the discussion of FONHAPO in Mexico, Connolly 2004a

106 Williams 2005, 26

107 Boonyabanha 2007, 8

100 Hughes 2005, 17

101 Pamoja Trust, personal communication

102 Weru 2004

103 Ballesteros 2002, 21-23

households and individuals. As highlighted by the second quote above, it not only affects their health and security but also creates social exclusion. The discussions in this section have considered the ways a range of financial and non-financial institutions have sought to provide finance to low-income individuals or groups to help them meet their shelter needs. In many cases, it appears that finance has been provided without sufficient consideration being given to these non-financial aspects of successful delivery.

In part, this is understandable given the strong emphasis in recent decades on neo-liberal policies and the increased reliance on the market and its mechanisms. What is perhaps most visible is who is being included, and what they are receiving, rather than the gaps that are left, both in terms of improvements not taking place and groups being neglected. What is rarely considered is which groups cannot be reached by the kinds of support being provided.¹⁰⁸ The approaches that emerge from the analysis to be considered in the following section are attempts to come to terms with such deficiencies in terms of the lowest income groups.

In terms of mortgage finance, what is notable is how little concerted effort there appears to be to extend its reach to relatively neglected groups. While there is much interest in how quickly mortgage finance opportunities are growing, there does not appear to be a comprehensive strategy to extend such finance to the employees and entrepreneurs of the informal sector while simultaneously reducing house prices and the costs of borrowing. Indeed, given the scale of informal sector employment it is surprising that more attention has not been given to finding ways for the higher earners within this group to access mortgage finance.

While tenure security and services are part of the package provided with a complete home (for those able to afford mortgage finance), these benefits are much less likely for those upgrading a

¹⁰⁸ A recent analysis for South Africa highlights the lack of financial products and appropriate construction projects for lower-middle-income households (Tomlinson 2007, 29).

home in an existing low-income settlement or purchasing through the informal market. The growth of micro-finance reflects a willingness to support those households able to afford small loans, but the concentration on those with relatively secure tenure limits the value of this strategy. Most notable, perhaps, is micro-finance's inability to address issues of access to sanitation and water (MDG targets in their own right) and secure tenure. Although community funds seek to address these goals, they (like social housing initiatives) need to find sources of subsidy support to maintain the scale and accessibility of their programmes.

More active engagement with citizens is evident across the sector. The shift to demand-driven subsidies is understood to have helped identify beneficiaries and increase choice in the type and location of homes provided within social housing. Neighbourhood upgrading is generally associated with a participatory process, at least in name and often with substantive investment.

There is relatively little donor assistance for shelter finance, most money being provided by national organisations. Private commercial companies are interested in both mortgage finance and micro-finance lending for shelter when they believe it can be profitable. In addition to commercial interests, particular in Latin America and Asia, governments continue to be engaged with the shelter sector. There have been some innovative attempts to work with commercial interests such as the Slum Rehabilitation Scheme in Mumbai, which offers slum dwellers free housing that is financed by permitting private developers to build at increased densities, thereby generating an additional surplus that covers the subsidised unit.¹⁰⁹ Support for mortgage finance clearly continues as do attempts to make mortgage markets more effective in addressing housing need. However, there is widespread recognition of its shortcomings. Support for neighbourhood

¹⁰⁹ Approximately, permission for 125,000 dwelling units was given and 65,000 housing units were constructed during 1996-2006 (Times of India 2007, quoted in Satyanarayana 2007, 6)

improvements in low-income settlements (slum upgrading) is ongoing in many of the larger cities and support appears to be growing. The potential of combining such upgrading programmes with small loans for individual housing improvements is increasingly recognised.¹¹⁰ In part this responds to the interest of micro-finance agencies that have themselves been seeking new and profitable areas to move into as they attempt to expand their markets and increase their financial viability. There is significantly less support by governments in Africa, although there are recent efforts to address these issues in some countries.¹¹¹

In terms of donors, there are a few names that are repeatedly mentioned: in Central America, bilateral agencies like KfW and Sida, and multilateral agencies like the World Bank and IADB.¹¹² In India, an overlapping group emerges as being important: "...World Bank, Asian Development Bank, International Finance Corporation, KfW and United States Agency for International Development (USAID) have played substantial roles in deepening of housing finance market through credits and technical assistance components."¹¹³ Sida has been important in funding some micro-finance initiatives, which have also been supported by USAID. There is evidently a growing interest in expanding micro-finance and innovating around finance for shelter needs.

Section IV. Identifying extant innovations in financing shelter

This section moves forward from the financial mechanisms discussed in Section III to highlight particular initiatives deserving attention because of their potential to address housing needs. Several distinct approaches are introduced, analysed, and their continued development in parallel to one another discussed. These "exemplar" programmes have been selected because they all, within their particular contexts,

have scale. Innovations in addressing shelter needs are currently coalescing around four particular ideal types which have different objectives and target groups and hence different funding modalities. They should be considered as complementary, if only because (to some extent) they address different target groups. This is because any particular group cannot solve its housing needs if the needs of other groups are not also met – all that happens is that more powerful groups "crowd out" the intended target group. Hence, especially for those seeking to address the housing needs of the poorest and/or the most disadvantaged, a range of solutions is needed that addresses the housing needs of higher income groups. The four approaches are:

- **market led** — down-marketing mortgage finance;
- **integrated neighbourhood development** —upgrading and greenfield site with optional housing micro-finance;
- **comprehensive city-wide inclusive urban development** — multi-option development of low-income settlements;
- **federated community-driven development** — locally managed improvements in alliance with state agencies coordinated by autonomous network of grassroots organizations.

Each approach seeks to ensure secure land tenure, access to services and affordable home improvements. They all try to encourage resident contributions and to locate the choice with the final user in a nondirective system of allocation. Each provides a framework to combine public and individual investment, sometimes with commercial financial institutions. They all try to recover costs to some extent, partly so that subsidy finance can be made as widely available as possible. The final two approaches, aimed at the poorest, directly address asset accumulation and poverty, the problems of credit and poverty, and poverty's nonmaterial aspects, and this is also true of the second approach (although in a more diluted form).

Appropriate to the focus of this background paper, the contribution of finance to

110 Satyanarayana 2007, 6

111 See Manda, forthcoming for Malawi; Alder and Mutero 2007

112 Stein 2007, 3

113 Satyanarayana 2007, 4

improvements is critical in each of the four approaches. They are all financially driven strategies; indeed it is notable that demand is of such importance in addressing housing needs that there is very little that is not demand led, or moving in that direction. Supply-led programmes remain part of the portfolio of some governments' products, but they are not given great attention and do not appear to be growing. Demand-led programmes are oriented around finance; however, they use finance in two distinct ways, termed here "direct" and "creative". By direct, I mean financial provision oriented in a straightforward fashion to financial investments with little interest in other objectives such as social integration, peace, poverty reduction (beyond housing poverty) or economic development. Programme managers and designers may be conscious of these wider issues, but they do not design their programmes to maximise such benefits. "Creative" finance does address such broader social objectives, using finance as the mechanism to catalyse change. Creative finance strategies use financial tools such as savings and local fund management to change social relations, both within and beyond low-income settlements. These changed social relations enable grassroots organisations to negotiate so that the necessary political support can be secured. The multiple reasons why finance is an effective means to address shelter poverty are elaborated in Box 3.

Box 3: Finance as a tool for inclusion and to reinforce collective action: Baan Mankong, CODI

Collective finance is the means to secure security – all people working together, as a group. If people don't have a savings group, if they don't have a communal financial management system, only a few better-off people in the community will be able to work within the market system. But if we want to get everybody on board, we need a collective financial system which links everyone, no matter how poor they are, so that the whole community goes ahead as a group. Collective finance provides the mechanism to join people from all the different economic levels within the community, and can address the economic needs of all those members. A communal financial system can act as a buffer between the outside financial system (which is very stiff and accessible only to the better-off), and the internal, people-owned financial system (which is highly flexible, informal, communal, and constantly making adjustments to accommodate the crises which are part of poverty).

Having a collective financial system means having collective decision-making. Collective decision-making is never easy. There are always those troublesome community members who don't cooperate or don't follow the rules, or make off with money. But if the requirement is that *everybody is part of the project*, as with Baan Mankong Program, the *not easy* process of dealing with these people and these problems becomes a very important social development opportunity. It's difficult, but when people in a community struggle to find a way to resolve differences or accommodate difficult characters or make space for destitute members, so that everyone is a part, the collective capacity is enriched and empowered. And that process creates new social norms, little by little.

Once people have the ability to manage finance and are able to start upgrading the community collectively, a lot of communal creativity is unleashed, then you start creating a lot more other communal activities. A lot of creativity is activated, on the social side: how people will live together as a group, how they will help each other. Because now the communal community organization owns the land, for instance. How they would collect the money from everybody in such a way that people in subgroups could assist each other, for example. Or sometimes, if they have some trouble, because they have to repay collectively, the group needs to ensure that anybody who has problems or defaults on their payment gets taken care of. They have to have a system to support. So little by little, through all these activities and all these systems, you come to a point of more and more collectivity. And this collectivity can be channeled in so many ways to meet people various needs. When people are linked together like this, through this collectivity that is built into the Baan Mankong process (as well as most CODI programs and initiatives), they almost automatically start dreaming up and putting into practice such ideas for how to resolve needs — and they do it in very creative ways, it's different in each community, each region. This is what I call *human culture!* Somehow in recent decades, changes in the world have eroded this, so we are more likely to think of individual culture, rather than the collective culture — especially in cities. So what we are trying to do in this collective system is to bring back this human culture, which is so rich, which is limitless, which has such a lot of warmth, friendliness, flexibility in it. And it is still there, especially in poor communities — *it's only a question of how to tap it, to revive it and strengthen it.*

Source: Boonyabantha 2007

The four approaches each respond to a different combination of political and social pressures, in their attempts to address shelter needs. Their relationship to each other involves a number of factors including their orientation, target group and instigating and/or sponsoring institution. Ideology clearly influences the choice of strategies and mechanisms. However, among the three strategies oriented to addressing the needs of the poorest, ideology is not the outstanding feature, rather differences appear to be related to the scope and orientation of the sponsoring agencies.

The four approaches can be compared along a single spectrum which is one of the core, perhaps the core, challenge for human kind in the twenty-first century, the continuum between individualised and collective responses to needs and demands. The approaches reflect some of the wider questions faced by society as it struggles to address issues of environmental sustainability, security, identity and values: what problems can be solved with individually held assets, through the market, and which need to be addressed through other institutional mechanisms and frameworks, with different actors and alternative logics of operation?

The neo-liberal dominance in policy and planning reflects the belief that individual choices are, if not the best, then the best possible. The view of the 1980s, still powerful today, was that collective mechanisms are prone to free-riding, corruption, rent-seeking and (as a result) citizen disengagement. Therefore neo-liberal policies have promoted markets wherever possible, using state regulation to control negative consequences. Attempts have been made to strengthen collective endeavour but arguably society has been struggling to find an appropriate forum for collective choice and action. Many still argue that the state should play this role. And, at least in modern advanced capitalist societies, it usually does, performing many functions related to collective choice and action, for example providing basic services and infrastructure to other, market-run, services functions. However, the scale of the state, its capture by elite groups and its recognised willingness to operate in its own interests rather than those that it seeks to represent and serve, all raise significant questions about its ability, acting alone, to represent and address issues of collective choice. In this context, alternative proposals and actions have sought to enable citizens to recapture collectivity at a local level through a range of measures that can be loosely grouped under the term participatory governance.¹¹⁴ It is perhaps not surprising that there is a core theme related to ideas of collective choice and civic engagement because these have a strong resonance with a sense of place.¹¹⁵ Moreover, collective struggles for public services and defensive movements against eviction from land have become relatively more significant in Southern towns and cities especially where peer organisation through employment (i.e. trade unions) is less strong.¹¹⁶

The first strategy, that of down-marketing mortgage finance, is aimed at those who can afford the complete housing solution preferred by the market. Individuals choose from a range of market-provided options; loan finance offers a way to afford the complete unit. The process is driven by commercial and in some cases state actors. Finance is commercially provided mortgage finance supplemented by capital subsidies by governments seeking to extend this form of finance. The market struggles to offer shelter finance for other than complete homes with an associated clear public resale market and hence with legal approval. This approach relies on the private providers and the state to manage the collective aspects of shelter provision, creating and identifying suitable land, providing bulk services, connecting each residential unit to services, ensuring that homes are safe and adequate for purpose. The role of the state is to ensure that the demands of the shelter providers for land and infrastructure are met, to regulate safety and suitability aspects related to housing, and to ensure that the market in mortgage finance works effectively. In this latter case, it may legislate to facilitate securitisation, secondary

114 Fung, A. and Wright, E.O. 2003; Houtzager, P. P. and M. Moore 2003

115 Mitlin 2007

116 Castells 1983

mortgage markets, easy foreclosure, and more general measures to support financial liberalisation. Individual complete residential units are considered the best form of housing and hence the government's role is to facilitate this process.

The second approach (integrated neighbourhood development) involves state agencies recognising that individualisation is simply neither affordable nor practical for many of the Southern urban poor. The improvement processes establish stronger capacities for collective action in providing land tenure and basic services. The housing component usually remains individualised with micro-finance to improve housing as family incomes permit. There is little impact on the land and infrastructure markets although the informal construction market is supported through decentralised improvement strategies. The objectives are generally to address poverty through improving conditions in low-income settlements, to strengthen democratic accountability, and ensure that government agencies can meet their citizens' development needs. An underlying interest appears to be to make a Northern model of urban development work better. The shelter improvement process helps state agencies deliver basic services effectively and efficiently, and seeks to ensure that democratic institutions are not dominated by rent seekers and elite groups.

The third approach (comprehensive citywide inclusive urban development) emphasises that collective community development within under-serviced, insecure low-income settlements contributes to everyone's well-being and to the broader interests of the city. The process both addresses the immediate needs of inadequately housed families, and strengthens a collective capacity to address the internal needs of the settlement, the needs of all urban communities and the ability of low-income groups to work with the city. The process seeks to build, in low-income grassroots organisations, the multiple skills required for collective management of local and city resources. It brings together low-income community organisations and local governments, creating relational capacities as well as those more directly related to the physical construction process. The intention is to go beyond existing processes of development to form more effective strategies to secure inclusion and the associated resource challenges. Instigated through the state, as the authority formally responsible for collective interests, the approach adds to existing state strategies.

The fourth approach (federated community-driven development) has emerged from communities of the urban poor themselves. Like the third approach, it seeks to comprehensively address the needs of the poor with the starting point that groups know best the range and complexity of their own individual and collective needs. It is less active in identifying issues with a commonality of interests across rich and poor urban groups. The approach not only uses finance, both directly and as a means to an end, it also uses collectivity as a means to an end, seeking both to strengthen collective capacities to address needs, and to build an ongoing capacity to pressure the political system to concede to the demands of the organised urban poor. The challenges faced by the urban poor inform their negotiating positions – hence demands differ with location with emphasis shifting between secure tenure, services, housing and economic development. Compared to the third approach, there may be less pressure for collective outcomes and more pressure for a collective process. The collective process is critical because it is that which leads to political success. Imposing collective outcomes (especially refusing the individualisation of land and housing assets) may act to weaken the collective process and this issue has to be resolved within each locality.

The subsections that follow discuss each approach in greater depth using specific examples to highlight the way that each approach functions, its objectives and its successes.

Down-marketing mortgage finance

Economies of scale in construction and financial market supply mean that this approach is most relevant to those economies with a significant lower-middle-income group. The growth in this area (see Section

III) is in higher income Southern countries or those with rapidly growing economies. Therefore the relevance of this approach varies widely regionally. It has only limited relevance for low-income households since they usually cannot afford a complete house. Some countries have sought to link the urban poor to the formal financial sector through support for subsidy and loan-linked housing provision. This does not appear to have been particularly successful. A recent study of South Africa suggested that mortgage lenders found that borrowers preferred to minimise risk by taking several smaller loans.¹¹⁷ In this paper, rather than identify a single exemplar programme for this approach, it seems more useful to identify specific measures that have sought to make mortgage finance more appropriate for lower-income households. There are two notable sets of innovations, those that have made it easier for those without formal employment to secure mortgage finance, and those that have made mortgage finance and/or the final product more affordable.

There is a well recognised group that could potentially afford mortgage finance but who are denied because, for various reasons, the financial institutions perceive them to be high-risk borrowers. In some cases, it is simply because they are poor with low incomes and the banking institutions feel that such families cannot be trusted. In others it is because they work informally and have unverifiable incomes from which deductions cannot be made directly. Innovations which seek to extend finance to these groups include SOFELES in Mexico, now estimated to be the main source of private home lending.¹¹⁸ SOFOLES appears to be particularly successful in reaching out to informally employed households. Collection rates have been maintained with an average default of 2.4 per cent on total outstanding mortgage balances and aggregated levels of non-repayment were lower than those of either public lenders or banks. To achieve this, they use a number of specific strategies such as requiring savings at the level of the mortgage repayment for a period of time and “in-person delivery of statements, acceptance of payments at on-site locations and outside of traditional business hours”.¹¹⁹ Strategies using pension funds to guarantee housing loans have been introduced in South Africa, Namibia and Bangladesh. In recent years there has been a particular interest in extending land titling so that land can be used as collateral for mortgage loans; however, as noted in Section III this has had limited success.¹²⁰

The use of capital subsidies to increase access to mortgage finance is discussed in Section III.

Integrated neighbourhood development

A set of programmes developed in Central America (El Salvador, Costa Rica, Nicaragua, Guatemala and Honduras) share a number of common features (autonomous agencies closely related to state shelter strategies, local government investment in services and infrastructure, citizen involvement in planning and financing infrastructure improvements, technical assistance to gain legal tenure, loan options for individual housing improvements or new housing) and hence might usefully be considered an exemplar of this approach (see Annex 7 for a summary). These programmes seek to address the lack of decent housing, aiming to improve “the living conditions of the urban poor, especially of families living in slums, tenements, unplanned and informal settlements and precarious neighbourhoods”.¹²¹ The programmes support the upgrading of existing low-income areas through tenure security with participatory planning, investments in basic services and infrastructure, and housing improvements. There is also, to a limited extent, investment in new housing. While the emphasis is very much on shelter improvements, investments from Swedish International Development Cooperation Agency (Sida) have been made on the understanding that democratic processes need to be strengthened and

117 See Tomlinson 2007 for a discussion on South Africa.

118 World Bank 2004, 4

119 Joint Center for Housing Studies 2004, 35

120 Calderon 2003

121 Stein 2007, 8; precarious is a term used to describe poor quality housing with insecure tenure

peace agreements reinforced. These development assistance contributions have been justified in terms of Acts adopted by the Swedish Parliament and policies adopted by Sida to support poverty reduction, improved quality of life of poor people, good governance and respect for human rights, and to create the conditions for sustainable social and economic development.¹²²

The catalyst for the programme in each country has been a specialist agency, created in some cases through through negotiation between Sida and the various central government ministries. In Honduras, an existing government programme was transformed into a not-for-profit foundation. In Nicaragua a government programme was established and later transformed into a not-for-profit foundation, and in Guatemala a commercial trust fund was created. These programmes very deliberately bring together a number of different institutions: central and local government, NGOs, conventional and non-conventional (micro-finance) agencies and community-based organizations. Development assistance funds are allocated to three components of the programmes:

- technical assistance in services and land tenure (both to executing agencies and target populations). Technical assistance is provided through specialist central government agencies or other institutions involved in the programme. Much technical assistance is oriented to securing land tenure as a precondition (or preferred requirement) for state housing subsidies and housing micro-finance loans, and;
- loans (including micro-loans for housing improvement, loans for new housing construction, and loans for income generating activities);
- institutional capacity building and development, especially for institutions that are intermediaries (providing basic services, new housing and housing improvements).

Investments in land differ considerably between the Central American countries due to local attitudes and laws. In Costa Rica, insecure tenure is tolerated but land titles are required to secure mortgage loans for housing investments and infrastructure upgrading. Hence the specialised agency FUPROVI provides technical assistance to low-income communities and households to help legalise tenure. FUPROVI pre-finances investments during the legal process with subsidies claimed once tenure is secure. In Nicaragua, Honduras and (to some extent) El Salvador, tenure is not required either for infrastructure investment in state land or small housing loans as long as there is evidence of no conflictual land claims. However, the agencies all support legalisations and provide technical assistance to low-income households and communities. In El Salvador, tenure is a priority for households seeking state housing subsidies, while in Guatemala it is required to get housing loans. In Nicaragua, the state requires full land title to allocate the subsidy for new housing, although PRODEL only works in housing improvement. A recent impact evaluation of PRODEL found that about 88 per cent of current recipients of housing improvement loans identified no tenure problems even though not all the plots of land were legally registered; the national average for similar households with land title is 53 per cent.

Infrastructure finance is secured through central government agencies (with some development assistance), municipal authorities and local residents; for example, in Nicaragua, infrastructure improvements are financed by PRODEL (50 per cent), the municipality (35 per cent) and the community (15 per cent, through savings, repayments and in-kind contributions). Loans for individual home improvements are available, usually through micro-finance agencies, sometimes through the specialist central government agencies. Interest rates are set to cover administration costs, default, technical assistance and inflation only; as an indicative figure, interest rates were between 18-24 per cent in 2003-4. Average loan size varies between US\$1500-\$ 3,000 for new housing and US\$800 for

122 See for example Sida's poverty programme to promote sustainable livelihoods for the poor and to combat poverty adopted in December 1996; the Regional Cooperation Strategy for Central America and the Caribbean 2001-2005 adopted by the Swedish Foreign Ministry in February 2001; and most recently the Swedish Policy for Global Development adopted in 2003.

housing improvement. The programmes accept a wide variety of collateral and securities from households (especially mortgages, the use of pawns and cosigned loans). Loans are given for land regularisation, land acquisition, new housing, housing improvements and infrastructure improvements; about 50 per cent has been for new buildings. In Costa Rica, Honduras and El Salvador state housing subsidies can be accessed to help consolidate assets, although legal tenure is usually required. Pilot schemes in Nicaragua and Guatemala are exploring subsidies. In Guatemala, the only way to access a housing subsidy is to have legal title; therefore the micro-finance agencies are giving loans to families to legalise land tenure.

These programmes' contribution to addressing shelter needs has been small but significant. By the end of 2006 they had benefited more than 110,000 low-income families in the main urban areas or helped about 500,000 people to improve their habitat conditions.¹²³ This represented about 2.7 per cent of the total urban population of the five countries and about 6.7 per cent of the total urban poor. In Guatemala (the newest programme) just over 3 per cent of the number currently in poor housing have been reached. The programme has been most significant in Costa Rica. According to the Ministry of Housing of Costa Rica, from 1987 to 2004 a total of 219,081 families received state subsidies, making FUPROVI responsible for about 10 per cent of the new housing and improvements in the country. A strong consistent commitment by the state to allocate resources for the last 20 years and higher incomes in Costa Rica make finding housing solutions easier. Taking prosperity into account, perhaps the most notable successes are in the lower income countries of Honduras and Nicaragua. About 20 per cent of those assisted receive housing loans and this figure is consistent across different income levels.

The average investment cost per person is about US\$100. Most low-income families that participated in the lending programs earned at least one minimum wage per month (which ranges from US\$90 per month in Nicaragua to about US\$150 in Costa Rica). There are always households with incomes too low to afford to repay loans. Some MFIs prefer to lend to families with very low but steady incomes from which repayments can be deducted rather than to those working in the informal sector. These families are helped in other ways, mainly through the infrastructure and basic services component (for example in the case of PRODEL in Nicaragua). There is a clear intention to reach very low-income households with basic services alone while higher income families receive loans.

The model has been used in a number of Latin American countries¹²⁴ where the state supports efforts to extend tenure security (even without full legal title) as well as investments in infrastructure improvements (perhaps with a community contribution) and micro-finance provision for housing improvements managed by individual households. Subsidy finance can be easily blended into this model at a number of stages, as has been done in some Central American countries. The model has been less widely used outside of the Latin America context. Sida tried and failed to replicate it in South Africa during the second half of the 1990s in the context of a housing capital subsidy and where citizens had high expectations of the state. More recently, the Kuyasa Fund in Cape Town has developed a micro-finance programme for housing to enable households to gain additional finance to the state subsidy.¹²⁵ The financial model is similar to that used in Central America but there is not the participatory planning process that characterises the model in its most sophisticated form. The model does not appear at scale in Asia although as elaborated in Section III its elements are present in a number of programmes, notably in India, Indonesia and now the Philippines.

123 Many people benefited from income generation loans. An exception was FUNDEVI in Honduras; FUPROVI in Costa Rica had an income-generating program that was discontinued in the late 1990s.

124 IDB's (2006, 1) housing policy supports the three priority areas within this programme.

125 Mills forthcoming

Comprehensive citywide strategies

In January 2003, the Thai government announced two new programmes for the urban poor aiming to reach 1 million low-income households within five years. One of these is the Baan Mankong (“secure housing”) programme, which channels government funds in the form of infrastructure subsidies and housing loans directly to poor communities, which plan and carry out improvements to their housing and to basic services.¹²⁶ This is implemented by, Community Organization Development Institute (CODI). The programme has set a target of improving housing, living and security of tenure for 300,000 households in 2,000 poor communities in 200 Thai cities within five years (the scale of need is given in Annex 1). In August 2005, the Thai government approved US\$240 million to support this programme.

Baan Mankong was set up to support shelter improvement processes designed and managed by low-income households and their community organisations and networks. These communities and networks work with local governments, professionals, universities and NGOs in their cities to survey all poor communities, and then plan an upgrading programme to improve conditions within three to four years (see Figure 1, Annex 8). To oversee the implementation of this, each city must establish a joint committee which includes urban poor community and network leaders and the municipality, as well as local academics and NGOs. This committee helps to build new relationships of cooperation, to integrate urban poor housing into each city’s overall development and to create a mechanism for resolving future housing problems. Once the plans have been finalised, CODI channels the infrastructure subsidies and housing loans directly to the communities.

This programme imposes as few conditions as possible, in order to give urban poor communities, networks and stakeholders in each city the freedom to design their own programme and lead the process. These upgrading programmes build on the community-managed programmes that CODI and its predecessor UCDO have supported since 1992, and on people’s capacity to manage their own needs collectively. They also build on what “slum” communities have already developed, recognising the large investments that communities have already made in their homes. Upgrading existing settlements is supported whenever possible; if relocation is necessary, a site is sought close by to minimise the economic and social costs to households.

The ambitions of Baan Mankong go beyond urban poor neighbourhoods. Most people believe that the municipality should manage the city – but the programme assumes that city authorities do not have much power or capacity and that governance needs to be opened up so that citizens own the city and are part of its development. Responsibility for different aspects of city management can be decentralised to communities – for instance, for public parks and markets, solid waste collection and recycling, and community welfare programmes. Opening up more room for people to become involved in such tasks is the new frontier for urban management – and real decentralization. When low-income households and their community organisations do the upgrading, and their work is accepted by other city actors, this enhances their status as key partners in solving city-wide problems.

The programme seeks to strengthen the collective understanding of the poor as regards both the city and their own neighbourhoods. Horizontal relationships between groups of the urban poor are catalysed, building their awareness of having a collective asset, the land on which they are living (see Box 3). Baan Mankong encourages collectivity because:

¹²⁶ The second programme is the Baan Ua Arthorn (“we care”) programme, within which the National Housing Authority designs, constructs and sells ready-to-occupy flats and houses at subsidised rates to lower-income households who can afford “rent-to-own” payments of US\$25–37 per month. This has had some problems getting to scale and is not further discussed here (Prachuabmoh 2005).

- the upgrading has to include everyone in the community, rich or poor, renters or owners, etc.;
- wherever possible, the land tenure (lease or sale) is collective;
- the upgrading work is planned and implemented collectively;
- the housing loans are given collectively to the community cooperative;
- the social systems that are part of the upgrading are collective.

CODI has a separate legal standing as an independent public organization, an institutional position believed to offer the best opportunity for state support (for instance, being able to apply to the annual government budget for funds), but at the same time having greater flexibility than a regular government programme with wider linkages and new possibilities for supporting collaboration between urban and rural groups. CODI supports community-managed savings and loan groups, and the community networks to which these groups belong. Its board includes representatives from government and community organisations; in this way, CODI embeds transformative relations within its practice. Figure 2 (Annex 8) outlines the relationship between the key agencies involved in the process and Figure 3 elaborates this process in one particular community in Korat (within Bangkok), where a network of 25 communities is working with NGOs, the municipality and the university on a three-year programme that will reach 52 settlements with 9,900 households.

Infrastructure subsidies of 25,000 Baht (US\$715) per family are available for communities upgrading or reblocking their communities in situ, and 35,000 Baht (US\$1,000) for relocating. CODI makes bulk housing loans to community cooperatives at the subsidized rate of 2 per cent, and communities add their own margin (for management, community activities and welfare) and on-lend to families at 4 per cent. (CODI's usual housing loan rate is 4 per cent, but under the Baan Mankong Program the government subsidizes half this interest rate). Communities can access a grant equal to 5 per cent of the total infrastructure subsidy to help fund the project development and management costs. As of March 2007, out of a total of 778 community upgrading projects approved (in 220 cities, affecting 44,926 families), just over 67 per cent of the beneficiaries are in communities that were upgraded and negotiated long-term secure collective tenure on the same site, while a further 12 per cent relocated to new within 2 kilometres. Those communities that moved either negotiated long-term collective leases to the public land they moved to, or else purchased the private land, at prices they negotiated themselves, and bought with CODI land loans to the community cooperative.

The key financial management mechanism is the savings group and, as described in Figure 3 (Annex 8), savings perform multiple functions in enabling communities to lead in defining and realising development options. The land is collateral for the housing loans. The upgrading process puts almost everyone into debt, but households believe this is worthwhile because they now have assets. "From being worthless, after they repay their housing and land loans in 10 or 15 years, the poor, who earn only a subsistence level income, will all have an asset which is worth between 100,000 and 500,000 Baht (US\$2,500 – 12,500) (when you put land and house together with the infrastructure improvement subsidy). In the Baan Mankong... have already acquired an asset of at least 100,000 Baht per unit, through the upgrading process. And it is only the security of tenure that allows this development to happen and opens up the gate for development resources to flow into these communities."¹²⁷ The highly decentralised process is considered critical as it enables local groups to work out the best strategies to get the most from the finance that they have secured. Working through community networks is vital. It is this that enables local groups to complement their ideas with the necessary skills, capacities and support to see the process through to a successful conclusion.

127 Boonyabanha 2007, 15

By August 2006, 402 projects had been approved in 244 cities or districts. This includes 626 communities and 42,111 families. This is approximately 14 per cent of the target numbers and about 5 per cent of those families in need within Thailand. Infrastructure upgrading grants total US\$33 million while housing loans are US\$29 million. Nearly all of the improvements have been in settlements in which tenure security has been achieved.

However, it should be stressed that those involved in the programme do not judge its success just by the number of households achieving physical improvements. The director argues, “Upgrading is so important for the life of the urban poor, because they are ‘illegal’ they don’t have security, they don’t have rights. And when you improve poor people’s rights and security, you are changing their status in the city. The poor are usually not considered as bona fide citizens — once you change their tenure status, their citizenship in the city also undergoes a change, through the upgrading process.”¹²⁸ Therefore, the project’s success is linked to how communities address all aspects of their poverty, not just their poor housing conditions. One of the most interesting developments has been the way savings schemes address welfare needs within the community, providing “safe” homes within neighbourhoods for elderly people, destitute widows, AIDS orphans, handicapped people with special needs, or people with no income. This is one way in which several communities are trying to “get everybody on board” as part of the upgrading process.¹²⁹ What is highlighted in this experience is that the development benefits do not just emerge from the acquisition of technical skills but from the self-belief that low-income residents secure when they feel they are legitimate residents and citizens of the city.

Community-driven neighbourhood improvement

SDI is an alliance of people’s organisations (homeless and landless federations) and NGOs seeking new and different ways to eradicate homelessness, landlessness and poverty. These federations are engaged in many community-driven initiatives to upgrade “slums” and squatter settlements, improving tenure security and offering residents new development opportunities, developing new affordable housing for low-income households, and installing infrastructure and services. The federations have a membership of savings schemes, local groups that draw together residents (mainly women) in low-income neighbourhoods to share their resources and strategise to address their collective needs. The initiatives undertaken by these savings schemes demonstrate how shelter can be improved for low-income groups, and how city redevelopment can avoid evictions and minimise relocations. Saving is critical, being the way in which low-income residents come together to share their scarce finances and build relations of mutual trust. By pooling their finances at the neighbourhood level and then the city level, these relationships are further developed and finance becomes a strategic tool to attract the resources and attention of the state.

The network was launched in 1996, building on existing relationships between federations in Cambodia, India, Namibia, Nepal, South Africa, Thailand and Zimbabwe. It now includes fifteen federation affiliates, all of whom learn from and help each other. Grassroots savings groups are emerging in ten further countries. SDI believes it has achieved some success with its methodology, mobilising over 2 million women slum dwellers in 24 Southern countries. These are individual savers who interact on a daily basis around savings and loans. Over 250,000 families have secured formal tenure with services and about half of these have also been able to improve their housing using their own savings and a range of loan and subsidy finance. Many more families have been assisted as groups have negotiated alternatives to eviction and/or secured other services. The discussion below concentrates on experiences in Namibia and India, two longstanding affiliates working in very different contexts, selected to illustrate the diversity that exists within SDI processes across the network.

128 Boonyabanha 2007, 8

129 Boonyabanha 2005

India was the catalyst for SDI. During the 1970s, the National Slum Dwellers Federation (NSDF) led by Arputham Jockin tried and failed to work with NGOs. Persistent attempts at domination by the NGOs, coupled with strategic strangulation of resources, led NSDF to decide to break ties with all NGOs and go it alone.¹³⁰ A decade of non-collaboration brought its own litany of problems. Donors refused to fund the social movement directly. Government required technical data and the federation's organic, grassroots means of mobilisation and communication failed to translate into a formal context. There were also the perennial problems of internal accountability and the need for more rigorous financial management. These factors led the federation to try again in 1986 and over the years it has evolved a strong relationship with an NGO called SPARC, the Society for the Promotion of Area Research Centres. This partnership between NGO and independent federation is the template that has been adapted and replicated in fourteen other countries.

The Shack Dwellers Federation of Namibia, one of the largest grassroots housing organizations in the country, works with its support organization the Namibia Housing Action Group. This network emerged from autonomous savings schemes in informal settlements that were set up in the early 1990s. Following the country's independence in 1991, the savings schemes grew slowly and steadily and adopted the federative model in the late 1990s, following which the scale of grassroots mobilisation began to increase.

In community-driven development, the priorities that emerge are those of the local organizational members, in this case low-income women living in informal and under-serviced urban neighbourhoods. The savings scheme approach is particularly attractive to women, whose need for secure tenure, services and housing reflects their daily struggles to take care of themselves and their families. Insecure tenure and inadequate housing become a way in which more powerful social actors and agencies frame and construct their disadvantage. A priority is to consolidate a collective process that can enable the urban poor, through federated organizations, to address all aspects of their inequality through negotiated state support for development initiatives that they have designed for themselves.

In Namibia, the first groups involved in the process were women living in the shacks of the former black township of Katatura, northwest Windhoek. They began exploring the possibilities for self-help housing through credit unions in the late 1980s, motivated by the opportunities that independence and democratic government would offer. In India, the process began with women living with their families on the pavements of Mumbai. In 1985, the Supreme Court order to demolish pavement structures in Mumbai provided a further impetus for the women to find safe locations. They did not want to stay on the pavements, but wanted locations where they could develop secure homes.

The Shack Dwellers Federation of Namibia and their support NGO, the Namibian Housing Action Group (NHAG) now includes 390 savings schemes, involving 15,000 households within Namibia. The two organisations work in close alliance to influence shelter opportunities and have established an urban poor fund, the Twahangana Fund, which lends to savings groups undertaking development at concessional rates. The central government has invited NHAG to sit on the Habitat II Committee, a stakeholders group which supports the Ministry of Regional and Local Government and Housing. They contribute monies to the federation's fund from Build Together (a government programme which offers individuals subsidised home improvement loans) and they make an additional annual contribution to the fund (currently N\$1 million). Recently, a private sector mortgage company and solicitors have shown willingness to offer financial support related to their own lending activities. Development

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assistance monies have supported core organisational and federating expenses, and have contributed to the loan capital available.

Local savings groups access finance for land and housing developments through the Twahangana Fund. There are two options, greenfield development and upgrading. There has been relatively little experience of upgrading because it requires a higher organisational capacity (bringing in nonmembers) and may require additional land to reduce densities. Most of the 3,100 members who have accessed land have done so through land purchase. Land is sold without a subsidy at development cost (although clearly there is scope for negotiation about the share of bulk service costs). Local authorities offer communities the option of repaying land costs over several years. The cheapest land is sold as a block with bulk infrastructure connections. Communities can borrow from Twahangana to develop infrastructure, but many choose to use the savings accrued within their savings group. Costs are further reduced by households managing the land development process and contributing unskilled labour free of charge. The authorities permit them to remain in shacks if they cannot afford the additional costs of development. This reduces the costs of basic shelter improvements very significantly and households can join one of the programmes for a capital cost of about N\$1,500 (or US \$250), which the local authority will spread over 5 to 7 years. Those that wish to improve their housing can borrow (through Twahangana) for such developments. The maximum housing loan is N\$20,000 with an annual interest rate of 5 per cent and repayable over 11 to 20 years. This finance is managed by NHAG but is actually provided directly by a central government programme that uses Twahangana as one of a number of conduits.

In India, the alliance includes three organisations: *Mahila Milan* (a collective of women's savings schemes); SPARC (an NGO) and the National Slum Dwellers Federation. In 1998, the alliance formed *Samudaya Nirman Sahayak*, which translates as "SPARC's assistance to collective construction (SSNS)," to manage large-scale construction projects. By 2004 the alliance was working with over 200,000 families in Mumbai alone. Demonstrating solutions in Mumbai, for very many poor people, has encouraged interest from other cities. The scale of their activities reflects their ability to organise communities threatened by state development projects. The alliance works closely with central, state and local government. SPARC has been invited to sit on a number of government bodies including the US\$12 billion Jawaharlal Nehru Urban Renewal Mission (JNURM) launched in December 2005. The methodology has strengthened local community organizations to negotiate with all levels of state officials. The alliance has been successful in accessing state subsidies for housing development. They have also been one of the strongest civil society organisations working with groups in Mumbai that benefit from Transferable Development Rights (TDR), a cross subsidy system that enables the poor to secure resources from the redevelopment of designated "slum" areas. Over the last decade, SPARC has consistently interacted with commercial financial institutions interested in accessing the urban poor such as Unit Trust of India, HUDCO, NHB, Citibank and the ICICI Bank. However, the emphasis on working with low-income groups means that such financing is only useful within an overall financial package that recognises how little the lowest-income households can afford. The scale of the alliance's activities in India and the breadth of possibilities are reflected in its collaboration with a wide range of development assistance agencies and role in large-scale urban development programmes, most notably those with bilateral and World Bank funding.

The alliance has negotiated a number of financing options for land development. Households living in designated slum areas of Mumbai that can apply for TDR receive a complete finished unit in a medium-rise block free of charge. Financing is provided by the sale of rights permitting development. Those without these entitlements use central and state subsidies to help meet the cost, and make up the rest themselves. For example, in one case, the units cost Rps 75,000 and a Rps 50,000 subsidy is available. Members contribute Rps 7,500 savings with a loan of Rps 17,500 at 12 per cent. The financing will be provided by ICICI (a commercial bank) to SPARC. The members will repay SPARC, which will repay

the bank. In all of these developments, bridge financing is needed because the subsidies (and transferable rights) are only available on completion of the units. Theoretically, private sector financing could be provided as bridge financing but in practice SPARC has found it impossible to raise such funds without guarantees or interim funding. As a result, the alliance has worked with a UK NGO (Homeless International), the Department for International Development (DfID), Sida and Cities Alliance to establish Community-Led Infrastructure Finance Facility (CLIFF) to bridge the financing gap in scaling up slum upgrading activities. Further shelter finance may be raised by local communities when they sell some units to higher income groups, providing a cross subsidy within the programme and helping the poorest participate.

In Namibia, 3,100 federation members have secured land, 1,174 of whom have also accessed loans for improved services and infrastructure (with the others securing access to services through land purchase and/or savings). Just over 1,200 members have taken loans for housing development and improvements.¹³¹ The federation is able to acquire land with access to bulk infrastructure for between N\$1500 and \$3000 (US\$200-400). Many savings schemes that wish to invest in infrastructure and services (i.e., extend piped water and sanitation to each house from a central supply point) save money to meet costs of, typically, about US\$ 20 to \$40 per household. NHAG and the federation have counted nearly 71,000 shacks in 48 local authority and village council areas, suggesting a figure of 80,000 in all urban areas of the country (equivalent to the housing deficit) and suggested that they have reached about 4 per cent of their target population. The major constraint on housing loans is the affordability of repayments. Membership is now at about 15,000 or 20 per cent of shack dwellers.

In India, there are an estimated 67 million urban poor residents with a housing requirement of 22 million. These figures are estimates and if all informal settlements are included the figure may be significantly higher. The alliance has secured land for about 50,000 families; of these, 5,000 are living in self-built units and a further 30,000 are living in units constructed by commercial contractors and then allocated to Federation families. This building programme is actively being extended with the completion of several thousand more units in Mumbai in the near future. In the alliance's experience, household contributions need to be as low as possible as loan finance can be difficult to repay. It is important to have the collective as a buffer to assist families that have difficulties paying in any single month.

V. Mapping out questions and next steps

In this context, what are the key questions to be addressed in the discussions in Bellagio? The discussion here is evidently premature given the expertise represented at the seminar itself. However, it may be useful to catalyse this discussion by drawing out some of the implications of the argument presented in the four earlier sections. The discussion begins by recognising the constraints (Section I) and then the achievements (Sections III and IV) and finally reflects on what those experiences suggest for two specific challenges: what is needed to catalyse the process of shelter improvements, and what is needed to scale up those processes that have been successful on a small scale. Consistent with the earlier analysis, this discussion considers the shelter needs of different income groups with an emphasis on the lowest-income households with insecure tenure. The analysis above suggests that there are considerable constraints to be addressed in improving shelter. This summary highlights some of the most significant and is divided by agency. Within this agency categorization, constraints related to institutional capacity, resources, knowledge and tools are considered.

¹³¹ The SDFN is able to build houses of 34 square metres for N\$15,000, about 75 per cent of equivalent government estimated costs (Habitat Sub-Committee on Secure Land Tenure 2005, 13).

The urban poor, both as individual households and in terms of their organized collective capacity, face two very serious constraints. The first is the inability of state agencies to provide adequate land with access to basic services within a regulatory system that does not penalise the poor for their inability to invest in housing assets. The second is their income poverty and their limited ability to invest in shelter. For the poor living in informal settlements, saving is the major source of financing in most research to date. This is true even when there is a transition from informal to formal housing. This reflects both lack of affordability and lack of access to loan finance. Organized groups of the urban poor face fewer constraints if and when they are able to pressurise and negotiate with state agencies to put in place programmes that offer affordable access. They are, in some contexts, able to purchase private land for community managed development which may be more affordable but which is likely to remain illegal, at least for some time. Organised groups have fewer resource constraints (both because they can pool resources and because they are more likely to be able to negotiate for additional resources) but the resource problems remain significant in most cases. Groups that work on their own face considerable institutional constraints and most need to function within some kind of collaborative structure, e.g., federations, cooperative unions and credit unions. Groups that become organised may lack knowledge and tools, although arguably these are available. The experience of SDI suggests that once community groups are exposed to effective models the take up is rapid. Hence the “knowledge and tools” constraint may be more one of communication than of development.

Civil society agencies seeking to assist the urban poor face different constraints, depending to a considerable extent on the modality of assistance. The three most common strategies are: land rights advocacy, shelter micro-finance and support to federated social movements. In addition, there are agencies with a strongly sectoral approach (e.g. water, housing). The models are fairly well established in each case, and knowledge and tools are not lacking. However, it might be noted that there is no agreement on the effectiveness of particular strategies; there are real differences about, for example, the relative significance of policy change versus increased pressure for policies to be implemented, legal and/or professional interventions versus grassroots capacities, savings based organization versus other modes of organisation, and individual versus collective finance. There are also real constraints related to institutional capacities and in terms of resources. Resources are scarce in many circumstances and constrain the development of programmes; equally damaging is the presence of conditionalities imposed by the grant-making agency that reduce the flexibility of support that might be offered to local groups. In many cases, there are limited institutional capacities; for example, appropriately skilled civil society agencies do not exist in many smaller urban centres. Agencies often lack effective strategies and end up pursuing project-based initiatives that do not grow into any significant activity. A particular problem appears to be the limited capacity of civil society organisations to work in genuine partnership with the urban poor; on many occasions they fail to engage significant numbers of the poor within their programmes which, instead, transfer minimal resources to a few. One subset of civil society agencies is foundations. There is very little interest among foundations in supporting work on urban poverty related to shelter. In Europe, few foundations are interested in supporting development and those that do tend to prioritise particular countries and/or particular themes (e.g., children, HIV/AIDS). In the US there is more extensive foundation activity overseas. However this tends to concentrate on rural development, the environment, health, and international relations.

Private sector capacities also face constraints. Clearly the lack of affordability in low-income shelter construction and lending is a considerable constraint that reduces anticipated profits and deters investments. A number of country studies (South Africa, the Philippines and India) suggest that within the current investment context in countries, private companies have only limited interest in low-income construction because the rates of return (although positive) are not as great as in alternative investment opportunities. There are a number of indications (see Section III) that the private commercial sector is responding to the down marketing of mortgage financing and the provision of capital for micro-financing. As argued above, such strategies have limited relevance for those living

with insecure tenure, but they make an important contribution to addressing the needs of higher income groups. There are few innovations to make mortgage financing available to informal sector employees, even where it might be affordable. There are attempts to reduce the cost of housing, particularly with respect to the provision of core units for future improvement. Although there are a number of attempts to increase housing financing, it is not evident that these are always related to a shortage of local capital. The private informal sector is a major producer of informal housing as commissioned by local residents and has received relatively little attention.¹³²

Governments face considerable constraints: It is not clear they lack the knowledge and/or tools. Indeed there have been a number of successful innovative projects and, as outlined in Section IV, some successful programmes that have reached a significant although inadequate scale. However, they fail to act when they could and they often fail to use existing resources effectively. Arguably this is because they come under pressure to act in certain ways rather than other ways. What helps to shift governments to progressive policies?

- Demonstrated community capacity in relevant areas – in India, the capacity of the Railway Slum Dwellers to organise those living alongside the railway tracks to substantiate claims for resettlement with a capacity for independent verification was critical to the provision of alternative shelter when railway redevelopment took place.
- Evidence of community capacity to co-finance – in Windhoek, Namibia, the redesign of municipal regulations with affordable standards took place because the municipality sought cost recovery and local savings schemes provided evidence of the residents' willingness and capacity to provide collective and individual finance.
- Sustained community pressure for improvements – the political dimension is very important and politicians require a level of confidence that there will be electoral rewards from resource-intensive programmes. This is particularly necessary for incremental development programmes as they are perceived as less attractive by politicians and officials.
- Evidence of the need for improvements within existing programmes. Project reports and academic documents convinced both Chilean and South African governments of the need to improve the quality of contractor-built and publicly financed housing.
- Additional support for implementation. In a number of cases, state agencies appear to lack confidence in their own implementation capacities and they seem to respond well to coordinated lobbying that includes the promise of technical support.
- Catalyst funding to enable demonstrations of projects that can be scaled up. Workable examples provide the state with confidence in the acceptability and affordability of the project and can be a lobbying point.

Donor agencies have been put off getting involved in housing as a result of earlier problems and a notable lack of success in reaching the target group. The political dimension is particularly difficult for major donors to address as they are aware of their lack of legitimacy in terms of political intervention. In this context, there is a tendency for them to be overly involved in technical "neutral" type interventions, although there is limited evidence to show that these are effective in improving options for the poor. As described in Section IV, there is broad agreement that effective programmes are likely to include community led activities, support organisations (civil society or state) and local government. Building such relationships takes time; and this is a further deterrent for donor agencies who are under increasing pressure to get "quick" results. Programmes of support have to be negotiated, sometimes with reluctant state agencies, over a period of time. And even then there is a fear that the intended benefits will not be realised due to political difficulties.

¹³² One exception is the building materials programme of the Orangi Pilot Project, which has improved block quality, thereby improving company profitability and housing quality.

Despite these obstacles there have been successful attempts, through specific sectoral interventions, projects and, in some cases, larger scale programmes, to address shelter needs. This subsection considers what is needed to catalyse and then scale up such successful initiatives in the provision of shelter financing for shelter improvements. Prior to this, the discussion draws out some similarities in the context in which significant improvements emerge:

- Improvements require a number of different agencies including some kind of financing agency that may be one of, or a combination of, national government, the private sector, and development assistance, together with organized local people, local government and civil society support organizations. Involving the private sector in construction can make a significant contribution in terms of building capacity and sometimes financial resources, but their activities need to be managed to secure construction quality and well-located land.
- Subsidy financing is required to develop inclusive models. The poorest cannot afford adequate accommodation within the market and this is true of the informal market also. This is especially true if state regulatory structures require plot services and concrete dwellings. However, programmes cannot be driven by subsidy finance alone; low-income households are anxious to add their own resources and improve their shelter options. Successful programmes include options to blend sweat equity, savings and subsidies with optional loan opportunities.
- Land, infrastructure and dwelling development and/or improvements need to take place. Hence programmes need strategies to ensure each of these is available. In some cases, this requires legal land titles but in other contexts requirements are less rigid. Micro-finance for housing has added flexibility in construction options to a base line improvement in some cases; in others, a single option is provided (sometimes because there is only sufficient land for a minimal basic dwelling).
- The greater the commitment to address the needs of the lowest income households, the greater their need to be central to the programme design. The involvement of professional agencies tends to skew the design towards their perspectives and requirements. These are least suitable for the poorest as their lives are embedded in informality. This means that it is particularly important that the lowest-income groups and the most disadvantaged are central to the development of programmes seeking to address their needs.

What is needed to catalyse?

It is widely recognised that catalysts require a champion who is ready to build a successful idea into an operational form. Clearly these projects are no exceptions in this respect. In addition to such ubiquitous criteria, what is required?

Critically important appears to be a vision that recognises the multiplicity of problems, i.e., land, infrastructure and dwelling improvements, and which has a strategy to address these issues. This is attractive both to the different groups of citizens present in local communities and to politicians.

Flexibility in financial allocations is important, as any number of strategies may be required at different times. Flexibility to change financial priorities to reflect the realities on the ground helps to ensure that catalysts take off. As programmes become more established, this need for flexibility can be managed more easily within a larger set of activities.

The trust of local people, which will take some time to earn, is also required. Successful programmes all draw on the people's own resources and they will not offer these to programmes that do not seem likely to address their shelter needs. However, this requires the ability to work alongside conventional land accumulation practices within communities, which may secure partial, poor quality and incomplete shelter opportunities in return for votes (i.e., clientelist and patron-based relationships). Savings-based organizations have been widely used particularly in Africa and Asia; saving is more complex in the

countries of Latin America, in part as a result of past experiences with inflation. The importance of savings as a source of investment capital for shelter improvements is a further reason why effective programmes are likely to include provisions to encourage and secure savings.

It is important to recognise that there are many catalysts; i.e., there are lots of small-scale successes. What is much more difficult is to take the process to the next stage with larger-scale financing and the required institutional capacity.

What is needed to scale up?

In each of the examples considered in Section IV, programmes began small and were scaled up over more than a decade. This is true even in the case of CODI, which drew on earlier investments made by the Urban Community Development Office. Commitment to carry on through an inevitably slow investment phase seems an essential attribute. This is not to say that all programmes with longevity are necessarily successful, rather that successful programmes evolve and find success rather than being created successful from the start.

Shelter finance programmes need to acquire large-scale funds to scale up their activities. In each of the programmes outlined here, there are two major sources of funds: state funds and the people's funds. The balance and the nature of each of these varies considerably between programmes. For example, funds may be lent and returned through service charges and loan repayments; funds may be provided as subsidies; funds may be people's savings acquired over some years; funds may be cross subsidies (secured when one part of the development is sold to higher-income residents or perhaps to private commercial developments). Acquiring people's funds is relatively easy as long as the programme works for them. Securing large-scale state funds requires a careful process. An engagement with the political process is an imperative and means that the promoters have to move beyond professional groups into mass movements that offer a potential advantage in electoral politics. Completed exemplar projects help to demonstrate what programmes may offer and build a momentum for change within and outside of the state. Experience suggests that considerable care has to be given to the form of state support and the institutional form through which it is provided. Attention also has to be paid to the operational and the financing role of the state.

Irrespective of the nature of funding and once a political momentum has been established, there is a need to address technical constraints that are likely to emerge. A shortage of suitable professionals with appropriate skills including the ability to work with local residents and their organizations is a frequent constraint delaying implementation or reducing its value. Programmes that have scaled up have sought to address this through collaboration with multiple agencies, including local government, NGOs and private companies.

The large-scale development of serviced land requires bulk infrastructure. The experience is that most aspects can be driven locally, including the subdivision and surveying of suitable land. Hence either community committee and/or local authority actions can secure considerable improvements, since in many locations there is some land available. However, lack of bulk infrastructure is a considerable problem that cannot easily be addressed at the local level.

Priorities for research

This subsection briefly considers research needs directly related to shelter finance and associated themes.

A notable aspect of research requirements is that there seems to be more of a need for shelter finance research that analyses the effectiveness of existing approaches than research to develop new approaches. Considerable progress has been made, but strategies are often challenged in a context which is suspicious of incremental improvements and where there are many self-interested actions by higher income and

more powerful groups. In this context, there appears to be a need for evidence related to both the effectiveness of different financing strategies to secure land tenure (paying particular attention to the direct and indirect costs of tenure security); and to the effectiveness of incremental or phased shelter development as a cost-effective and low-risk route to improved shelter.

With respect to mortgage finance and also relevant to lower-income groups, there is a need to continue innovating to reduce the cost of housing and basic services. This research will also help to increase the acceptability of those innovations that already exist, including adobe and other earth blocks. There is a particular need for technical innovations that reduce both costs and resource use. Many environmentally sustainable practices add significantly to the cost of houses but there appears to be scope for low-cost environmentally sustainable technologies.

With a particular focus on mortgage finance, there would appear to be some merit in research that examines strategies to reach those in informal sector employment with conventional housing financing. Some of these households earn enough to be able to repay mortgages but are denied access because of the conditions associated with loan finance.

Moving beyond the individual dwelling to the level of the neighbourhood and city, there appears to be a need to do more research on processes that ensure inclusive cities with comprehensive upgrading and improved provision of housing. As noted above, there is now a recognition that housing programmes should pay attention to the location and, particularly, the accessibility of low-income neighbourhoods.

More broadly, there is a strong orientation among city politicians towards a Dubai-style model of city development. There appears to be considerable merit in developing other more inclusive and less environmentally damaging models that offer an alternative vision to city planners and politicians. This research theme extends beyond financing issues and encompasses themes of relevance to the other weeks in Bellagio. Research focusing on city inclusivity will support an understanding of the groups that are being reached and those that are being neglected. Central to this discussion is the level and nature of gender discrimination in accessing shelter finance and shelter. However, the analysis of inclusivity needs to extend well beyond gender and take into account the needs and perspectives of a range of discriminated against and otherwise disadvantaged groups.

In relation to the challenges of income growth and reduced income vulnerability, there is a need to articulate a strong argument in favour of integrated poverty reduction with measures to address incomes, assets, and rights. This requires the integration of shelter measures and income generation measures to address poverty and may require further research on effective strategies in a range of contexts. This theme links directly into the theme of city-wide upgrading and re-development.

Finally, there is value in considering more explicitly the strategies that can be used by governments to support shelter improvements, including access to secure tenure and services. As argued above, governments have continued to support shelter subsidy strategies both to respond to widely recognised needs and for political advantage. Official development assistance agencies have been critical of subsidy strategies because of their widespread ineffectiveness in reaching target groups and addressing the needs of the poor. However, a key role of the state is redistribution and it is not evident how the needs of the poorest can be addressed without states being effective in this function. In this context, there is an urgent need to understand the ways in which subsidy financing can be delivered with the greatest benefits and minimal costs.

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Annex 1: Examples of the scale of inadequate shelter

In India, there are an estimated 52,000 slums in urban areas – according to survey estimates from 2002. Nearly 14 per cent (8 million) of urban households lived in them; every seventh person in the city was a slum dweller. Only just over half (51 per cent) of the slums were notified by the respective municipalities, corporations, local bodies or development authorities, but they shared a relatively larger proportion (65 per cent) of slum households.¹³³ Approximately one third of these were on private land and the remainder on state land. And these families are in addition to the estimated need for 22.44 million dwelling units during 2002-07.

In Bhopal, 31 per cent of population or 480,000 people are living in low-income settlements.¹³⁴

An average housing unit comprises two rooms in Pakistan and accommodates an average family size of 6.6 persons. About one-third of the entire population of Pakistan lives in katchi abadis and slum areas. Around 60 per cent of the population belongs to the lower middle class that earns an income between Rs 3,000 and 10,000. In Karachi, a government ban on the allotment of plots and a dearth of adequate government housing schemes have added to the need for people's housing. "What other options would people have other than settling in a katchi abadis?" says a source at the Sindh Katchi Abadi Authority (SKAA). According to an estimate, almost 94 per cent of land in Karachi is directly or indirectly state-owned and has mostly been occupied or encroached on by the land mafia to form katchi abadis.¹³⁵

In the Philippines, 93 per cent of owner occupied houses have been built through an incremental

building process.¹³⁶ While an estimated 20 per cent of urban families in the Philippines fall below the poverty line (about 1.5 million households), there are 3.6 million families in housing need, most of them currently living in informal urban settlements. More than one third of urban families live in makeshift dwellings.¹³⁷

In 1991, one study in nine Asian countries concluded that between 40 and 95 per cent of all households had no possibility of living in a dwelling produced by the formal sector.¹³⁸

In Thailand, in 2003, there were some 5,500 low-income urban communities, with 8.25 million residents (out of a total population of 64 million) living in poor quality housing, often with insecure tenure. In 3,700 of these communities, land tenure was insecure; 30 per cent of the people were squatters and 70 per cent rented the land on which they lived but had no secure long-term contracts. In Bangkok, only half of low-income under-serviced settlements had some degree of tenure, the others had none.¹³⁹ In these communities, 70–80 per cent of their inhabitants could not afford formally provided housing, either through the market or through conventional government housing programmes.

Three quarters of Angola's urban population live in informal peri-urban "musseques" settlements and over 80 per cent of these residents have no clear legal title to the land that they occupy.¹⁴⁰

In Lilongwe (capital of Malawi) 34 per cent of people are in squatter areas, 44 per cent in traditional housing areas (sites and service schemes with poor conditions), and the rest are in conventional planned housing areas. The conventional housing areas where only about 20 per cent of the people live occupy nearly 80 per cent of the land.¹⁴¹

133 National Sample Survey Organisation (NSSO) Report Number 486: "Condition of Urban Slums, 2002: Salient Features (para 3.3) quoted in Satyanarayana, 2007.

134 Somik V Lall et al, 2006, 1028.

135 Naqvi, S. S. March 29, 2007, Daily Dawn Review, Housing for the poor

<http://dawn.com/weekly/review/review1.htm>.

136 Ballesteros, 2002, 3.

137 Llanto 2007, 1.

138 ESCAP, 1991.

139 Viratkapan and Perera, 2006, 160.

140 Cain forthcoming.

141 Manda forthcoming.

Senegal had an estimated population of 11.7 million in 2005, 45 per cent of which lived in urban areas. Informal occupation accounted for more than 25% of the built-up areas of Senegal. In 1987, more than 20% of the population was living in areas unsuitable for habitation; by 2000, this proportion was estimated at 30% of those in the country's urban areas and between 35% and 40% of those in the built-up area of Dakar region. It is estimated that 30% of the Senegalese urban population, around 1,300,000 people, live in spontaneous/informal settlements.¹⁴²

In Tanzania, it is estimated that 98 per cent of the housing stock in urban areas is constructed on an incremental basis.¹⁴³ This is unchanged from the figures quoted for 1978.¹⁴⁴

In Brazil, more than 80 per cent of the population is considered as urban and approximately 40.5 per cent of Brazilian urban residents are living in inadequate and/or insecure housing (16 million families).¹⁴⁵ Twelve million are low-income families, with monthly incomes below five minimum salaries¹⁴⁶. The housing deficit in Brazil was estimated at 7,903 million new homes in 2005; 81.2 per cent of these homes

were in urban areas, and 90.3 per cent of the urban housing deficit was concentrated within households with incomes of between 0 and 3 minimum salaries. The lack of titling or land regularization is the fundamental factor within this context, although its scale is not fully evaluated.¹⁴⁷

Estimates of cement producers conclude that 70 per cent of housing investment in Mexico is occurring incrementally.¹⁴⁸

142 Tall and Gaye 2007, 1-2

143 Mutagwaba quoted in Government of Tanzania and UN-Habitat, 2003, 31.

144 See Okpala, 1994, 1572.

145 If we take the UN definition for precarious settlements, it means a settlement characterized by inadequate conditions of housing and/or basic services. A precarious settlement is frequently not recognized/ considered by public government as an integral part of the city. There are five components that reflect the conditions that characterize precarious settlements: insecure residential status; inadequate access to drinking water; inadequate access to sanitation and infrastructure in general; low structural quality of domiciles; and excessive density. In a precarious settlement, domiciles should suffer from at least one of the five conditions listed above.

146 Minimum salary in Brazil is, nowadays, the equivalent of approximately US\$175. In the Brazilian housing finance system, the benchmark to consider a household as being "low income" is usually a family income below five minimum wages.

147 Rodrigues and Rolnick 2007, 1-4.

148 Ferguson, 2004b, 4.

Annex 2: The lack of affordability of completed homes and mortgage finance

In their recent background paper on housing policy, the Inter-American Development Bank stressed that, even in the relatively higher-income countries of Latin America, phased construction is the “method by which most low-income households acquire a place to live”. The paper goes on to argue that mortgage finance is “not accessible to households in the first two quintiles of the income distribution”.¹⁴⁹

Mexico: About 40 per cent of newly formed households (300,000) earn less than 3 minimum wages (below US \$327 per month) and cannot afford a finished house in a serviced neighbourhood.¹⁵⁰ Only 12.6 per cent of the housing stock in Mexico is currently mortgaged and self-built housing accounts for roughly half of all new building in Mexico.¹⁵¹ In the context of Mexico, one assessment concludes: the least expensive commercially produced unit costs US \$16,000 and is affordable only to families earning about five minimum salaries without subsidies. In contrast, major home improvement and/or expansion costs US \$2,000 to US \$40,000 and is affordable to households earning 1.5 to 2.0 minimum salaries. Other relative low-cost housing solutions include construction of a core unit on a lot already owned by the households (US \$6,000 to US\$8,000), and purchase of an existing unit in a low-income settlement (US\$10,000).¹⁵²

In Bolivia, Colombia, Venezuela and Suriname, even a modest 40-square-metre house on a 100-square-metre plot is too expensive for low-income groups under existing lending terms and conditions.¹⁵³ In these countries, low-income households make up, respectively, more than 60

per cent, 78 per cent, 80 per cent and 70 per cent of the populations.¹⁵⁴ In Panama, 34 per cent of urban households earn less than \$300 a month and cannot afford mortgage finance (a further 23 per cent earn less than \$600 and may qualify with some difficulty).¹⁵⁵ In Colombia, a similar percentage (40 per cent) of families earn less than 2 minimum salaries (\$250 each month) and are considered to be too poor to be able to afford loans for housing.¹⁵⁶

In urban areas of Morocco, where just under 50 per cent of families own their own home, only 6 per cent of all formal housing loans are secured by low- and moderate-income households, despite a government subsidy programme offering low-interest loans.¹⁵⁷

In Bangladesh the construction of a small house is affordable only for those with median incomes and above.¹⁵⁸

In the Philippines, the monthly repayment of a 150,000-peso loan for a low-cost house is such that 77 per cent of the country cannot afford to access such loans (54.5 per cent of urban households).¹⁵⁹

According to the 2000 Ghana Living Standards Survey, the average annual household income was US\$947 and annual per capita income was US\$220. Research carried out by the Centre for Democratic Development (CDD) in 2002, using a sample of 1,200 respondents, indicated that 76 per cent of Ghanaians live in households with a combined monthly income of less than US\$56.00 and only 5% of Ghanaian families live on incomes of more than US\$100 per month. These wage earners must spend about 20% of their monthly income in order to rent a decent single room with toilet facilities. It is estimated that there are no more than 5,000 active mortgage loans in the country and the Housing

149 IDB, 2006, 9.

150 World Bank, 2004, 2; The dwelling being referred to is a basic unit of 40 square metres designed for further growth on a plot of perhaps 60 square metres and on the outskirts of the city.

151 Joint Centre for Housing Studies, 2004, 12-14.

152 World Bank, 2004, 3.

153 Ferguson, 1999, 186.

154 Ferguson, 1999, 186-7.

155 Jacobs and Savedoff, 1999, 5.

156 IDB, 2003.

157 Davies and Mahony, 2001, 25.

158 Hoek Smit, 1998, 18.

159 Llanto, 2007.

Finance Corporation anticipated making 415 loans in 2005.¹⁶⁰

In South Africa, a country widely noted for having an extended financial sector, within one sample group of low to lower-middle earners only 38 per cent had applied for mortgage finance, with 13 per cent being successful.¹⁶¹

Approximately 60 per cent of South African households fall into income and employment categories that would make them potentially eligible for only unsecured personal loans under current lending conditions.¹⁶² In South Africa, an estimated 63 per cent can only afford subsidy housing, i.e., they cannot afford to make any contribution of their own to housing. A further 10 per cent can afford to add \$800 to \$2,000 to subsidy value of \$4,800 – income below \$1,000 a month.¹⁶³

Annex 3: Inadequate state programmes

In the Philippines, there are numerous state programmes to assist with access to housing, but despite this the impacts have been inadequate. Subsidized shelter programs have been unsustainable due to: (a) the huge fiscal requirement in providing direct subsidies, (b) the leakage of the benefits to unintended beneficiaries, and (c) distortions introduced into credit markets that prevented the flow of private sector financing to the housing market.¹⁶⁴ Housing construction has been modest given the huge housing need. Against a target of 1.2 million units of housing assistance or shelter security units, the government's National Shelter Program had been able to provide 882,823 shelter security units, as of June 2004. Of the total output, 56 per cent or 493,496 units went to socialized housing of which 219,268 units benefited the informal sector mainly through the residential proclamation of 73 sites as residential areas for the urban poor. The remaining 44 per cent of total shelter output was low-cost formal housing which benefited (employed) members of pension funds (Home Development Mutual Fund, the Social Security System and the Government Service Social Insurance System).¹⁶⁵

In El Salvador, from 1965 to 1978, FNV (Financiera Nacional de la Vivienda) financed 26,600 complete housing units in fully serviced developments at a unit price of US\$20,000 which only could be afforded by the 30% with the highest incomes.¹⁶⁶

In Senegal, the social housing niche is mainly filled by five banks: BHS, BICIS, CBAO, BST and Crédit Agricole. The BHS, an institution specializing in housing finance in Senegal, supports developers and co-operatives with short-term loans, as well as offering medium- and long-term loans to individuals to purchase housing or plots. Between 2001 and 2005, the BHS financed the production of 8,100 housing units and the development of 2,500 plots of which

160 CHF 2006, 35.

161 Moss, 2001, 33-4.

162 Baumann, 2003, 88.

163 Baumann 2007, 4.

164 Llanto and Orbeta, 2001.

165 Llanto, 2007, 1.

¹⁶⁶ Stein, 2007.

4,700 housing units and 2,000 plots were instigated by developers and the remainder by housing co-operatives. The cost of implementing these programmes was FCFA 88 billion (€134 million). According to recent BCEAO statistics, the BHS deals with almost 95% of long-term loans in Senegal, used to purchase housing or building plots.¹⁶⁷

In South Africa, notwithstanding the delivery of just under 2,000,000 subsidised housing units, public sector delivery of subsidised housing has decreased substantially. Having peaked in the 1997/98 financial year with the delivery of 295,811 houses, delivery has since been on a steady decline, with the 2006/2007 financial year the lowest on record.¹⁶⁸

In Tanzania, between 1995 to 2001 there were 243,473 applications for plots to the Ministry of Lands and Dar City council. However, only 8,029 plots were surveyed by the relevant state agencies and hence made available for use.¹⁶⁹ Equal rights to land for women in Tanzania were only achieved in 1999.

Annex 4: The significance of tenure policies (Central America)¹⁷⁰

In Costa Rica the government is fairly tolerant of land invasions and squatting. Yet, all housing projects need land title before individual families can apply and qualify for a mortgage loan and/or a subsidy from the state. Likewise, government institutions cannot introduce infrastructure and basic services if land tenure is not properly authorized, recognized and legalized. Therefore, to increase accessibility FUPROVI specializes in orienting and giving legal assistance to individual families and organized groups to: a) solve their land tenure problems, and b) introduce basic services in existing squatter areas. FUPROVI will not provide a loan if the legality of land is unclear. This clearly has financial consequences, especially for a low-income family wanting access to a small loan for housing improvements. From 1988 FUPROVI began to give squatter families financial and technical assistance to improve their services, infrastructure and shelter at the same time as helping them to legalize land tenure.

In Nicaragua, the law is more tolerant of illegal invasions and squatting, and less strict regarding land titling as a precondition for access to finance and the introduction of basic services. Since state subsidies for housing improvements are scarce (and those available are for new housing), specialized legal advice from PRODEL or micro-finance institutions to individual families or organized groups is practically nonexistent. Nevertheless, the MFIs prefer to provide a loan if there is a land title that can be used as collateral, although it is not a formal precondition for accessing loan finance. A recent impact evaluation study of PRODEL found that about 88 per cent of current holders of housing improvement loans owned their houses and their plots of land were legally registered. This percentage is considerably above the national average of 53 per cent for housing in similar conditions in urban areas having a registered land title. It is important to note that in Nicaragua about 80 per cent of households have tenure rights to the land they are

167 Tall and Gaye, 2007, 9.

168 Rust quoted in Baumann, 2007, 6.

169 Anyamba and Nordahl, 2005, 27.

170 Stein, 2007.

occupying, although not necessarily a registered legal title. This is the result of the land reform that the Sandinistas carried out in the 1980s.

In Guatemala, the issue of land tenure is more critical as there is almost no governmental tolerance of illegal invasions of land or squatting. FDLG does not provide legal assistance to end users but some of the micro-finance agencies do. The solidarity groups promoted by Génesis Empresarial, one of the MFIs through which FDLG operates in Guatemala, receive legal assistance so that the entire group of lenders has the possibility of solving land tenure issues.

In Honduras, the government is relatively tolerant of invasions of urban land. Moreover, traditionally, the main political parties, when in opposition, promote illegal invasions of land in urban areas. Although land title is a requirement for access to state subsidies for new housing, many basic services and much infrastructure are provided even in unauthorized settlements.¹⁷¹ FUNDEVI has agreements with the municipalities in urban areas that accelerate the land titling process for both individual families and organised groups. In the new programme component of small loans for housing improvement, land titles are not a precondition for finance if the loan is small.

In El Salvador, land invasions are less tolerated than in Costa Rica, Honduras and Nicaragua, but a little more than in Guatemala. As in Honduras, many illegal settlements and squatter areas eventually receive basic services from the municipalities. FUSAI provides legal advice to individual families and organised groups for land tenure regularisation, a precondition for accessing state-backed subsidies.

¹⁷¹ In the case of Tegucigalpa, the capital city of Honduras, in 2001, 60 per cent of the housing stock does not have registered land titles.

Annex 5: Addressing shelter needs within NGO initiatives in Angola¹⁷²

Angola's last four decades of near-continuous conflict were years of tremendous human suffering, large-scale displacement of the population, heavy damage to property and infrastructure, serious economic losses and accumulation of a massive war debt. Social networks and local institutions were eroded through the years of war. At its peak an estimated four million people, or more than a quarter of the total population, were internally displaced. The war has urbanised Angola, and even today, five years after the war ended, an estimated 60 per cent of the population live in cities that continue to expand.

For the urban poor, with no access to banking or savings institutions, the acquisition of a housing plot and construction of a residence are the only way to accumulate any form of wealth. They are at risk of expropriation by commercial developers and the state without legal recourse or appropriate financial compensation. Residual occupancy rights can be revoked by new land legislation. The urban poor are therefore left in a position of extreme vulnerability with weak tenure rights over the land that they live on and a risk of being turned into illegal occupiers unless they can acquire these rights quickly.

The poor depend on high-priced parallel market loans and have little or no access to credit as a means to improve their livelihoods. Rather than the entrepreneurial creativity of informal sector marketers being recognised, the poor have been increasingly excluded from carrying out their business in the streets and urban centre of Luanda. Retailing in the informal sector market is the principal "coping mechanism" for the urban poor. The informal market is dominated by women, many of them heads of households and a large portion of them originally migrants to the city. While entry into the informal market economy is open to anyone, regardless of their level of literacy or previous experience, those who succeed need to acquire business skills and sufficient capital to build sustainable micro-

¹⁷² Cain, forthcoming.

enterprises. For those without capital (no assets and no family to lend capital), odd jobs are the only survival strategy. Only the elite with privileged access have been able to get bank loans for business ventures. The poor are considered to be high risk since they have no collateral and are therefore obliged to pay extremely high interest rates to parallel market money dealers for very short term loans, often leaving them in chronic debt.

Since families migrating to the city usually arrive with no assets, housing is not their first priority. Survival depends on quickly linking to a support network that can guarantee basic needs in the short term. During the war, humanitarian organisations attempted to provide these basic services in the form of IDP camps and nutritional support centres in protected settlements in “government controlled” enclaves in the provinces of conflict. Many of the internally displaced made the rational decision to opt for one of the only other choices open to them – migration to the relative safety of the capital city of Luanda or one of the other coastal cities. The choice depended on the availability of a family or a kinship-based support network in that chosen urban area. The most valuable asset that urban relations could offer was access to their city-based networks and information on survival in the city. Building urban livelihoods depends more on social capital than on financial assets. Urban migrant families experience major pressure from members of their kinship support network to become financially autonomous and acquire their own shelter as quickly as possible. A study carried out by Development Workshop indicated that urban interviewees considered that informal trade was the quickest way to acquire enough money to start building a house, quicker than through paid employment.

Development Workshop (DW) has advocated for reconstruction strategies in Angola to focus on rebuilding the social capital of the poor and investing financially in transforming the post-war informal economy so that the poor can benefit from the country’s new wealth. Programmes of investment in the informal economy through micro-loans and savings mechanisms are considered among the most effective urban

poverty alleviation strategies. The model of micro-finance being pioneered in Angola by DW uses the practice of group lending, originally developed by the Grameen bank in Bangladesh. Social solidarity is not taken for granted but is engendered through training solidarity groups and building experience through successive cycles of small and eventually larger loans, which are mutually guaranteed by the 15 to 20 group members. After several years of studies and pilots, in 1999 DW launched the SLP (Sustainable Livelihoods Program), Angola’s first large-scale micro-finance programme. The project became a reference point, both for the government through the National Bank who started to consider developing a policy on micro-finance and for local Angolan NGOs who began to replicate the experience through their own projects in various parts of the country. DW helped to found and finance a network for micro-enterprise development RASME,¹⁷³ which served as an advocacy forum for the promotion of economic inclusion of the poor.

The micro-finance programme has grown to over 14,000 micro-entrepreneur clients with seven branches and has to date made loans totalling over US\$15 million. In 2006 it was the largest micro-finance programme in Angola lending to the poor. DW took the strategic decision to separate from its micro-finance programme and transform it into an autonomous micro-finance institution registered commercially under Angolan law as KixiCrédito.¹⁷⁴ KixiCrédito now operates as an enterprise in its own right, managed by an Angolan board of directors, drawing largely on capital from Angolan commercial banks. KixiCrédito reached operational sustainability at the end of 2006.

DW decided in 2005 to experiment with housing loans to some of their micro-entrepreneur clients

173 Rede Angolana do Sector Micro Empresarial, membership includes 8 NGOs, 3 commercial banks, the National Bank of Angola, the Ministry of Women and Family, and the Ministry of Finance.

174 KixiCrédito’s name is drawn from the Angolan traditional form of rotating savings and credit association called *Kixikila*, a form of ROSCA practiced widely in Angola’s informal markets.

to test the market for a micro-housing product. It was decided to make a housing loan available to 50 of its best clients in the city of Huambo. The KixiCasa loan was initially administered by the same credit officers under similar terms as the regular business loans but with a larger amount, from US\$800 upwards and with a 10-month repayment period. Subsequent cycles allowed this loan to grow up to US\$2,500 for clients demonstrating capacity to pay and having a consistently good repayment record. The housing loan was offered in addition to their regular business loans. KixiCasa is the first experience of housing micro-finance in Angola. After publicity, DW received a flood of requests to extend housing loans to various provinces and to different potential target groups including civil servants and staff of NGOs. Based on the success of the pilot it was decided to open up the KixiCasa programme to a further 250 clients in a second phase of model development. The client base was broadened to include civil servants and other salaried employees. KixiCasa has had to adapt the loan methodology for salaried employees. While two or three guarantors are still required by KixiCasa for salaried employees, the loan methodology is one of individual lending and can no longer be strictly considered a solidarity group loan. KixiCasa insists on an agreement with the client's employer to ensure that loan payments can be deducted from the salary at source. A legal work contract covering and extending beyond the loan period is also required.

Meanwhile, Development Workshop has taken a lead in advocacy for secure land and housing rights. This includes engaging with government on pilot projects of land tenure regularisation aimed at developing local good practice that can be later be used as models for replication and hopefully improved legislation. Angola's first pilot land regularisation project was carried out with the Huambo Provincial Government, the National Institute for Physical Planning (INOTU) and the National Cadastral Institute (IGCA), with support from DW and the Centre for Environment and Human Settlements (University of Edinburgh). The 2004 Land Law linked the granting of land concession titles with the process of urban planning and the

requirement to locate individual housing plots within designated master plans. The recently published Decentralisation Law¹⁷⁵ gives Municipalities responsibility for preparing municipal level plans and managing land at the domestic and small commercial scale plots of up to 1,000 square meters. This provides the opportunity to decentralise planning to the local level and highlights the need for building local level skills. The Provincial Government of Huambo designated Bairro Fatima, located on the fringes of the city, as the pilot project area; this is classified as both peri-urban and peri-rural, an area within the city jurisdiction that was zoned for residential use. In late 2005 the Bairro Fatima Participatory Land Management Project was launched.

A Project Management Group was created, composed of senior and technical staff from the Provincial Direction of Urbanism and Environment (DPUA) and the National Institute of Planning and Urban Development (INOTU). The process included the creation of an elected local commission that was to provide the link between the project and the local population. In recent years there has been a trend towards government or the ruling party appointing local leaders rather than depending on traditional councils or inherited customary patriarchal forms of authority. The creation of an elected council initially met some resistance and broke the pattern of both traditions, while introducing an element of democratic accountability and a significant component of women's participation.

The project's most innovative contribution was to initiate a land regularisation process that involved providing intermediary land titles in the existing housing areas based on plots mapped out in the land survey. In the area yet to be built, the management group developed a physical plan for residential use in consultation with the local administration and local residents. The demarcation of lots followed according to the physical plan, and a sub-contracted private

175 Decreto – Lei 02/07 Sobre a Organização e Administração Local do Estado, 02 January 2007.

company cleared road access ways following the agreed plan. Compensation of the existing occupiers of agricultural land was guaranteed through a land adjustment process. It was agreed that the informal occupiers of agricultural land in the urban expansion area would be compensated through being allocated legalised urbanised plots in the same area. As agreed with the Management Group, each agricultural land occupier is being compensated with urbanised plots equal to 35 per cent of the previously owned land. Another 30 per cent of the overall area is reserved for infrastructure and social services (transport, water and sanitation, education and health). The remaining 35 per cent of land is available for the project to develop for new residents – totalling approximately 600 plots. The legal process is based on a form of ‘intermediate’ land title (Licença de Arrematacao), which provides the household with secure land rights and acts as the basis for a full land title to be applied for in a 3-year period. Costs for the urban development process (planning, land readjustment, demarcation, allocation process and basic infrastructure provision) will be covered by a one-off charge, based on current informal sector land prices – to be paid into an account controlled by the Project Management Group. DW is presently extending KixiCasa by offering housing micro-finance to the new owner-builders in the Bairro Fatima pilot project area. Bairro Fatima presently has almost 600 new house-plot owners with secure land tenure. More than 60 per cent of these newly registered landowners are women.

Annex 6: The process of housing policy reform in Malawi

Over the past few years the Malawi government has developed and approved a national land policy. One of the main mechanisms for its implementation is the promotion of secure tenure and upgrading, and the goal of government policy is to ensure that the housing delivery system enables all income groups to have access to housing.

Four housing delivery strategies have been developed over the years for both urban and rural communities:

1. Creation of Traditional Housing Areas: (THAs)¹⁷⁶ under local authorities: A planned framework within which migrants could build their own houses according to their own tastes and financial standing. By 1962, a total of 2,415 residential plots had been demarcated, and some had already been allocated to low-income residents. The building of houses in these THAs fully complies with minimum building standards and regulations. The allocation process is based on the “first come, first served” principle. The biggest problem is that supply does not cope with demand. This can be seen from the fact that in 1981, there were 35,000 applicants on the waiting list nationwide while the rate of THA plot delivery was 600 plots per annum. Furthermore, most low-income people are finding it difficult to pay ground rent to the City Assembly, although the rent is only MK100. As a result, low-income people sell their plots to rich speculators and move to informal settlements.
2. Construction by Malawi Housing Corporation (MHC) of complete structures for high-income groups: By 1981, 5,274 units had been built. These permanent houses were essentially targeted at civil servants. By the 1980s the housing situation had started worsening as MHC stopped housing development when government failed to continue subventions. The policy of ‘build and sell’ was introduced in the mid-1980s,

176 THAs are sites and services schemes. Traditional does not necessarily mean opposed to modern or European type houses, but makes allowance for any type of materials and minimum sanitary measures like pit latrines.

but the houses sold did not successfully finance the development of new ones.

3. Provision of surveyed plots with title deeds for construction of houses on mortgage loan through the New Building Society: In the 20 years following its establishment, it had provided only 750 loans. The loans were largely shunned because of high interest rates and experiences of seizure of houses from loan defaulters.

4. Upgrading of informal settlements.: The government has announced its intention to launch a national slum-upgrading programme. It is not clear yet when this will start and there has been no commitment in the national budget.

The Lilongwe City Assembly has, since the 1990s, received under transfer from MHC and Lands Department 5,000 hectares of land. Nearly 90 per cent of this land has since been utilised in delivering a total of 26,000 plots for THA development in three categories: 3000 (THA normal), 1500 (THA basic), 12,000 (THA layout), and 6,000 plots in upgraded areas.¹⁷⁷ An additional 500 plots were supplied for shops, maize mills and churches.

Habitat for Humanity (HFH) works in partnership with local communities and local

177 THA normal is plots with existing planning standards of THAs averaging 400 square metres and with high level of service infrastructure provision. THA basic refers to smaller plots averaging 225-350 square metres with basic services like pit latrines and communal water points. THA layout involves the provision of non-serviced plots in anticipation that these will be provided when funds became available. The main principle was the provision of title to plot holders to ensure security and enhance investment. Like the basic scheme, low-income people with irregular incomes were targeted. This was implemented in areas where community development committees had been elected and were encouraged to work with NGO for infrastructure development. The only NGO working in the housing sector was Habitat for Humanity. Squatter upgrading was launched to improve lives and title provision in informally settled areas.

governments to build simple but legal houses for the urban poor. HFH provides loans (with interest) in the form of materials (e.g., cement), and repayments from the completed houses are ploughed back into a revolving fund that stays in the community to build more houses and latrines. Land for housing development is acquired from local governments as a block lease. HFH also collaborates with service providers for water, power supply and roads. HFH is achieving an 82 per cent repayment rate and urban residents are proving better at meeting repayments than rural ones. Defaulting households risk having doors and windows removed from their houses until repayments are made. Though such action ensures commitment from beneficiaries, it also scares away others. It also appears that a criterion for accessing houses is the ability to pay the Mk2000 application fees. Another major problem is the delay in accessing land from local governments. HFH has so far built 5,528 houses in both urban and rural areas since 1986.

In 1985 the Malawi Government set up a programme, funded by KfW, to implement a decentralised urbanisation policy by supporting small and medium-sized towns and promoting rural-urban linkages. The decentralisation strategy promotes the growth of these small and medium-sized centres and their local governments. The programme also upgrades unplanned traditional housing areas, firstly contributing to planned urban development and improving people's living standards by providing infrastructure, and secondly formalising land ownership with prepared plans and demarcated and surveyed plots. More than 10,000 plots have been developed in eight towns.

The World Bank has been involved in providing loans and grants to MHC and local governments for various housing projects. In 1987 the first Bank Urban Housing Project aimed to produce a suitable housing system and introduce a wide range of affordable housing designs; including options for purchase with the help of a mortgage obtained from the New Building Society. The project was based on full cost recovery principles, and the MHC was forced to adjust and lower the cost. This project was supposed to be replaced with a site and services programme in order to

allow housing solutions for a wider range of income groups and the incorporation of a squatter-upgrading programme in Blantyre. The project in Blantyre was implemented in Chimwankhunda and Kameza. At Kameza, the houses were later demolished and the plots consolidated by presidential order. Other projects have included providing conventional housing by financing house structures and services such as roads, water and schools. The most recent World Bank project has involved a change in target group by Blantyre City from low income to middle/high-income residents to raise money quickly for loan repayments.

The formation of an NGO, the Centre for Community Organisation and Development (CCODE), and the Malawi Homeless People's Federation was spurred on by two main facts. First was the success of federations in other countries such as South Africa, India and Thailand, which saw the improvement of lives and living conditions of the urban poor including access to secure tenure and relationships with government institutions. Second was the difficult economic situation currently being experienced by the urban poor in Malawi. Federation members felt that without a people-driven approach prioritising the needs of the poorest, greater polarisation would emerge. The formation of a federation would enable partnerships with local authorities, first to gather information, and later to implement strategies to help the authorities understand and appreciate the plight of the poor. The federation, through savings schemes, would be providing the first source of revenue to improve the situation.

A saving scheme comprises women and men who save various amounts of money daily as they can afford it. The act of saving is a powerful mobilization tool for the federation. This generally involves between 30 and 70 people in a neighbourhood, each of which runs its own resources; one area would have over 10 or 20 saving schemes, depending on its size. Since 2005 the federation has changed the management of the saving schemes. Initial individual savings schemes were dissolved and reorganised to operate settlement by settlement to increase participation and capital

consolidation. It is worth noting that initially these groups were mainly comprised of women. Men started joining after seeing early progress on housing development and income-generating loans. The savings serve several purposes. They operate as a crisis credit scheme where members borrow from the fund for immediate financial needs like school fees, death, and sometimes hospital bills, and also as a mobilisation tool. In addition, by managing their own funds women and men gain skills and confidence in handling cash, and interactions between members increase. Older groups impart their skills in management of the schemes to newer groups and in some cases newer groups have taught some lessons to the founding groups. This process creates trainers from the poor communities that train others at scale voluntarily. This is achieved through exchange visits; members not only share ideas and experiences, but they also build solidarity and interdependence among the groups countrywide.

To date, there are saving groups in almost all poor urban communities in the main cities and medium-sized towns. Since the groups have grown spontaneously and exponentially, the federation has managed to reach out even to rural areas. Collectively, the federation now has over 30, 000 members in both urban and rural areas.

Mchenga¹⁷⁸ Fund is a development fund established following demand from members who found that loans from the income-generating activities fund were inadequate to support business activities and housing requirements. Members contribute Mk 20 per month towards this fund that operates as a revolving fund. The main objective of the fund is to provide group loans to finance housing construction for federation members and it has provided leverage for support from external sources. Such external resources have come from central and local

178 Mchenga means sand in local languages. The small individual savings of MK20 are like sand grains which when put together are difficult to count. For the urban poor small savings when put together can achieve great impact. Mchenga therefore emphasises the importance of unity.

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governments, international organisations and NGOs who consider the savings as evidence of commitment from the poor to support their own cause. As such, savings schemes operate as a major mechanism for mobilisation of resources towards housing. Although their contribution is token, the members do not feel that the houses constructed are a donation to them from external sources but that they have contributed through the Mchenga Fund.

Since 2003 land has been acquired from government and city assemblies. Lilongwe City provided land on which 222 plots were demarcated. Government gave land through Blantyre City on which 465 plots have been demarcated. In Mzuzu, land for 80 plots was given. More land has been earmarked in Lilongwe and other urban centres. The target is to open up more than 3,600 plots targeting over

18,000 urban poor people who are currently living in deplorable situations. Most of the members of the federation are women. As such the major house owners are women.

CCODE and federation have managed to negotiate with the Department of Physical Planning for plots of 150-200 square metres, which is smaller than the regulation size. Smaller plots reduce the likelihood of subletting tenements to other poor people. Further, the tendency of higher income earners to buy off the poor is reduced as investment interest declines on small plots. Road sizes were also reduced from the standard 12 metre access roads to nine metres. Thus the city by-laws and standards were lowered to suit beneficiary needs.

Source: Manda, forthcoming.

Annex 7: Summary information on the Central America programmes

General Information	FUPROVI Costa Rica	PRODEL Nicaragua	FUSAI El Salvador	FUNDEVI Honduras	FDGL Guatemala
Year of establishment	1987	1993	1992	1992	1999
Type of organisation at its origin and current legal status and nature	Non Governmental Organization (NGO) since its inception	Governmental program transformed into a non-profit private foundation in 2003	Non Governmental Organization (NGO). Its loan operation was transformed to a regulated financial institution called Integral in 2002	Governmental program transformed to a foundation of public interest in 2001	Commercial Trust Fund created through an agreement between Sweden and the Government of Guatemala
Main components and products	New housing, housing improvement, introduction and expansion of basic services and infrastructure, land regularisation and titling, community development, and income-generating activities (done during the first ten years of operation)	Housing improvement, introduction, expansion and maintenance of basic services and infrastructure, community development, income-generating activities	New housing, housing improvement, basic services and infrastructure, land regularisation and titling, community development, income-generating activities	New housing, housing improvement, basic services and infrastructure, land regularisation and titling	Housing improvement and income-generating activities

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General Information	FUPROVI Costa Rica	PRODEL Nicaragua	FUSAI El Salvador	FUNDEVI Honduras	FDGL Guatemala
Total housing loans disbursed to 2005	25,000	17,000	15,000	26,000 (the majority given with KfW funds)	3,900
Approximate number of low-income persons who improved their housing and living conditions	125,000	85,000	75,000	130,000	19,500
Numbers of shelter loans (divided by land, infrastructure, houses)	75% for new housing (includes services and land title). The rest for housing improvements.	95% of shelter loans are for housing improvements and repairs	25%: new housing; 22%: site and services; 16%: land titling; 37% for housing improvements	60% for housing improvements and 40% for new housing in new sites.	95% for housing improvements and 5% for new housing
What are housing loans given for?	Buying + titling of land, housing improvement and new housing construction + introduction or improvement of basic services + infrastructure	Buying + titling of land, housing improvement and new housing construction + introduction or improvement of basic services + infrastructure)	Buying + titling of land, housing improvement and new housing construction + introduction or improvement of basic services + infrastructure)	Buying + titling of land, housing improvement + new housing construction + introduction + improvement of basic services + infrastructure	Buying + titling, of land, housing improvement, and new housing construction + introduction or improvement of services and infrastructure
Type of institution: retailer or second tier	FUPROVI is a retail lender that gives loans to organised groups or individual clients	Second tier institution that intermediates funds through Microfinance Institutions (MFI). Each MFI lends to end user clients	Retail lender through Integral (an MFI) to groups and individual clients	Retail lender to individual clients	Second-tier institution that intermediates funds through 8 MFI and cooperatives
Average size of shelter loan to clients in US\$)	3,000	817	1,061	1,840	1,100
Maximum size of shelter loan US\$	7,000	3,000	3,500	3,500	3,750
Interest rate on shelter loans: reflects values between 2003 and 2004)	To clients: 19% per annum over outstanding balance	To MFIs: 8% and to clients: 24% per annum over outstanding	To clients: 23% per annum over outstanding balance	To clients: 20% per annum over outstanding balance	FDLG to MFI: 8% per annum over outstanding balances. From MFI to clients 18% per

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General Information	FUPROVI Costa Rica	PRODEL Nicaragua	FUSAI El Salvador	FUNDEVI Honduras	FDGL Guatemala
		balance			annum over outstanding balance
Maximum loan period	Up to 10 years for new construction; 8 years for improvements	Up to 4 years from the MFIs to the clients	Up to 7 years to clients	Up to 10 years for new houses; 5 years for improvements	FDLG – MFI: 6 years MFI – Client: 3 years
Deposit required	No monetary deposit or down payment required beforehand. Labour and in-kind contributions of families should be at least 20% of the total value of the solution	No monetary deposit or down payment required beforehand. Labour and in-kind contributions of families should be at least 10% of the total value of the solution	No monetary deposit or down payment required. Labour and in-kind contributions of families should be at least 10% of the total value of the solution	No monetary deposit or down payment required. Labour and in-kind contributions of families should be at least 10% of total value of the solution	Not applicable for housing improvement
Savings requirements	No savings for housing, yes for micro-enterprises	No savings for housing, yes for micro-enterprises	No savings for housing, yes for micro-enterprises	No savings for housing	No savings for housing
Collateral requirements	As loans are relatively big they have to be mortgaged	Depends on the amount to lend. Less than US\$700 land title is not required, and pawns, fiduciary and solidarity collaterals can be used	Land title or in process of legalization is required to mortgage loan. Depending on amounts pawns, fiduciary and solidarity collaterals used	Although fiduciary and solidarity collaterals have been used mortgage loans are preferred for the majority of its loans	For housing improvement, different types: mortgage, fiduciary, also solidarity groups (new in housing improvement loans)
Required land tenure status	Legal title or in the process of legalization	Recognition of ownership right and legal tenure (not necessary full title)	Legal title or in the process of legalization	Legal title or in the process of legalization	Does not apply
Maximum ratio of income/ Repayments. Portion of monthly family income to repay loan during given period	25%	15-25%	30%	30%	30%

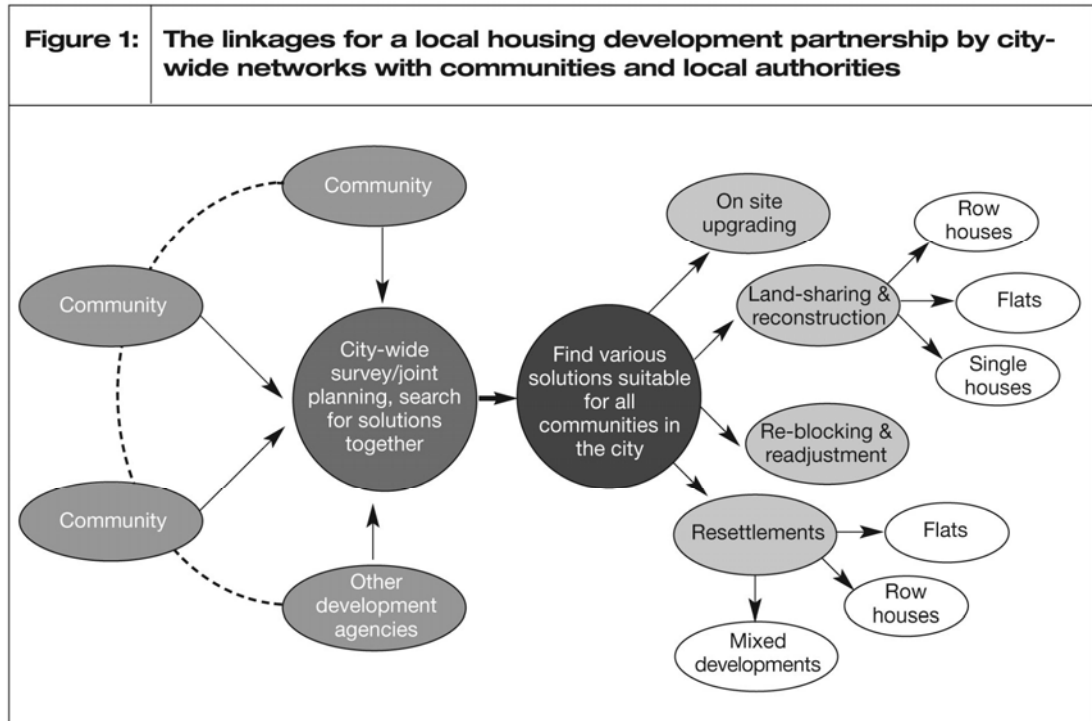
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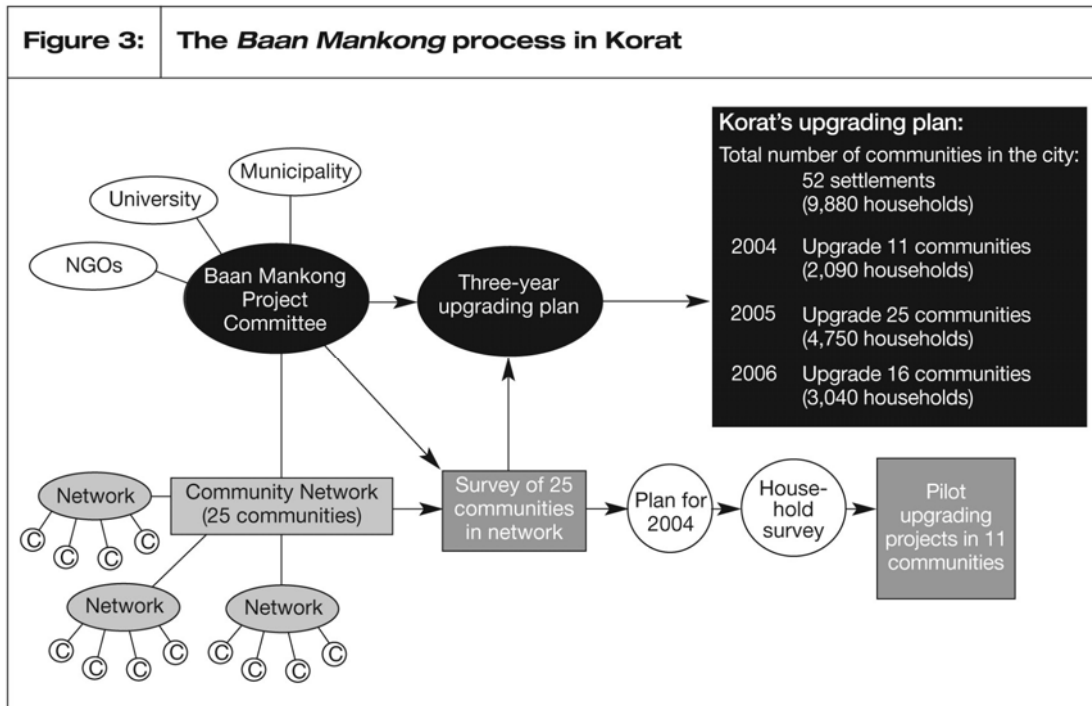
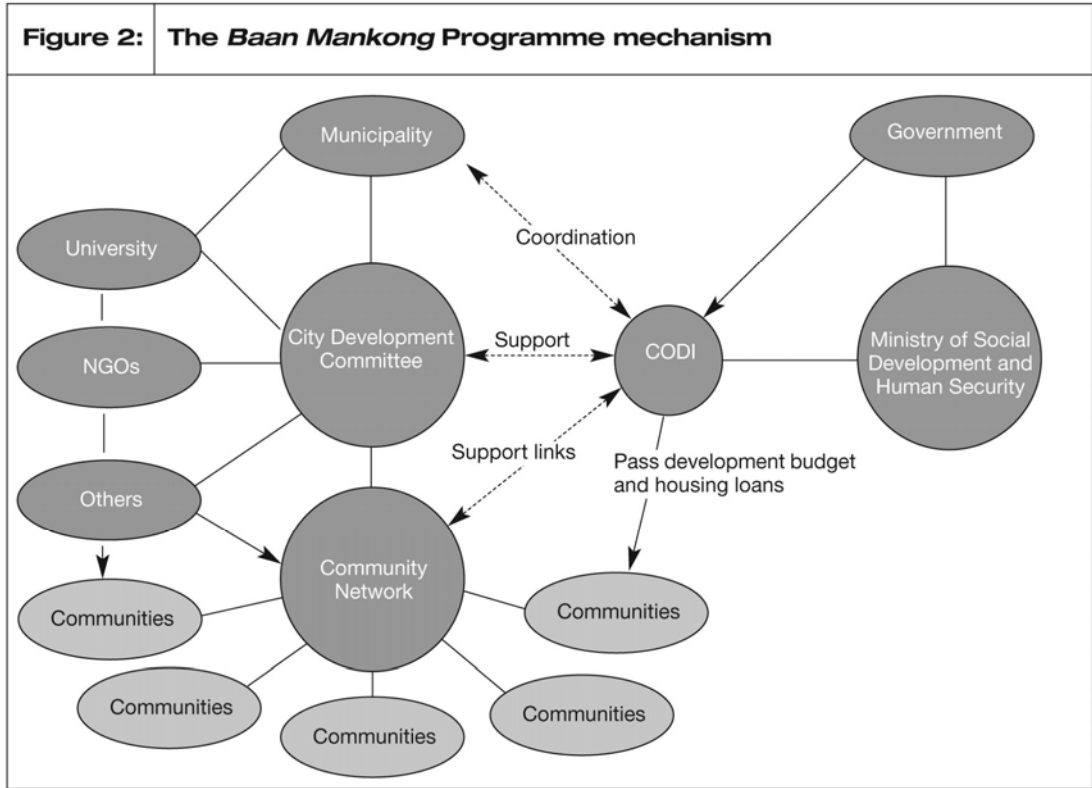
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General Information	FUPROVI Costa Rica	PRODEL Nicaragua	FUSAI El Salvador	FUNDEVI Honduras	FDGL Guatemala
Charges made by the MFI to lender for securing loan	2% loan commission for administrative fees and 2.5% for legal costs	1% for legal fees and administrative fees	2.5% for administrative fees; 2.5% upfront for transaction costs; 1% for legal costs and 1% for life insurance	6% for administrative and transaction costs and 1% for legal costs	Does not apply for housing improvement
Cost recovery data? Portfolio at risk measured as % of total loan portfolio with arrears of more than 30 days	6%	5%	6%	30%	MFI-FDGL = 0% Clients-MFIs = 1%
Percentage of loans to women in housing improvement	60%	62%	55%	60%	33%
Provides technical assistance	Yes.	Yes	Yes	Yes	Yes.

Sources: Background documentation prepared by the author for Diana Mitlin for UN-Habitat based on the following sources: FUNDEVI (2005); PRODEL (2004); Daphnis and Faulhaber, Ingrid (2004) Stein and Castillo (2005); Microfinanza srl (2003), information provided by FDGL through its Director Maritza Canek in March 2005, and the following websites: <http://www.bch.hn>; <http://www.fuprovi.org/>; <http://www.fusai.org.sv>; <http://www.fdlg.org.gt>; <http://www.bch.hn> <http://www.ratingfund.org/spanish/docs/Apoyo%20Integral%202003.pdf>

Annex 8: Visual representation of the Baan Mankong development process





Annex 9: Collaboration between the urban poor and the state – South Africa¹⁷⁹

The Federation of the Urban Poor (FEDUP) is a national South African network of tens of thousands of women's housing savings collectives (similar to cooperatives, but informal and not regulated by an outside body).

FEDUP and its precursor, the South African Homeless People's Federation, have built approximately 15,000 houses since 1995, using a mixture of savings, loans, and the state housing subsidy. FEDUP "housing savings schemes" use savings primarily as a way to bring poor urban women together to begin to think about and act on their housing needs. Saving is notionally towards housing, but given the existence of the state housing subsidy entitlement, the level of individual savings is often relatively low compared to the eventual cost of a house. FEDUP savings schemes do often add self-finance towards the eventual cost of housing, but the real contribution of their savings activity is to give women a platform to access the housing subsidy successfully and on their own terms – no mean feat in South Africa's highly bureaucratized housing system. To put it another way, collective saving in the federation model produces more in the way of social capital than financial capital. Nevertheless, some FEDUP savings schemes do eventually manage to accumulate enough savings to make a significant contribution to housing development, particularly through collective land purchase.

FEDUP savings schemes are able to obtain pre-finance for land acquisition, servicing, and housing development (ultimately retired by the housing subsidy) via Utshani Fund, a non-profit company designed to work with the federation model.¹⁸⁰ However Utshani's ability to support further federation housing development has been severely constrained by government's unwillingness to refund bridging loans made to federation members in the 1990s, despite having made written agreements to do so at the time.

The Utshani Fund experience illustrates a major limitation to the federation model of collective self-action on shelter issues by the urban poor in South Africa: its almost complete lack of fit with the South African government's housing, finance, and governance philosophies, policies, and implementation frameworks. Whereas the initial difficulty faced by the federation model in South Africa was an implementation bias towards private sector developers (1994-2000), accompanied by local government attempts to control subsidised housing delivery for political ends, from about 2003 the major obstacle to federation integration with South African state housing finance frameworks has become the increasing complexity of the regulatory mechanisms governing land and housing development and the use of public finance by nonstate entities, combined with severe capacity constraints at provincial and local government level. Although FEDUP has attempted to comply with government regulations, the complexity, cost, and moral "wear and tear" of doing so has steadily undermined the social capital built up through patient savings by federation savings schemes.

A recent initiative between the South African Ministry of Housing and FEDUP brokered by Shack Dwellers' International has seen a pledge (in June 2006) of approximately US\$60million in housing subsidies direct to the federation, along with a Memorandum of Understanding intended to guide the use of these resources in a joint learning exercise with the ultimate goal of scaling up collective housing delivery via savings groups and changing government policy accordingly. However, this initiative seems to have become bogged down by the same bureaucratic and regulatory dysfunction experience by the federation prior to the pledge and MOU, and to date no shelter has been provided under this initiative.

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Annex 10: The challenge of shelter in Kenya and the contribution of NACHU¹⁸¹

As in most Southern countries, only a small proportion of households – estimated to be less than 10 per cent – qualify for mortgage loans from housing finance institutions in Kenya, with the majority ruled out by their low incomes. Borrowers generally consist of high net worth individuals. In this context it is not feasible to address the housing needs of the urban poor through mortgage lending.

Social housing has traditionally been provided through two main channels: the National Housing Corporation (NHC), a parastatal; and local authorities such as municipal councils. Even at the height of their housing production, in the 1970s, these institutions were able to meet only a small proportion of demand in Nairobi; but in some of the smaller towns public rental housing accounted for a substantial proportion of the housing stock. With rapid urbanisation, diminishing public investments in shelter, and divestiture of part of the rental stock, public housing no longer plays a critical role either in terms of annual supply or as a proportion of the total housing stock. Indeed, local authorities no longer supply new housing.

In recent years, however, government has shown great interest in improving living conditions in the rapidly growing slums, especially in view of the pressing agenda to tackle poverty. As a result, government has established the Kenya Slum Upgrading Programme (KENSUP). Initial activities have centred on social and physical mapping, and community mobilisation in a small part of the sprawling Kibera settlement in Nairobi, which has a population of approximately 500,000 people. Physical works are progressively being phased in. One component is the construction of flats, but questions are being raised about the affordability and viability of this approach amid fears that, as has happened so often in the past, these valuable units will not serve the poor. Other slum upgrading projects are planned for Mombasa and Kisumu, the second and third largest towns,

respectively. Meanwhile, it has to be recognised that the vast majority of Nairobi's slum dwellers are tenants who have little incentive to invest. The majority of landlords live outside the settlement and often use intermediaries to collect rent.

The National Cooperative Housing Union (NACHU) was initially established in the early 1980s to provide housing for trade union members. NACHU currently has 212 primary cooperative housing societies (PMS) approximately 122 of which are active members, i.e., they hold regular meetings, hold shares in NACHU, and participate in NACHU activities, including attendance at the Annual General Meeting. The union made some modest achievements but was hampered at different times by political interference, an indifferent management (elected and staff), and an unhelpful policy context. More recently, NACHU, with modest donor assistance, has become more innovative and has put in place a system that has the potential to be scaled up to serve significant numbers of the poor.

Through its programmes, NACHU addresses two constraints in Kenya's housing markets, although on a limited scale: it offers micro loans for housing, and subsidises technical services for those with modest incomes. As the only institution of its kind, either in the wider housing market or the cooperative sector, NACHU's role is of special interest in an analysis of institutional mechanisms for housing delivery.

Micro-finance for housing is a relatively new NACHU product compared to the now well-established micro-finance industry catering for small (mainly informal) enterprises. This is because small enterprises turn over cash quickly, often in one day, compared to the housing sector where, however modest the investment, it is still large compared to the income and other financial resources of the low-income borrower. The size of loans sufficient for housing investment, whether it be for rehabilitation/improvement, new-build or infrastructure, is significantly greater than normal micro-finance and requires a longer period to pay back. For the lender this means that the loans are lent over a longer period and

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are recovered more slowly, limiting the ability to re-lend. Longer lending periods in turn mean a higher credit risk, the erosion of resources through inflation (if nominal interest rates are lower than inflation), and a higher interest rate risk where fixed rates are offered.

NACHU has introduced an innovative micro-finance programme tailored to housing cooperatives including new housing, rehabilitation, infrastructure loans for groups, resettlement loans, and group loans for commercial purposes such as constructing a building for commercial or residential rental.

The programme has borrowed its methodology from general micro-finance experience (including, for example, forming solidarity sub-groups of five, 'watano', to exert peer pressure) and adapted it to the requirements of the housing market, in particular the demand for longer-term loans. One example of this is Upendo wa Jirani in Nakuru. Members save with NACHU and then take loans to buy land and then build, or more usually improve, housing. The cost for two rooms is approximately KES 220,000 (US\$3,000) if built of stone using self-help. Housing units are normally blocks of approximately 10 rooms with a reasonable level of construction (plastered walls and floors) and services (water available on site, good quality pit latrines, electricity). The members take some rooms for themselves and their families, and sublet the remainder to provide income. The rent for a room is approximately KES 1,000 per month (KES 1,200 with electricity). NACHU does not record the incomes of tenants but they are expected to have a minimum income of KES 4,000 per month although some share rooms to reduce cost and therefore could have lower incomes. Thus NACHU funding facilitates not only housing and an income for the members but provides much needed rental housing to a reasonable standard. Letting and subletting are a fact of life in the Kenyan housing market.

Since 2003 NACHU has facilitated the construction of 185 units for low-income groups and a further 80 for other cooperative clients. It has also facilitated the acquisition of nearly 1,000 plots for members. Members build to minimum

legal standards. While the housing process comprises much more than building housing units, the number of units facilitated provides a measure of the agency's effectiveness. This delivery is a small proportion of national demand, most of which is met by the informal sector.

NACHU's Projects Department provides architectural, planning and other related services to housing cooperatives. These services include providing initial information to prospective cooperatives, designing projects, negotiating with local authorities and other regulatory bodies, and supervising construction. NACHU charges a higher rate (around 8 per cent of total project cost) to conventional higher income projects and a lower rate of 2.5 per cent to lower income groups, who are mainly interested in rehabilitation projects through the micro-finance programme. This provides for an element of cross-subsidy between middle income and lower income groups. Cooperatives can use other technical services; however, NACHU services cost less than the scale fees of the private sector.

As the micro-finance programme grows, more units are in the pipeline, with 1,000 units scheduled in the 2007–2009 business plan although this does depend on the availability of finance. NACHU faces a greater demand for loans than it is able to meet from available resources. The unmet demand was roughly estimated at Ksh 25-30 million, a conservative amount as some potential borrowers probably do not come forward, restrained by the knowledge that NACHU has limited funds. The mobilisation of membership is running far ahead of the availability of resources for lending. Yet NACHU is not able to raise funds from the domestic market, an indicator that local borrowing is not an easy option. NACHU is exploring ways of obtaining additional external resources to expand its revolving fund.

Strictly speaking, a micro-finance operation is sustainable only if the organisation is able to cover all of its expenses with operational income, and generate sufficient surplus to maintain the real value of its equity base. In these terms, NACHU's operations are not sustainable but

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there is consistent improvement. In view of the pre-payment record of group loans for commercial housing, a greater shift to this type of lending would enhance sustainability. But, in the short run, this would probably be at the expense of serving the poorer members of NACHU's clientele. NACHU's capacity building of primary cooperative groups is almost all donor funded and it is judged that this must be externally funded for some time to come, as in other organisations with similar activities.