



# FINANCING URBAN SHELTER

GLOBAL REPORT ON HUMAN SETTLEMENTS 2005

UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME

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**United Nations Human Settlements Programme**



**UN-HABITAT**

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# FOREWORD

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

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

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

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

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

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



**Kofi A. Annan**  
*Secretary-General*  
*United Nations*



# INTRODUCTION

*Financing Urban Shelter: Global Report on Human Settlements 2005* examines the challenges of financing urban shelter development, focusing on the shelter needs of the poor and within the overall context of the United Nations Millennium Development target on slums. Recent estimates indicate that more than 2 billion people will be added to the number of urban dwellers in the developing countries over the next 25 years. If adequate financial resources are not invested in the development of urban shelter and requisite services, this additional population will also be trapped in urban poverty, deplorable housing conditions, poor health and low productivity, thus further compounding the enormous slum challenge that exists today.

In many developing countries, it is unlikely that conventional sources of funds will be available for investment on the scale needed to meet the projected demand for urban infrastructure and housing. Most poorly-performing countries continue to face deficits in public budgets and weak financial sectors, and the contribution of official development assistance to the shelter sector is generally insignificant. While city authorities have started to seek finance in national and global markets, this practice is only in its infancy. The report concludes that countries and cities will have to rely mainly on the savings of their citizens.

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

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

Complete houses available through mortgage finance are well beyond the reach of the lower income groups, because they are unable to meet the deposit and income criteria set by conventional mortgage institutions. In this situation, the majority of urban poor households can only afford to build incrementally in stages, as and when financial resources become available. In response to this, microfinance institutions have started lending for low-income shelter development and have become very important in the last decade or so. The report also shows that guarantee schemes can, by providing credit enhancement, go a long way in broadening the appeal of microfinance institutions to lenders.

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

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

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



**Anna Kajumulo Tibaijuka**

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Preparation of the Global Report series would not be possible without the dedicated assistance of eminent urban researchers, practitioners and policy-makers, whose knowledge and expertise have always been helpful in the production of this series. The current volume, departing from the findings and recommendations of the 2003 Global Report, deals with issues of the financing of urban shelter development. With the selection of this topic, the Global Report series reflects UN-Habitat's strong commitment to the goals of sustainable human settlements development, as outlined in the Habitat Agenda and Agenda 21. The Report is also guided by further decisions adopted by the Governing Council of the United Nations Human Settlements Programme and by the General Assembly of the United Nations. The Millennium Development Goals and the tasks ahead determine the overall motif and tone of this issue of the Global Report.

*Financing Urban Shelter: Global Report on Human Settlements 2005* was prepared under the general guidance of Donatus Okpala, Acting Director of the Monitoring and Research Division. Naison Mutizwa-Mangiza, Chief of the Policy Analysis, Synthesis and Dialogue Branch, supervised the preparation and editing of the report, with Iouri Moisseev managing its preparation.

Members of the UN-Habitat Senior Management Board provided strategic advice in the areas of their respective responsibility at different stages in the preparation of the report. These included: Alioune Badiane, Nefise Bazoglu, Daniel Biau, Axumite Gebre-Egziabher, Jorge Gavidia, Lucia Kiwala, Madhab Mathema, Joseph Mungai, Jane Nyakairu, Lars Reutersward, Sharad Shankardass, Anathakrishnan Subramonia, Paul Taylor, Farouk Tebbal and Rolf Wichmann.

The Report benefited from a number of international meetings. Firstly, it should be mentioned that, during 2004, the Global Research Network on Human Settlements (HS-Net) was established to provide guidance in the preparation of the Global Report series. HS-Net focuses on sharing policy-orientated research results and its meetings are organized by UN-Habitat's Policy Analysis, Synthesis and Dialogue Branch. At its meeting in November 2004, HS-Net reviewed and discussed the outline and contents of the 2005 Global Report. The meeting was attended by the following experts: Marisa Carmona, Department of Urban Renewal and Management, Faculty of Architecture, Delft University of Technology, Netherlands; Suocheng Dong, Institute of Geographic Sciences and Natural Resources Research, Chinese Academy of Sciences, China; Alain Durand-Lasserve, Sociétés en Développement dans l'Espace et dans le Temps, Université Denis Diderot, France; Jozsef Hegedüs, Metropolitan Research Institute, Varoskutatas Kft, Hungary; Paola Jiron, Housing Institute, University of Chile, Chile; Vinay Lall, Society for Development Studies, Indian Habitat Centre, India; Om Prakash Mathur, National Institute of Public Finance and Policy (IDFC), India; Diana Mitlin, Institute for Development Policy and Management (IDPM), University of Manchester, UK; Winnie Mitullah, Institute of Development Studies (IDS), University of Nairobi, Kenya; James G. Mutero, Human Settlements Consultant, Kenya; Peter Ngau, Department of Urban and Regional Planning, University of Nairobi, Kenya; Tumsifu Jonas Nnkya, Institute of Housing Studies and Building Research, University College of Lands and Architectural

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