UN-HABITAT

ABRIDGED EDITION

FINANCING URBAN SHELTER

GLOBAL REPORT ON HUMAN SETTLEMENTS 2005

UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME

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United Nations Human Settlements Programme

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INTRODUCTION

This publication is an abridged edition of *Financing Urban Shelter: Global Report on Human Settlements 2005* (the main report). It examines the challenges of financing urban shelter development, focusing on the shelter needs of the poor and within the overall context of the Millennium Declaration targets on slums, water supply and sanitation. Recent estimates demonstrate that more than 2 billion people will be added to the number of urban dwellers in the developing countries over the next 25 years. This implies an unprecedented growth in the demand for housing, water supply, sanitation, and other urban infrastructure and services. This new challenge exists in a context of already widespread poverty and inequality in cities, with millions of people living in slums, without adequate basic services. Providing these services to new residents will be essential if this additional population is not to be trapped in urban poverty, poor health and low productivity.

This abridged edition, which follows the structure of the main report, is divided into three parts. Part I, which consists of three chapters, presents the overall economic and urban development contexts of shelter financing. Chapter 1 presents a macroeconomic framework within which to situate the problem of financing urban shelter and to understand its broader implications. Chapter 2 discusses the general trends in housing and urban development policy, thus providing the overall policy context for financing shelter development. Chapter 3 reviews the broader challenge of financing urban development, especially the development of city-wide shelter-related infrastructure, as an important context for the financing of urban shelter development.

Part II analyses global trends in shelter finance policies and practices. The part is divided into four chapters that seek to take account of the diversity of housing and housing finance strategies in both developed and developing counties, as well as in countries with economies in transition. Chapter 4 looks at the most conventional financing strategy, that is mortgage finance, which involves long-term loans secured on the property for the purchase of a home that is complete. Chapter 5 examines the financing of social housing, mainly through subsidies, as significant numbers of households in many developed and developing countries cannot afford the costs of home purchase either directly or through loan finance. Chapters 6 and 7 consider small-scale finance (or small loans); that is, the provision of small loans and, in some cases, subsidies to enable the incremental construction, extension and improvement of homes as well as the upgrading of whole neighbourhoods. Chapter 6 focuses on shelter or housing microfinance, which involves the provision of small loans for individual homeowners to improve their existing dwellings, while Chapter 7 examines community funds, which have been used mainly to finance group-based purchase of land and installation or improvement of infrastructure and services within urban informal settlements.

Part III, which consists of two chapters, is forward looking. Chapter 8 assesses the adequacy of the current shelter financing systems examined in Part II, including issues of affordability and the difficulties of reaching the poor, as well as the challenges of sustainability. Chapter 9 discusses the ways in which shelter finance systems could be strengthened, in terms of both performance and sustainability, on the basis of the experiences reviewed in the preceding chapters. It also points the way forward by highlighting best policies and practices, as well as emerging policy directions.

The main report has a fourth part, not reproduced in this abridged edition: the Statistical Annex, which contains key indicators on global human settlements conditions and trends, including demographic, social, economic and more specific shelter indicators, such as the numbers of slum dwellers. The indicators are presented at three levels: regional, country and city.

MDG SPECIAL FEATURE: FINANCING THE TARGET ON SLUMS

MILLENNIUM DEVELOPMENT GOALS AND THE TARGET ON SLUMS

The history of cities is the history of civilization. For centuries, migrants have sought improved lives for themselves and their families in increasingly dense urban landscapes. Cities represent the greatest hopes of every age. The *Global Report on Human Settlements 2005* focuses on broadening existing knowledge of the complex financial foundation lying at the heart of the growing urban challenge. The report critically asks and answers, with examples, the question of how the costs of growing demographic pressures across different regions of the world will be met. It is known that roughly one out of every six people live in what can be characterized as 'slums' in small and large cities alike.

In the face of many adversities, the urban poor have emerged with creative solutions. 'Slums' are often a solution in progress – a gradual realization of the abiding hope to make a home in the city and create a better life. It was in this context that the United Nations Millennium Assembly of 2000 highlighted the need to improve the lives of the urban poor through the inclusion of a 'slums goal' in the Millennium Declaration. This goal – 'by 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers, as proposed in the Cities without Slums Initiative' – was later subsumed as Target 11 of Millennium Development Goal (MDG) 7, that of environmental sustainability.

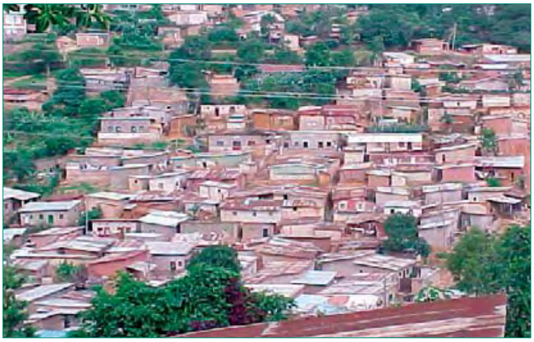
From the beginning, it was evident to the Millennium Project Task Force 8 on Improving the Lives of Slum Dwellers that addressing Target 11, as the slum target is described in the MDGs, in essence meant not only improving the lives of an existing 100 million slum dwellers, but also creating alternatives to slums for the future urban poor. The task force's report therefore highlights an investment model for upgrading today's slums and planning alternatives for tomorrow that assumes the active participation and commitment of the urban poor themselves, in partnership with the more usual actors: local and national governments, as well as international organizations.

Realigning Target 11

Task Force 8's report, *A Home in the City*, highlights two distinct and necessarily related routes to achieving the scale and sustainability of Target 11 – that of slum upgrading today and urban planning for tomorrow. In this interpretation, the task force refrained from the use of 'stopping slum formation' to avoid any confusion regarding its position against forced evictions. This interpretation is also fully consistent with the other targets of the MDGs, which call for a halving of identified poverty challenges. Using recent estimated and projected slum population figures, Task Force 8's interpretation of Target 11 calls for halving the number of the slum population to be expected in the world by 2020 if no remedial action is taken. A calculation exercise shows that the currently projected number of slum dwellers in 2020 if no action is taken (1.6 billion people), would be halved through a combination of the improvement of 100 million current slum dwellers' lives and the creation of alternatives for future urban poor residents, thus aligning Target 11 with other MDG targets.

The proposed path takes a relatively innovative, yet obvious, approach to urban development – one which embraces the historic reality of the urbanization trend. In short, it is a strategy to recognize the great macro and micropotentials of urbanization, while also ensuring that its

Demographic pressure on urban infrastructure and services is one of the key challenges for developing country cities



Slums have emerged as a creative solution by the urban poor

challenges are adequately addressed. But is meeting Target 11 in Task Force 8's interpretation realizable – financially *and* politically? The answer is yes.

While it is crucial that Target 11's financial outlook is seen within the greater context of financing the MDGs overall, the specific components of the investment model developed by Task Force 8 to achieve Target 11 reveals how movement towards this target is already under way. Most notably, while achieving the MDGs overall will require significant contributions from donors – contributions which, in fact, have already been promised – it is of interest that the Target 11 component of the overall financing of the MDGs is largely based on domestic capital. This is the case both in upgrading slums today and in planning alternatives for tomorrow.

MODELLING INVESTMENT IN SLUM UPGRADING AND PROVIDING ADEQUATE ALTERNATIVES

The task force combined estimations of demand for regularization and upgrading, based on UN-Habitat's 2001 estimation of slum dwellers, with programme examples and expert studies to derive its own estimations regarding which interventions to include and which to exclude from its model. The Task Force 8 investment model included five overall components:

1. land;
2. physical improvements to the housing stock;
3. basic physical infrastructure (water, sanitation, drainage, road paving, electricity);
4. basic community services (schools and clinics); and
5. security of tenure.

The five components of the model all require human, infrastructural and financial resources that clearly vary with context. For this reason, the aim of the task force was not to treat the model as an exact estimation, but as an opportunity to demonstrate – using data from existing programmes – the range of investment costs required to upgrade slums and to plan for alternatives. The resulting estimates show the significance of cost ranges across regions, largely due to differences in the cost of labour and land.

Attaining the target of improving the lives of an existing 100 million slum dwellers between 2005 and 2020 will require investment of US$4.2 billion per year, or roughly US$42 per beneficiary per year.

The amount required to provide adequate alternatives to new slum formation is roughly US$14 billion per year from 2005 to 2020, or roughly US$25 per person per year.

The combined upgrading and planning models indicate that Target 11, in its full original intent, can be achieved with an average investment of approximately US$294 billion, or US$440 per person, over the period of 2005–2020. Such an investment would touch the lives of roughly 670 million poor residents of urban centres. This is not an unrealizable figure. It is already known that the urban poor significantly contribute to housing and settlement upgrading. Thus, the call here is to mobilize national, international and private-sector financial support for such efforts that are already under way and for scaling up the example of urban poor-led upgrading.

In considering the subsidies, loans and personal household contributions necessary for both upgrading and planning alternatives, Task Force 8 formulated the following distribution model of responsibility:

- 30 per cent of investment needs could be secured through small loans to participating households;
- 10 per cent of required funds would be contributed by beneficiaries themselves; and
- 60 per cent of resources would be provided in the form of subsidies from national and local governments, through a mix of domestic and international resources.

Of course, the model of responsibility here also varies according to income-level context, as well as the overall needs assessment of the locale and the country in question.

This principle also holds wider meaning with regard to the role of international actors and donor assistance. Donor contributions are necessary to enable local and national governments to provide required subsidies for upgrading and planning. Donor guarantees can also facilitate the involvement of the private banking sector, thus ensuring that small loans are accessible when required and appropriate.

PART I