



## United Nations Human Settlements Programme

Programme des Nations Unies pour les établissements humains - Programa de las Naciones Unidas para los Asentamientos Humanos

# Financing Shelter for the Poor in Africa: challenges and opportunities to deliver affordable housing

## BACKGROUND PAPER<sup>1</sup>

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### 1. PREAMBLE: shelter financing in Africa in a snapshot

In its Global Report on Human Settlements 2005, UN-HABITAT stressed the need to develop a policy framework and financial instruments that would enable the availability of funding and investment to meet the increasing demand for housing and urban infrastructure<sup>2</sup>. The report revealed two polarised outcomes of housing systems worldwide that still today represent a fundamental challenge for governments and policy makers: “shelter that is affordable but inadequate and adequate shelter that is unaffordable”.

One could translate this conclusion as follows: large numbers of urban citizens can only access inadequate and poorly serviced housing that is commonly provided by informal housing supply systems while only a minority is capable to purchase good quality housing that is provided by a highly segmented and ill-functioning housing market. Three years later, despite progress experienced by several countries, the situation has not changed significantly, with Africa reporting the slowest development in macro-economic conditions but showing prospects for cultivating stable and dynamic housing finance markets. Countries in Africa are slowly but surely gaining more stability. And this is a sine-qua-non condition for greater expansion of its financial markets. However, the continent is extremely segmented in its depth and breadth of finance, particularly for housing.

The conditions in Africa regarding shelter finance remain particularly worrisome. On the supply side, it remains critical the region’s lack of financial institutions and instruments capable to mobilise financial resources and savings needed to bring it to scale and channel them into housing investment and infrastructure development. This results among other things into a dependence on deposits, short-term funding, central government grants and the inability to secure long-term finance. Not

mentioning the high mortgage interest rates found in many countries that restrain lending and adversely affect the housing market and the overall macro-economic development in the region.

Additionally, one witnesses endemic shortage of infrastructure throughout African cities revealing the difficulties in mobilising public and private finance to support citywide infrastructure development. Needless to say that the provision of infrastructure is not only fundamental to boost housing supply and widen shelter opportunities to different social groups but also to enhance economic development. The mobilisation of public and private finance via fiscal instruments, land and property tax, land management tools and public private partnerships is still in its early days. By large, the deployment of these innovative instruments remains one of the greatest challenges to boost alternative forms of resource mobilisation for shelter finance in the African region.

On the demand side, we observe that many countries are failing to provide needed urban employment and incomes that affect dramatically the ability of people to afford conventional mortgage finance and housing at current market prices. Estimates suggests that those who cannot afford loans in Africa may be over 70% despite the fact that opportunities to acquire small loans for land acquisition, infrastructure and housing have grown during the last two decades<sup>3</sup>. Many are excluded from formal mortgage markets for many reasons rather than only income. Actually incomes are too low and employment is predominantly informal thus affecting the loan eligibility of many African citizens. Furthermore, macroeconomic instability and tenure insecurity – associated with informality in allocation, development and occupation of land – undermines the growth of commercially viable and well-functioning formal housing markets in African cities. This drives many Africans to live in informally developed and often poorly served settlements, boosting the appearance of unplanned settlements, slums and inadequate housing.

To sum up, informality of tenure and income, irregular wage, lack of affordability and lack of institutional reach significantly restrain Africans to participate in a well-functioning formal housing market, leaving little options left but to resort to informal housing supply systems. Housing prices of legal housing remains unaffordable for a great majority thus propelling self-built and poorly constructed housing on informally and illegally occupied land. African cities have become by large the stereotype of informal cities.

It is worth noting that the mix of publicly and customarily owned land coexisting next to each other not only makes land administration extremely difficult but also helps to create a robust informal land supply system in most African cities. In the absence of adequate property and land registration and consequently of secured collaterals, the functioning of housing markets and formal mortgage lending is adversely affected, and further stimulates the increase of informal land supply. With the fastest urbanisation rates on the planet, the slum growth rate of Africa is the highest amongst the developing regions (4.53%) meaning that all urban growth is being accommodated by informally supplied land and housing<sup>4</sup>. The informal housing market is gaining scale and urges governments, ministries of housing and urban development to design policies, measures and instruments to cope its dynamics and address the demands derived by the current speed and scope of urbanisation.

Nevertheless, different countries in the African region have had diverse experiences with numerous and different results. It is worth noting that nearly all former British colonies in Africa had their housing finance system based on the building society model which faced a pitfall during post-independence periods and when countries particularly embarked into structural adjustment programmes that resulted into privatisation or bankruptcy of these building societies. Many countries have established (and some have closed down) national housing agencies that were directly responsible for housing development, loan provision and for leading a national housing finance system like Zimbabwe's National Housing Fund, Tanzania's Housing Bank, the Housing Finance

Company of Uganda, the Home Finance Company Limited of Ghana, Nigeria's Federal Mortgage Bank and National Housing Fund, and South Africa's National Housing Finance Corporation, just to mention a few. National Housing Policies have been established in some of these countries and attempts have been made to establish an institutional framework under which policy implementation and coordination would take place<sup>5</sup>.

In Zambia for example, the Zambia National Housing Authority, the Zambia National Provident Fund and The Zambia National Building Society also give evidences of serious attempts that African national governments have made in the region to address the housing problems with a holistic and policy perspective. Ideas and principles of provident funds – requiring mandatory contributions of employees and employers that serve as savings and guarantees to boost housing finance – have also been implemented in South Africa and Namibia. In Kenya and Ghana, for example, there has been attempts to raise finance through the creation of secondary markets and securitisation of mortgage finance. Guarantee funds as well as micro-financing institutions are becoming more available and experiences from Senegal, Ghana, South Africa, for example, give evidences that these can play a role in addressing the housing needs of low income households in the region by reducing and better targeting housing subsidies.

All in all, examples from Ghana, Senegal, Mali, South Africa, Kenya, Nigeria, Zambia and Namibia just to mention a few show that housing finance institutions as well as regional institutions like Shelter Afrique<sup>6</sup>, are doing good business though only meeting the needs of those with higher and regular incomes. The challenge is to go beyond formal ways of funding housing and explore other instruments that may result in making shelter financing available not only to deliver affordable housing options to low income households but also to expand the availability of serviced land in African cities. Only then we may be able to boost housing supply and eventually produce impacts to trigger lower housing prices.

## **2. A Normative View of the Housing Sector**

The linkages between and the impact of a well-functioning housing sector and a country's economy and overall development has been internationally acknowledged. Therefore, governments, policy makers and housing practitioners need to address housing with a holistic and multi-sector approach that recognises infrastructure provision, land supply, the availability of finance, the supply of building materials and the existence of a construction industry and technology and labour as fundamental pillars and inputs needed for the realisation of housing (and not only houses). This should be articulated and governed by enabling institutional and legal frameworks that recognizes property rights, security of tenure and the right to adequate housing. The illustration in Figure 1 stresses these articulations.

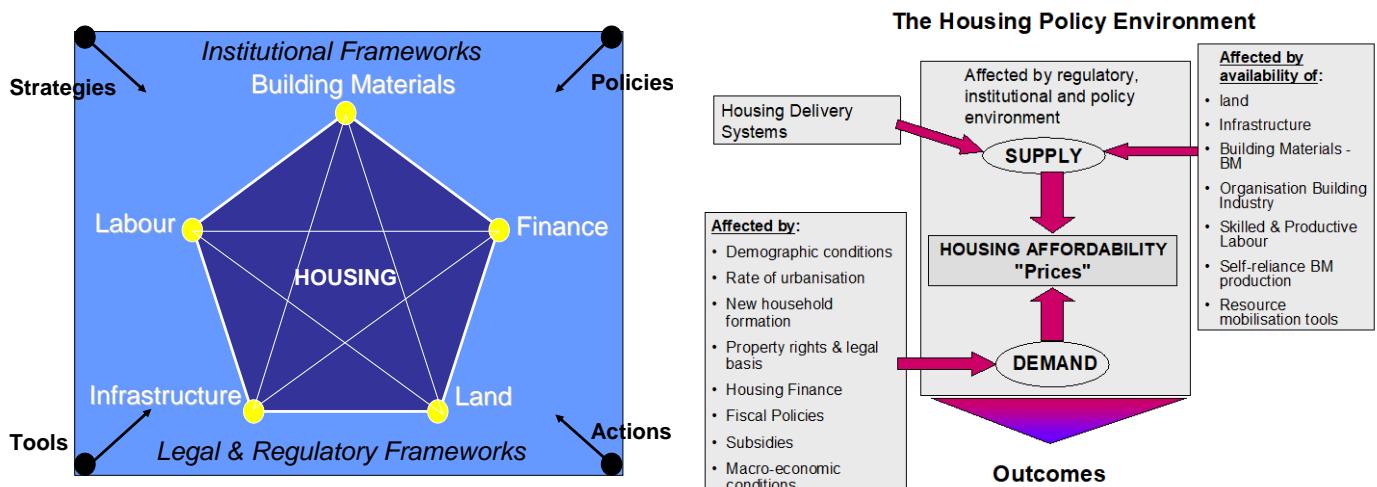
The African experience reveals that the absence of some of these fundamental inputs result in scarcity of affordable formal housing options and have a dramatic impact on the availability of affordable housing with immediate impact on cities and urban dwellings environment. Depending on how government policies address these issues and the instruments and strategies applied one may experience either positive or adverse impacts on the demand or supply side of the housing sector that will ultimately prevent or boost informality in housing and land supply. In order words, housing policy matters!

Some of the questions to ask African governments are to how far have they performed in organising, mobilising and delivering some of these inputs in their cities? What efforts have been made to create an enabling environment for housing finance institutions to function and housing markets to work

properly? To which extent African governments have attempted to mobilise public and private finance and capture resources from within their cities using for example more effective property tax and other innovative tools like land value capture instruments? How far have local governments been empowered to play their role in addressing the housing problem within their areas of jurisdiction?

The global experience of UN-HABITAT gives evidences that the access to and mobilization of these inputs can be greatly facilitated by an enabling shelter strategy guided by a housing policy that ought to be inclusive and participatory in nature, and nurtured by active central and particularly local governments responses. Provided that such a policy is embedded into a institutional and policy framework and equipped with an implementation capacity and support, its chances to result in housing becoming more affordable and consequently widening opportunities for various social groups and particularly low income households are substantially enhanced. A good housing policy is thus a direct function of slum prevention and consequently an effective instrument to curb informality in African cities. And in doing so, African governments will progressively work to meet the challenges of achieving the MDG 7 Target 11<sup>7</sup>.

Furthermore, the housing and real estate markets in Africa suffer from an endemic asymmetry in information while experiencing a growing brokerage industry in many countries for example Kenya, Uganda, Senegal and Nigeria. However, there is still a great need to develop monitoring mechanisms, registration mechanisms and more transparency in market transactions that is likely to bring stability and boost formal housing market development.



**Figure 1:** A Normative View of the Housing Sector and the Policy Environment to Deliver Affordable Housing (source: C.Acioly, 1999)

### 3. Enabling Shelter Strategies

Enabling shelter strategies<sup>8</sup> were first articulated in the Global Strategy for Shelter to the Year 2000 that was adopted by the General Assembly of the United Nations in 1988. The comprehensive framework for action envisaged in this strategy sealed a fundamental shift in thinking and action on housing and shelter issues that envisaged a future with adequate shelter for all<sup>9</sup>. This was a milestone in housing policy development that has influenced a generation of housing practitioners and national housing policies, later ratified and further elaborated in the Habitat Agenda, adopted in 1996. The major shift from previous shelter policies was the shift of government's role from 'provider' to 'enabler'. Simply said, governments are encouraged to mobilize resources of other actors

and facilitate their deployment for the efficient provision of shelter of various types for various different target groups. Governments are encouraged to move away from the business of direct housing provision and create an enabling environment for different modes of housing production and delivery.

A recent review of two decades of experience with executing an enabling shelter strategy that was undertaken by UN-HABITAT<sup>10</sup> reveals among other things that for its full realisation, certain areas still require further reforms, namely decentralisation (legislative and fiscal reforms to enable ‘municipalisation’ of housing policies and resource mobilisation via fiscal tools), participation (civil society participation and empowerment to achieve equity and equality) and partnerships (to enable an integrated multi-stakeholder approach to housing with governments becoming coordinators and facilitators). Additionally, other bottlenecks have been identified in various levels that hinder access to fundamental inputs to housing, as mentioned above, such as land, infrastructure and finance.

#### **4. Alternative Mechanisms and Community-based Strategies to Access Housing Finance**

The failure of formal housing finance in reaching low-income households is propelling two phenomena: the rise of alternative micro-financing mechanisms and high rate of slum formation. The former is reflected in the rise of housing micro-credits and savings groups strategies that boosts the development of federations of the poor and the multiplication of savings groups. These are established as a response to overcome their difficulties in accessing formal housing finance and the frequent exclusion from formal mortgage and credit services. While Asia-Pacific has been the birthplace of these innovative vehicles to mobilize resources, boost social cohesion and community strengthening we witness the multiplication of these groups in Kenya, Uganda, South Africa and Malawi just to mention a few. They are formed on the basis of a network of savings groups and social mobilisation instruments that help poor households to collectively mobilise resources to access housing inputs, particularly land<sup>11</sup>. These autonomous and totally decentralised savings and credit systems indicate a new form of financial resource mobilisation that is increasingly being supported by NGO's like Kenya's Pamoja Trust and Malawi's CODDE.

These federations are supported worldwide by an international NGO<sup>12</sup> through its local affiliates and the International Urban Poor Fund<sup>13</sup>. This fund supports activities of federations of informal savings groups that are formed by poor households whose objective is to collectively save money and improve their neighbourhoods. The improvement agenda encompasses but not limited to accessing land and securing tenure, improving sanitation and water supplies and in some cases building houses. The ultimate goal is to enhance the capacity of poor households so that they become active development partners. It is worth noting that the organisation and mobilisation of networks of savings and credit groups is the foundation of a nation-wide slum upgrading programme in Thailand, called Baan Makong Programme. The programme's innovation is that it is executed via an NGO with support from government and through a networking approach that boosts inter-communities collaboration and mutual learning. The principle of sharing and exchanging experiences is one of the keys for the success of this programme. In Nairobi, for example, the experience of self-help housing in Mathare, supported by Pamoja Trust shows clearly the potential of this approach to deliver adequate and affordable housing of those unable to access formal financial services. The challenge is to bring it to scale, get it matched with additional formal credit provision and turn it into a national or citywide programme where different stakeholders' contributions can increase the financial and operational viability of such a programme.

#### **5. Is Inadequate Housing Finance the Backbone of Large-scale Informality in African Cities?**

The failure of formal systems of finance in providing mortgage services and credit opportunities for low-income households coupled with high housing price-to-income ratios and the inability of governments, particularly local authorities, to generate revenues and public finance to expand basic infrastructure provision – and thus increase supply of serviced land – appear to be some of the reasons for high slum incidence in Africa. It is currently 57% of which 62.2% for Sub-Saharan Africa and 14.5% for North Africa<sup>14</sup>. The level of deprivation of African slums regarding improved sanitation, water, security of tenure, durable structures and sufficient space is also high with countries like for example Ethiopia, Angola, Chad, Guinea-Bissau, Niger, Madagascar, Mozambique, Sierra Leone, Sudan and Central Africa Republic having severely deprived slums up to 25% (with 3 or more deprivation).

This confronts us with very fundamental questions regarding our understanding of the underlying causes of such a high rate of slum formation and poorly serviced human settlements in African cities. The answers to these questions are sine-qua-non conditions for the design of effective and targeted policy responses. It is either a question of (1) poverty, meaning that people are poor or too poor and therefore unable to pay for and afford housing supplied through formal housing markets; or (2) housing and land markets are so distorted and ill-functioning that the disparity between housing and land prices in relation to incomes excludes a great majority from it; or (3) government housing policies (or its absence) simply do not offer affordable housing alternatives for low-income households. There is little doubt that it is caused by a combination of many factors. (4) Customary landowners are also liable and contribute to the problem. There are growing evidences that chiefs and customary owners are frequently acting unilaterally and in parallel to the official land allocation systems creating informal and illegal land subdivision schemes that helps to explain the robustness of informal land supply systems in African cities. While offering affordable land tailored to the conditions of many low-income households, it results in growing ambiguity in land tenure and multiplication of frequently unplanned settlements that adversely affects eligibility to finance. Not mentioning the perverse impacts on cities and in land governance.

In responding to question (1) on poverty, governments should devise social policies and strategies that would boost income generation opportunities and dynamic labour markets while promoting capacity enhancement, skill formation and tailored poverty reduction strategies. On addressing high market prices of housing (question 2), governments are encouraged to undertake a situation analysis of their respective housing sector that are likely to help disclose shortcomings at both the supply side (production costs or the organisation of the shelter delivery system, for example) and demand side (legal reforms to reinforce property rights, land registration, availability of different forms of finance, just to mention a few areas of needed reform).

The design of an enabling shelter strategy embedded in a housing policy with its implementation arrangements and institutional frameworks should enable governments to address the problem raised by question 3. And finally, when looking at the land delivery system it is likely that governments will come to terms with the need to undertake comprehensive urban land reforms that will curb the coexistence of parallel systems of land supply and devise simplified forms to formalise and secure land rights. This might boost the supply of housing finance and likely to widen opportunities for credit to many Africans.

Some of the critical issues that governments should look at when intending to boost shelter finance in African cities:

#### **Box 1: Bottlenecks for Conventional Mortgage Finance Providers**

## in Africa

1. Ambiguous titles and property rights, the backbone of mortgage security, restrain access to formal finance: particularly for slum dwellers whom may be occupying and built on irregular and unrecorded settlements and therefore unable to present it as collaterals against mortgage transactions;
2. Irregular or non-registered wages of those employed in the informal sector unfavourably affect the assessment of their creditworthiness as borrower;
3. The cost of servicing housing loans is considerably higher relative to the smaller ticket size of these loans; additionally, providers may not have branch networks in urban slums or dispersed rural areas;
4. Long-term funding for housing finance for the poor is particularly difficult, since lack of collateral and sub-prime underwriting standards are risky to secondary market investors
5. Low incomes – which are often irregular – implies that what low-income households can pay is often never enough to finance an entire home.

poor.

The nature of emergent markets in Africa is represented by mortgage lending which is undergoing a reform or initiation, such as in Botswana, Ghana, Tanzania, Zambia, Uganda and Kenya. State-owned institutions relied heavily on bail-outs while operating with poor management and little incentives for efficiency.

### Mortgage Lending

Mortgage finance systems are on the rise in many developing countries, but so far have only penetrated the top tier income earners in their respective countries. As mortgage finance expands and deepens in these markets to cover low-income households, a number of challenges arise for the providers, including:

### Financial Liberalization

Countries showing strong growth of housing markets are also those that underwent financial liberalization in the recent past. South Africa's banking sector, for example was significantly liberalized, leading to the opening of domestic capital markets. The positive effect of financial liberalization is that it increased competition through decreased regulatory control thus allowing mortgage markets to expand.

Nevertheless, financial liberalization is not sufficient on its own. Liberalization finds success in promising existing conditions, such as economic stability and a sound banking system, which indeed

also mirrors the twin prerequisites to implementing housing finance systems. The uptake of liberalization is realistically constrained by underdeveloped institutions, bank management capacity, and the legal environment. Liberalization is not a quick answer to bringing about a more vibrant financial sector; but when successful can increase the flow of funds into the financial sector, which we later recognize as essential to developing mortgage markets.

### **Microfinance**

Microfinance is a rapidly growing sector in Africa, and emerging as the most effective channel in providing financial services to the unbanked, low-income households. As microfinance institutions expand their product offering, housing is quickly becoming a standard product due to demand and need.

Microfinance provides an opportunity for governments to take advantage of the recent history of the sector to craft policies and regulations that enable it to grow. Tanzania has seen impressive growth in the microfinance sector which is bolstered by their National Microfinance Policy. Nigeria has politics under review, and Ghana has policy in the works.

### **Housing-related subsidies**

In countries with poorly developed housing finance markets, governments have historically viewed housing provision as a social sector activity. However, government programs alone are insufficient in filling the supply and demand gap.

Nearly every country has some form of subsidy for housing, and there lies a great variation in the menu of subsidies offered and how they are delivered.

A number of typologies of housing subsidies exist, some of which are on the supply side, some are off budget, some are on budget. Even more specifically, subsidies are available to households, some to financial institutes, and others to funding systems.

No longer seen as solely a social sector activity, governments have the opportunity to drive successful formal housing solutions that also spur growth. Aside from policy making to create an enabling environment, government's involvement can take for in one or more of the following:

- direct lending or refinancing
- guarantor or offering a liquidity facility
- direct financial incentives for providers, borrower, developers
- tax subsidies

In many countries, government views its key role is to energize private players into the system. However, despite the progress made, financing for low-income shelter still remains a challenge.

## **I. Finding Solutions for the Shelter Financing Challenge**

The Habitat Agenda identifies financial constraints as a major deterrent for adequate shelter. To address this problem, it calls for domestic resource mobilization as well as sound national policies. To address the issue of slums as an expression of a severe shortage in delivery of affordable housing units due to the challenges arising from rapid urbanisation, two areas of action can be identified: First, it is necessary to develop and apply innovative mechanisms and instruments for Financing Slum Upgrading, Affordable Housing and related Infrastructure for the Poor. At a more general level, policies have to be implemented to enable financing for sustainable urban Development and the Habitat Agenda. Innovative mechanisms can only work and be financed on a widespread basis if there are accompanied by such wider and more comprehensive changes in national policy frameworks and procedures.

### **1. Mechanisms for Financing Slum Upgrading, affordable Housing and related Infrastructure for the Poor**

In most developing countries, revenues collected by central governments and local authorities are insufficient to address the problems of rapid urbanisation on an adequately large scale. Central governments are frequently reluctant to cede tight control over the use of revenue funds. Local authorities are thus rarely able to obtain enough resources from the central and state governments, and have to rely on other forms of income. The private sector for its part has not been willing or able to develop and provide solutions that would facilitate access to shelter finance for low-income and very low-income households.

International financial institutions, multilateral and bilateral funding agencies, NGOs and other financial entities that have financed a range of programmes and projects, ranging from sector-wide strategies and sovereign-level national housing programmes to smaller interventions including pilot projects and micro-finance solutions. Yet all of these programmes and projects frequently only reach a relatively small number of families.

In the case of completed housing solutions, significant subsidies are typically required to finance the affordability gap that exists between the cost of a completed house and ability of target low-income families to finance regular mortgage payments. In the case of incremental home construction, micro-finance institutions have tended to rely on grants to raise equity and their ability to go to scale has been limited by the amount of grant financing available.

The mobilization of local and domestic capital has been one of the key missing links in the low-income housing finance equation.

## **2. Policy Frameworks and Systems for Financing for Sustainable Urban Development and the Habitat Agenda**

Function systems for public and private delivery and finance are a precondition for sustainable housing and infrastructure provision. In many countries, there are multiple obstacles for effective governance and systems related to public land use planning, infrastructure provision and private sector engagement in housing and infrastructure delivery and finance.

In particular, 3 key areas of government action can be identified:

- Implementing Public Policies for conductive financial framework for shelter investments
- Promoting Innovative Financial Mechanisms for Low-income Shelter Finance
- Establishing Systems for Shelter Data collecting and Monitoring

a) Implementing Public Policies for conductive financial framework for shelter investments  
Housing finance and real estate are key elements in housing and infrastructure development. In most countries, the development process heavily relies on private sector activities. Consequently, businesses can and do play a vital role in achieving sustainable urbanization.

However, to be able to fulfil its role and explore the potential in delivering goods and services, the private sector requires a conducive policy framework that enables profitable and secure market interactions. Only if the right conditions exist in terms of macro-economic policy, land markets, urban planning and infrastructure provision, but also in terms of lending regulations and effective foreclosure mechanisms, can the private sector engage in a partnership for sustainable urbanization. Encouraging private sector engagement is especially important for addressing the shelter needs of slums dwellers.

In many countries, there are deficits in the legal and economic frameworks for the housing finance and the real estate industry, particularly as far as low-income housing provision and finance are concerned. As a result, investors, private financial institutions and developers shy away from engaging in the low-income housing sector and they instead focus their attention on middle and higher income residents. The reluctance to engage in housing and real estate segment is very much due to deficits in the urban development process, which make investments in the sector commercially unattractive or extremely unsafe.

At the same time, local governments and utilities are not in a financial and institutional position to provide areawide access to basic services for their citizens and properly maintain existing infrastructure.

Therefore, National governments have an important role to play by enabling markets to work in housing finance and construction. First, they have to provide a framework for housing developers and investors. This requirement spans from macro-economic policy and favorable banking legislation to a transparent land registry, setting appropriate standards and an effective building approval process. A further key responsibility of governments is to provide the necessary infrastructure for human settlements. The direct provision of roads, water and sewer lines is a genuine task of local governments, and national government should support this by creating the right conditions to enable municipalities to fulfil their role. This applies particularly to financing and the intergovernmental arrangements for revenue sharing.

In addition, an effective social housing policy is needed to enable decent and affordable housing options for the poor, who are frequently left out by the private sector if there are no support mechanisms in place. This is not to say that social housing must be directly provided by the government, but targeted support can be achieved via financial incentives (for instance reduced interest rates or land at discounted prices) and contractual arrangements regarding the selling price or the rent.

Regarding government incentives for the private sector, the 21st Governing Council of UN-Habitat adopted a key resolution, GC 21/7 on “Sustainable public-private partnership incentives for attracting large-scale private-sector investment in low-income housing”. The resolution calls upon Governments, particularly in developing countries and countries with economies in transition, to encourage and catalyze private sector participation in the provision of infrastructure and affordable housing, particularly through incentives, enabling policies and legislation and recalls paragraphs 187 and 188 of the Habitat Agenda, which note that funds to finance shelter and settlements development mainly come from domestic sources and that effective partnerships between the public and private sectors should be promoted through a combination of local taxes and fiscal incentives.

The resolution also requests the Executive Director of UN-Habitat, in consultation with Governments, to promote the use of incentives and market measures as a sustainable partnership strategy for attracting private-sector investment and resources into affordable housing on a scale large enough to impact significantly the livelihoods of low-income households. It also requests the Executive Director to work with Governments to encourage and promote the mobilization of domestic and international financial resources for supporting private sector investment in affordable housing;

An important platform for implementing resolution GC21/7 and conveying its key ideas will be the regional ministerial conferences on housing and urban development such as the African Ministerial Conference on Housing and Urban Development.

With regard to effective frameworks for local infrastructure and service provision, the Governing Council adopted another important resolution. Continuing an international dialogue that started with the Habitat II Conference in 1996, Resolution 21/3 provides new guidelines aimed at strengthening local authorities around the world. GC 21/3 will set the basis for engaging member States in one of the key aspects of the Habitat Agenda – to support efforts in strengthening the front-line role of local authorities in its implementation.

Paragraph 177 of the Habitat Agenda, in 1996, stresses that sustainable human settlements development can be achieved “through the effective decentralization of responsibilities, policy management, decision-making authority, and sufficient resources, including revenue collection authority, to local authorities, closest to and most representative of their constituencies”. Therefore, strengthening local entities is a key component for achieving effective financing systems for local infrastructure planning and provision.

Overall, achieving sustainable urban development and housing finance is a complex process, and one that requires new approaches and tools. There must be involvement of a wide range of public actors –such as local and national governments, utility companies or other service providers – and private actors – such as real estate investors, financial institutions, developers, contractors, housing companies and individual citizens as home-owners or tenants. This complexity bears challenges but also represents an opportunity to share some of the costs and risks of low-income housing and slum upgrading.

### b) Promoting Innovative Financial Mechanisms for Low-income Shelter Finance

As outlined in the previous section, ERSO intends to field test new and innovative mechanisms for enabling financing for affordable housing, slum-upgrading and related infrastructure.

In this regard, the initiative intends to develop tools to enable Financial Institutions to extend financial services to low-income residents.

Due to the design of ERSO as an experimental undertaking, knowledge management with regard to information about the approach and documentation of experiences made will be an important component of the initiative from the beginning.

As part of the design work for the initiative as a whole and for particular operations, ERSO will document innovative financial mechanisms applied so far by other organisations across the globe. A database will be made available on the Internet,. The research will document mechanisms that seek to address the following frequent challenges private financial institutions are facing:

- Liquidity (insufficient capital available);
- Perceived or actual Risk of non-repayment;
- High Transaction costs.

Chart 1 provides a conceptual overview on the different categories for such mechanisms.

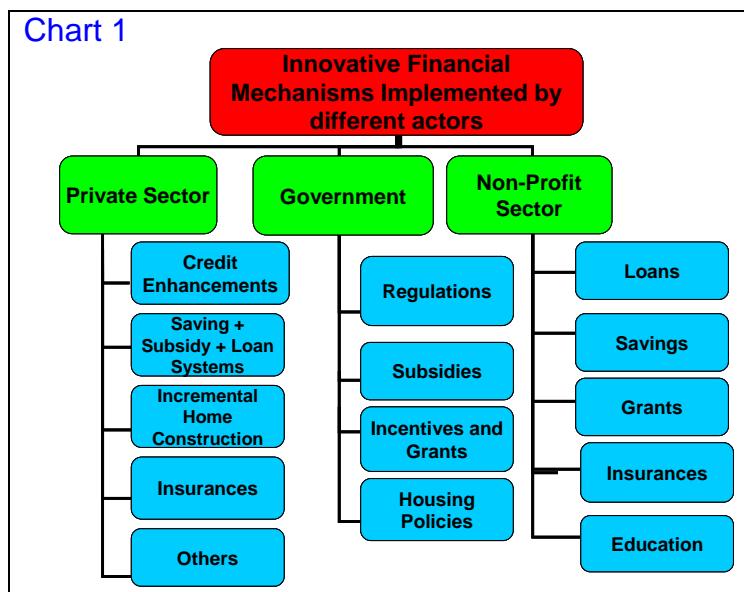
To mainstream application of new tools, Governments should undertake actions and provide seed-capital to encourage banks, Microfinance institutions and community savings organisations to apply new tools and instruments aimed at providing financial services to the poor.

As emphasized, tools and instruments to be implemented by private sector and community actors need complimentary policy measures at the national level and strengthened capacity of local governments and utilities.

### c) Establishing Systems for Shelter Data Collecting and Monitoring

Monitoring is an important element for improving the base of urban knowledge enabling sound decision-making by Governments, local authorities, businesses and individuals in the housing sector. Sustainable Urban Planning, Public Policy and financial transactions of the private sector require accurate information on the situation and monitoring of urban conditions, progress and trends.

Many local governments in Africa do not have regular data collection, analysis and mechanisms to monitor urban growth in a systematic manner, even less to monitor informal urban growth.



Slums are frequently the invisible part of the city; they are zones of silence in terms of public knowledge, opinion and discussion about urban poverty. Slums, as part of informal growth, are more important than formal growth in many cities of the developing world. Yet, these invisible areas grow faster than the visible areas. Most governments do not report on slum conditions and trends. Different countries maintain different standards and information, quite often colored by political considerations, which makes difficult their recognition by local authorities.

The collection of information and the use of statistics provide local governments and financial intermediaries with a wide range require information. Real Estate Transactions are key elements in the context of Financing Housing and Sustainable Urban Development.

Both local governments and financial intermediaries will benefit from spatial development, particularly by identifying landowners and managing of real estate. Effective monitoring offers advantages for spatial planning, land use, taxation, transparency, housing demand, water supply etc. In combination with **Geographical Information Systems** (GIS) statistical data provides answers to questions such as: How many people live in a particular area? How many have access to water and sanitation? Are the roads in need of repair? How many people are affected by AIDS or malaria? Which slums are the most overcrowded? With the answers to such questions, it is far easier and cheaper to implement improvements. The information gathered and researched provides a database of statistics and indicators on the state of urban development.

The ability of **GIS to combine both spatial and socio-economic data** helps to generate meaningful information in a shorter time. GIS tools are able to combine both types of data for analysis and generation of more information. GIS has many advantages to offer. Among the most powerful are:

- Excellent tool for analysis, e.g. real estate management
- Visualizing planning scenarios and their impacts on the local population
- Fast retrieval of information and translation into easily understandable maps

Other applications for GIS tools include:

- Slum identification and up-grading
- Infrastructure and utility mapping
- Site and terrain analysis
- Environmental land use planning

UN-HABITAT has the responsibility to assist United Nations Members States in monitoring and gradually attain the “Cities without Slums” Target, also known as “Target 11”.

The **Global Urban Observatory (GUO)** within UN-HABITAT in [MRD: “YEAR”] launched the **1000 Cities GIS Project - developing GIS-based spatial information strategies** which will provide cities all around the world with GIS-software. This program offers GIS software and related training packages to institutions such as local authorities, and other urban development stakeholders. GUO offers three main areas of support, which include assistance to governments, local authorities and organizations of local civil society to amplify their ability to collect, manage and maintain and use information on urban development; enhance the use of knowledge and urban indicators for policy formulation, planning and urban management through participatory process; and collection and dissemination of results of global, national and city level monitoring activities, as well as disseminating good practices in the use of urban information world-wide.

The Policy Analysis and Dialogue Branch of UN-HABITAT publishes the Agency’s flagship **Global Report on Human Settlements**, every alternate year. This publication and the **State of the World’s Cities report** are authoritative major works of research that provide the latest statistics and thinking of world experts on urban and human settlements affairs.

Experience has shown that most cities within Africa particularly lack accurate and up to date spatial data. Modern tools such as GIS could provide national governments, city managers and financial

intermediaries with vital information for decision-making in the context of housing and infrastructure provision.

In order to take part of this advantages national ministries and local governments need GIS-software and skilled staff on the one hand and they have to gather and research information on the other. A useful GIS is only as good as the collected data.

## **II. The Way Forward: Opportunities for Expanding Housing Finance Systems in Africa and Required Actions by AMCHUD**

Overall, recent trends in Africa show that there are indeed opportunities for expanding housing finance and several countries in the past have taken important steps to enhance the overall policy framework for shelter finance.

The gap between the enormous need for housing and the limited supply of finance offers an important market opportunity for private lenders provided they work with urban poor organizations, micro-finance institutions and financial intermediaries to develop loan products that reflect local capacities and limitations of borrowers.

Macro-economic conditions and some policy developments are increasingly favorable for private lending, but legal reforms and regulations, especially pertaining to land, credit information and legal recourse are not yet sufficiently in place.

The financial systems are frequently still fragmented and fund flows between tiers are weak.

Nevertheless, banks and financial intermediaries are increasingly innovative in their partnerships and financial institutions are poised to escape liquidity traps through these partnerships.

Financial intermediaries, such as cooperatives, loan originators and Micro-finance institutions, are keys to scaling-up the financing of affordable housing and home improvements, but are not yet sufficiently capacitated to significantly reduce poverty housing.

Therefore, AMCHUD should recommend their member states to address the following actions:

1. Working towards relative macroeconomic stability as a precondition for housing finance
2. Establishing sound regulatory basis for housing finance in the legal system (property titles, effective foreclosure mechanisms)
3. Establish conducive regulatory and fiscal framework for banking, saving and lending (e.g. mortgage insurance, savings schemes)
4. Designate funds and establish effective processes for public infrastructure provision and financing
5. Develop efficient national-local government relations and support mechanisms
6. Establish effective and just housing assistance frameworks for low-income citizens
7. Establishing effective procedures for land management, urban planning, building control
8. Strengthening housing finance in informal arrangements (e.g. by way of microfinance)
9. Work with private Developers to develop and offer products for low-cost quality housing
10. Introduce consumer information and protection measures in relation to housing finance and provision
11. Establish the statistical basis for land and housing market information by supporting local governments in the introduction of GIS
12. Establish an infrastructure for housing finance research and knowledge dissemination

Decentralization, capacity-building and government enablement of markets through regulatory reform will be pre-requisites for greater private engagement in and lending for affordable housing. Inter-ministerial collaboration and continued dialogue with the private and community sectors in each country will be essential for efforts to promote public and private investment in affordable housing.

## Framework for Regional Cooperation

(REVIEW and ADD: Participatory Slum Upgrading, Rapid Profiling, edit part of Shelter Profiling; revise part of ERSO and SUF)

Many of these country and/or city experiences have been systematised in the form of research reports, best practice publications and through official websites, for example UN-HABITAT's on-line best practice database<sup>15</sup> and the Dubai International Award<sup>16</sup>. But not all experiences in the Africa region are widely known. Some have been subject to external evaluations and publications while others are still ongoing and need to be appraised. This can be enhanced through the partnership between the national Housing ministries and experiences and lessons learned made available for all.

UN-HABITAT is currently developing its Mid-Term Strategic Plan (MTSIP) for the six-year time frame 2008-2013. This is a participatory and consultative process that will help identify areas of concerns as well as policy needs in the various regions of the world so that UN-HABITAT's work can become more demand-driven and more supportive to the work of its national partners like Ministries of Housing and Urban Development. UN-HABITAT can facilitate the articulation of these needs and elaborate a regional housing agenda of priorities.

Multiple media and forums of information exchange on the results, approaches, prerequisites for success and critical analysis of the impacts of different experiences are key for improvements in housing policies in the region. As an example, UN-HABITAT, in collaboration with UNESCAP, has recently published a series of seven quick guides for policy makers in the Africa region covering the broad field of housing, focusing on the following themes: urbanization, low-income housing, land, alternatives to eviction, housing finance, community-based organizations and rental housing. The guides are presented in an easy-to-read format, structured along the themes of trends and conditions, concepts, policies, tools and recommendations, and including a range of examples of ongoing initiatives across Asia. The guides are not aimed for specialists, and are targeted for national and local government officials and policy makers who quickly need to enhance their understanding on these topics. All the guides underscore the vital role of poor people themselves and community-based organizations as partners in finding solutions to housing problems. A set of posters and on-line concept checks (for training purposes) are also being developed as part of this collaboration. The guides are currently being translated into Hindi, and plans are also underway to translate them into Bahasa among other Asian languages.

Not all countries have a housing policy document in place and many do not have a comprehensive situation analysis in the form of a country and/or city housing profile. Such a profile is instrumental to disclose not only a normative understanding of the structure of the sector as a whole, the main public, private, community and research players; legislation, policy instruments and outputs of a given housing sector. But it also helps to identify key gaps and bottlenecks in the supply and demand sides of the housing market while suggesting avenues to improve the sector performance. UN-HABITAT's shelter profiling initiative, currently under phase of experimentation in four countries, can be a source of methodological and operational framework to assist governments and its partners in building an understanding of the functioning of a country's housing sector, identifying key issues and helping prioritise actions. This initiative may be instrumental for the Africa countries and may result into additional guides to policy makers. UN-HABITAT is also considering the development of policy guidelines and tools to address land supply bottlenecks, property and land tax (as instruments to boost residential infrastructure provision within the framework of housing production); and the improvement and refurbishments of old housing stock.

Sustainable housing and sustainable building remain a challenge facing cities and their impacts on climate change, especially in a region boasting such a remarkable economic and urban growth. Climate change is nowadays one of the most important challenges faced by cities and local governments. Climate change and its dramatic consequences (floods, cyclones, and droughts) will affect first the urban poor settled in inadequate land

and housing, often situated in fragile areas<sup>17</sup>. UN-HABITAT is pursuing a response to this challenge by developing the Sustainable Urban Development Network (SUD-Net). It is a global network of partners involved in supporting urban pro-poor and harmonious urban development. Through SUD-Net and its component on Cities and Climate Change, UN-HABITAT and its partners are working to reduce these risks, promoting an adequate and sustainable shelter for all and developing tools to reduce drastically the impact of buildings and urban areas on global warming. Research institutions, private sector companies and government agencies involved in building and construction technologies are encouraged to join UN-HABITAT in this effort, favouring not only regional but also global cooperation.

Given that land policies and land management instruments still need to find its way at the local city planning and urban management in most countries of Africa, the achievement of pro-poor and sustainable urbanisation remains hindered. UN-HABITAT's Global Land Tool Network-GLTN<sup>18</sup> may be instrumental for the countries in the region and facilitate the implementation of pro poor land policies and boost innovation and up-scaling of land management tools. This will certainly help the development of policies geared to deliver affordable housing. The Network partners argue that the lack of these tools and problems in the governance of land are the main causes of failed implementation of land policies world wide. UN-HABITAT can support disclosing the major land-related bottlenecks in the Africa region and through GLTN make knowledge and expertise available on land reform, land use planning, development of practical tools and improved land management and security of tenure.

Addressing land tenure issues is a complex endeavour. No single tenure option can solve all these problems when working on the problem of slums, informal settlements and illegal land subdivisions. Policy on land tenure and property rights can best reconcile social and economic needs by encouraging a diverse range of options rather than putting emphasis on one option, for example land titling. UN-HABITAT advocates a continuum of land rights and legal instruments, with land titling being only one of the legal instruments that can be applied in the Africa cities. Regional cooperation and continue exchange of experience in the field of land policies can be facilitated by UN-HABITAT and be organised from the inter-ministerial conference as a departing point. This may boost greater understanding of land markets in the African region and help cities to design effective land use planning, tax instruments and management tools that will assure proper revenue generation and more equitable distribution and coverage of infrastructure. It is likely that this will widen the supply of serviced land and consequently propel the supply of affordable housing.

Finally, UN-HABITAT underscores the importance of capacity building. These networks as well as the various guides and publications produce knowledge and cross-fertilisation that can be explored in expert group meetings, but also be adapted to serve capacity-building workshops and courses, and training of trainers from the Africa region on core housing and land topics. UN-HABITAT can facilitate this initiative too. This Second Africa Ministerial Conference on Housing and Urban Development can play a fundamental role in this but also, and fundamentally, in the review of past and present experiences and design a way forward on key substantive areas that will lead to the progressive realization of the right to adequate housing.

## PROMOTING SEED SHELTER FINANCING OPERATIONS TO REACH LOW-INCOME HOUSEHOLDS

The resolution enables UN-Habitat to engage in field-testing experimental seed capital operations and other innovative finance mechanisms for financing pro-poor housing, upgrading and related infrastructure in cooperation with financial intermediaries and other partners. Additionally, there is a mandate to strengthen the capacity of local financial and development actors to carry out those operations.

ERSO seed capital in form of loans or credit enhancements will be provided to domestic financial institutions (Banks, Microfinance Institutions) to enable loans for low-income housing and infrastructure in combination with technical assistance to catalyze investments in pro-poor housing,

related infrastructure and upgrading in close partnerships with national and local governments and support by local intermediaries.

The overall purpose of ERSO is to test mechanisms for leveraging domestic funds to enable low-income residents to access housing finance by working with domestic financial institutions.

- First, our objective is to encourage Banks to extend their lending operations and financial services to low-income groups of the population and to support Microfinance institutions to expand their activities into housing and basic services;
- Second, ERSO intends to strengthen the capacity of local financial and development actors to implement innovative approaches to reach the bottom of the pyramid;
- Third, the intention is to communicate the experiences made to improve national policies for pro-poor housing and housing finance.

To commence the implementation phase, ERSO hosted an expert workshop in Stockholm in April 2008, drawing on a global group of housing finance experts. The purpose of the workshop was to present the ERSO approach as whole and the Operations Manual in particular for a critical review by domestic and international financial experts. At the same time, the meeting gathered ideas for potential experimental operations. Currently, the ERSO Technical Team in UN-Habitat is in the process of consulting with potential partners to explore opportunities for experimental operations.

The progress achieved on ERSO so far has immediate implications for the ongoing work of AMCHUD concerning the efforts to establish an earmarked fund for financing participatory slum prevention and upgrading in Africa.

Africa fund/financing mechanism for participatory slum prevention and upgrading, to be administered by the UN-Habitat in collaboration with the executive secretariat of AMCHUD.

Africa fund/financing mechanism on slum prevention and upgrading” acknowledges that many countries in Africa lack adequate financing mechanisms and institutional abilities for slum prevention and upgrading and takes note of the need to scale up the construction of new housing, increase land availability and assure tenure rights.

invites the AMCHUD secretariat, in consultation with its members and with technical support by UN-Habitat, to prepare a feasibility study on the establishment of a such a fund for Slum Prevention and Upgrading for consideration by the AMCHUD Conference in 2008.

The discussions and the groundwork undertaken in the context of preparing ERSO can substantially benefit the advancement of the feasibility study. The implementation of experimental operations can provide knowledge for designing and establishing an Africa fund on slum prevention and upgrading. Implementing the idea of an African Fund in the context of ERSO is highly possible, since contributions to the ERSO Trust Fund may be designated for operations in certain regions. Overall, it is envisaged that in total 12 projects will be pursued with 2 to 3 in each of the four regions Africa, Asia, Latin America/Caribbean and Eastern Europe.

UN-Habitat invites the AMCHUD Secretariat to explore opportunities for cooperation with ERSO to advance the work on establishing an African Fund for Financing Slum upgrading and affordable Housing.

The success of ERSO will be determined not only by the performance of individual loan operations. The real indicator of achievement is the level of engagement and dialogue with private banks, Microfinance Institutions and urban poor communities to test new models for housing the urban poor. However, for new and innovative mechanisms to be effective at wider scale, National Governments have to establish functioning systems for private investments in housing and infrastructure. Targeted

support for low-income residents is part of such effective systems since experience across the globe shows that even in well-established housing markets, the poor need assistance to have access to decent and affordable housing options. With the mechanisms established in the context of ERSO, the hope is to provide national governments with some sustainable models to deliver social housing support and minimize leakage effects in the context of comprehensive policy measures to address the finance challenge in shelter provision..

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<sup>1</sup> Paper prepared by Christian Schoeler???, Claudio Acioly Jr, and ..... , UN-HABITAT. TO BE COMPLETED!

<sup>2</sup> UN-HABITAT, United Nations Human Settlements Programme (2005). “Financing Urban Shelter. Global Report on Human Settlements 2005”, London: Earthscan and UN-HABITAT.

<sup>3</sup> UN-HABITAT, United Nations Human Settlements Programme (2005), *ibid*.

<sup>4</sup> UN-HABITAT, United Nations Human Settlements Programme (2006). “State of the World Cities 2006”, London: Earthscan and UN-HABITAT; Acioly, Claudio (2007). “The Challenge of Slum Formation in the Developing World”, in Land Lines, Cambridge, USA: Lincoln Institute of Land Policy, April 2007. pp 2-7.

<sup>5</sup> UN-HABITAT (2002). “Financing Adequate Shelter for All: addressing the housing finance problem in the developing countries”, report of housing finance seminars in the run-up to the UN General Assembly Special Session on the review and appraisal of the implementation of the Habitat Agenda (Istanbul+5); UN-HABITAT (2006). “Enhancing Resource Allocation to Urban Development in Africa”. Report of African Regional Seminar on Enhancing Resource Allocation to Cities to Strengthen their Role as Engines of Economic Growth and Development. Nairobi, 2-3 November 2005. CASLE-Commonwealth Association of Surveying and Land Economy (2006). “Sustainable Land Management in Africa”. Technical Papers and Conference Proceedings.

<sup>6</sup> Shelter Africa was set up by African governments and the African Development Bank. It provides not only debt and equity finance but also technical assistance to promote housing and urban development in Africa.

<sup>7</sup> By 2020, improving the lives of at least 100 million slum dwellers.

<sup>8</sup> For review of this strategy, its implementation and evaluation of results, refer to the following publications, all available under [www.unhabitat.org/programmes/housingpolicy/publications](http://www.unhabitat.org/programmes/housingpolicy/publications):

UNCHS, United Nations Centre for Human Settlements (1991) Global Strategy for Shelter to the Year 2000, Nairobi: UNCHS.

UNCHS (1991). “Global Strategy for Shelter for the Year 2000 Sub-Regional Seminars to Support National Action”. Nairobi: UNCHS.

UNCHS (1991b) “Assessment of Experience with Initiating Enabling Shelter Strategies, Nairobi: UNCHS;

UNCHS (1992) “Global Strategy for Shelter to the Year 2000. GSS in Action”, Nairobi: UNCHS.

<sup>9</sup> The progressive realisation of the right to adequate housing, as outlined in the Habitat Agenda, is central in the United Nations Housing Rights Programme. It is a joint program carried out with the Office of the High Commissioner for Human Rights, launched in 2002. The program is currently focusing on the development of indicators on housing rights, including security of tenure, in order to provide governments, policy makers, practitioners and activists, with tools to assess baseline conditions and measure progress in the realisation of this basic human right.

<sup>10</sup> UN-HABITAT, United Nations Human Settlement Programme (2006) “Enabling Shelter Strategies: review of experience from two decades of implementation. Nairobi: UN-HABITAT

<sup>11</sup> They organise and work in a very similar formula to housing cooperatives.

<sup>12</sup> Shack Dwellers International-SDI

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<sup>13</sup> The Bill Gates Foundation has just granted a large amount to this fund aiming at improving the lives of slum dwellers.

<sup>14</sup> Data from UN-HABITAT's GUO-Global Urban Observatory; UN-HABITAT, United Nations Human Settlements Programme (2006). "State of the World Cities 2006", London: Earthscan and UN-HABITAT

<sup>15</sup> *The Best Practices and Local Leadership Programme (BLP) was established in 1997 in response to the call of the Habitat Agenda to make use of information and networking in support of its implementation. It is a global network of government agencies, local authorities and their associations, professional and academic institutions and grassroots organisations dedicated to the identification and exchange of successful solutions for sustainable development.*

<sup>16</sup> *The Dubai International Award for Best Practices was established in 1995 under the directives of the late Sheikh Maktoum Bin Rashid Al Maktoum during a United Nations International Conference. The biennial award, which recognizes best practices that have a positive impact on improving the living environment, reflects the policy and commitment of [Dubai Government](#) and the United Arab Emirates towards sustainable development of human settlements and protection of the environment on the basis of mutual international cooperation.*

<sup>17</sup> *The World Bank estimates that losses due to natural disasters are twenty times greater (as a percentage of GDP) in developing countries than in industrialized nations*

<sup>18</sup> *The Network has developed a global land partnership. Its members include international civil society organizations, international finance institutions, international research and training institutions, donors and professional bodies. It aims to take a more holistic approach to land issues and improve global land coordination in various ways*