

HOMES, NEIGHBOURHOODS, HAPPINESS

Building Prosperity Through
Neighbourhood Development



URBAN FINANCE





Informal settlements in Jakarta, Indonesia. Photo © Suzi Mutter

ONE BILLION people now live without adequate shelter, water and sanitation, and UN-HABITAT estimates that the number of slum dwellers grows by 70 million per year. The problems that go along with slums – poor health, environmental degradation, poor nutrition and safety issues – present enormous challenges to governments in developing countries, where the problem is the greatest.

The UN estimates that the resources required to achieve the Millennium Development Goal of

improving the lives of 100 million slum dwellers by 2015, are USD 20 billion per year. This is far above the current level of investment going into slum upgrading and prevention. The financial resources required to fully address the needs of one billion slum dwellers are estimated by Rockefeller Foundation to be between USD 1 and 2 trillion. There is simply not enough money available through governments and donors to begin to address social and affordable housing needs at the scale required.

Urban Finance Strategy

One response to these challenges, and to the needed investment, is UN-HABITAT's sustainable credit enhancement and catalytic investment approach. The agency invests in affordable and social housing and related infrastructure improvements for under-served communities in emerging markets in Latin America, Asia, Africa and the Middle East. We focus on approaches that attract co-investment by domestic banking and international financial institution partners, and increase general activity in municipal finance and affordable housing finance sectors in targeted countries.

We believe that integrating market-based solutions and business approaches with community-led efforts will be the most effective way to address the scale of inadequate housing, water and sanitation for human settlements across the globe.

Indeed, UN-HABITAT has the potential to become a catalyst of global significance for financing affordable housing, urban regeneration and community development.

Urban Finance Approaches

LOANS

UN-HABITAT is providing loans to affordable, social housing and infrastructure projects through a **Revolving Housing Finance Loan Fund Programme** called ERSO (Experimental Reimbursable Seeding Operations). Working with local banks and microfinance institutions and non-governmental organizations in Palestine, Tanzania, Uganda, Nicaragua, Nepal and Laos, UN-HABITAT finances land development planning, affordable and social housing construction and takeout micro mortgage and microfinance housing loans. We leverage our funds by working with international financial institutions and public-private partnerships. We can assist domestic banks and micro-finance institutions to access lower cost, longer term funds. And we bring local banks and community groups together to create bankable social lending and community development programmes.

This experimental programme is designed to become a self-sustaining, revolving loan fund which will balance three types of lending to expand housing finance markets globally:

1. Construction of new affordable housing units (reaching low income salaried workers such as teachers, nurses, police and government workers, industrial sector workers), particularly in regions where there is a severe shortage of affordable housing stock;
2. Lead investments in microfinance/ infrastructure/microfinance housing loan

institution initiatives to create secondary finance programmes and access capital markets, and;

3. Very low-cost loans to allow early stage microfinance housing programmes to grow to sustainable size.

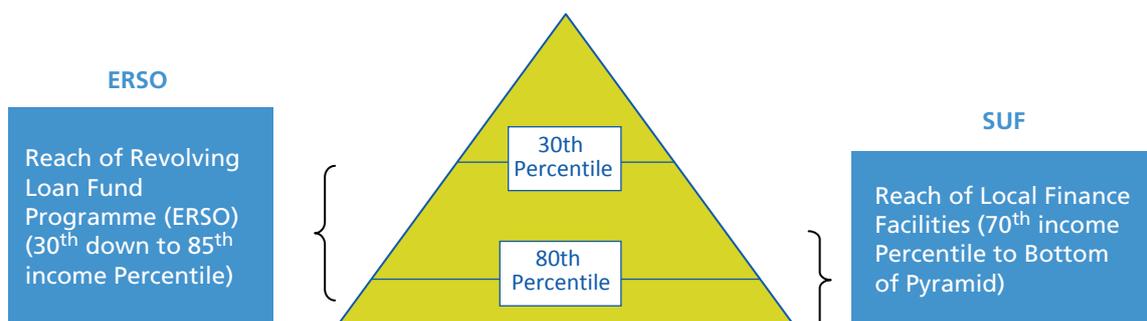
The revolving loan fund programme is a highly effective tool to reach underserved populations from the 30th down to the 85th income percentiles. It combines well with and is highly complementary to our Local Finance Facility approach, reaching populations from the 70th income percentile to the bottom of the income pyramid.

LOCAL FINANCE FACILITIES

In addition to our lending activities, UN-HABITAT addresses under-served populations through Local Finance Facilities, a concept that has been established in pilot projects in four countries (Ghana, Indonesia, Sri Lanka and Tanzania) through the Slum Upgrading Facility Programme. Each Local Finance Facility uses one-time grant funding to set up operations and capitalise a revolving credit enhancement fund to support slum upgrading projects desired by the community (refurbishment of homes, water and sanitation hook-ups, community toilet facilities and new housing stock).

After the initial capitalisation, each Local Finance Facility operates as a sustainable business under the direction of a board of directors drawn

TARGET POPULATION OF UN-HABITAT PROGRAMMES, BY INCOME LEVEL



from community groups, domestic banks, local municipalities and relevant national ministries. Typically, each Local Finance Facility will seek to finance projects with a combination of community savings, subsidies from the municipality or a national ministry (donated land, home buyer subsidy, or other, depending on national programmes available) and local domestic commercial bank lending.

Local Finance Facilities offer credit enhancement, most commonly in the form of guarantees, to attract domestic banks into the social and affordable housing market, often for the first time. This benefits specific projects, but also helps to deepen the housing finance sector in each country.

The combination of grant funding, domestic bank credit, and national and municipal support brings intended projects within the financial reach of the lowest income communities, while at the same time encouraging community sponsorship of the projects and pride in local ownership.

MARKET-DRIVEN FINANCE

All UN-HABITAT approaches aim to improve access to market-driven finance through long-term investment in affordable and social housing programmes as well as investments in and from domestic banks and micro-finance institutions. Encouraging efficient, well-targeted subsidies helps make projects “bankable”, and filling key roles needed to support senior investment by international financial institutions and through credit enhancement support, attracts funding at the scale required.

The result will be increased supply of lower cost housing through investment in social and affordable housing construction and investment in microfinance and microfinance housing programmes that support progressive self-help building.

New Opportunities

REVOLVING LOAN FUND PROGRAMME (ERSO)

UN-HABITAT has reviewed over 50 potential investments to date under the ERSO programme. It is clear that relatively small credit enhancement or seed capital loans which the ERSO programme can provide, can make an enormous difference in getting social and affordable housing programmes off the ground.

In 2010, we expect to have fully deployed the initial USD 3.6 million in ERSO revolving loan funds. This initial round of lending will support creation and upgrading of over 33,000 affordable and social housing units in six countries (with housing investments to be made which leverage additional investment and project value of over 175:1 on our initial funding).

If additional funding can be raised, UN-HABITAT has the opportunity to pursue investment opportunities in up to five additional public-private housing finance projects over the next 20 months, creating up to USD 750 million in total investment, helping over one million people improve their housing and access to water and sanitation.

If our programme is extended beyond the experimental stage, we can act as both fund manager for other international financial institutions and

as a conduit for social investment funds, and the programme will become self-sustaining.

LOCAL FINANCE FACILITIES PROGRAMME

There are promising opportunities to expand the Local Finance Facility concept. The first is through the establishment of new Local Finance Facilities in other countries, as is now being planned in Kisumu, Kenya, working in partnership with the Millennium Cities programme and other key partners. Ideally, we will attract investment to extend the programme to all the Millennium Cities in Africa. Explorations are underway in Mozambique and Uganda for potential Local Finance Facilities.

There is also potential to develop a Local Finance Facility prototype to assist with the reconstruction of Haiti, and these discussions are underway as a part of the UN-HABITAT response to the crisis and the need for housing and security of tenure. There may also be scope for a broader Global Finance Facility Reconstruction Fund that can be established to address future natural disasters or post-conflict rebuilding situations, where the need for immediate funds is great and there is scope for repayment as a part of the regeneration efforts, but where credit enhancement and technical support is also needed.



View of Old Fadama informal settlement, Ghana. Photo © Ruth McLeod

The startup and capitalisation of each LFF typically requires about USD 2 million per facility to achieve a sustainable long term business. In our initial four-country programme, typically a quarter of this funding has come from government sources, and the rest from grant funding. Social investment funding would be quite appropriate as a portion of startup credit enhancement capitalisation, with an appropriate grace period for new operations; or to expand and grow existing facilities, since each programme generates a reasonable social-investment-level return. The Local Finance Facilities would then be financially sustainable in the long term.

TECHNICAL ASSISTANCE AND CAPACITY BUILDING

In our experience, these types of loan and credit enhancement guarantee approaches need to be offered with a strong element of technical assistance and capacity building, not only to ensure long term success of each programme project, but also to create fundamental fairness for low income communities and borrowers. The success of loan repayment in informal

settlements is supported by the social fabric and systems that grow through community organization and partnership. The positive inputs of our project partners also need support. In our current projects, this is being done in a very participatory way, involving communities, government, financial institutions and the private sector.

To broaden this approach, and lay the groundwork for more initiatives by others in this space, we are also discussing with CHF International the creation of a global partnership to roll out:

1. Borrower financial literacy training for low income borrowers;
2. Bank technical assistance on lending to those with informal incomes, and;
3. Technical assistance to community groups seeking to finance housing projects.

UN-HABITAT and CHF estimate that a partnership could begin immediately in Ghana and Palestine, in connection with current CHF activities and our existing Local Finance Facility and ERSO projects.



A view of a Palestinian town, Palestinian Territories. Photo © Nael Salman

Current donors for Urban Finance's specialised programmes are Spain, the Rockefeller Foundation, Bahrain (ERSO Trust Fund), Norway, Sweden and the United Kingdom (Slum Upgrading Facility).

Key partners include International Finance Corporation, US Overseas Private Investment Corporation, Inter-American Development Bank, Bank of America, Agence Française pour le Développement, Central American Bank for Economic Integration, Cooperative Housing Foundation, Aspen Institute's Middle East Investment Initiative, Millennium Cities, Swedbank/Swedish International Development Agency, Global Housing Foundation and Habitat for Humanity International.

UN HABITAT

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