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**Human Settlements:****Policy options and possible actions to expedite implementation****Report of the Secretary-General***Summary*

Sustainable human settlements development requires a coherent and pro-active policy approach to land-use, housing, urban services, infrastructure and environment. While there are many examples worldwide demonstrating the impact of local policies and programs on reducing urban poverty, faced with the prospect of further growth of slums and informal settlements, the challenge is to find solutions that work at city- and nation-wide scales. Where slums and informal settlements host the majority of the rapidly growing urban population, sustainable urban development cannot be separated from slum upgrading and slum integration into the wider urban economy. Economic, social and environmental interdependence between rural and urban areas requires an approach to sustainable human settlements development that is both balanced and mutually supportive.

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## I. Introduction

1. The twelfth session of the Commission on Sustainable Development (CSD-12), which took place in New York, in April 2004, reviewed the state of implementation of the goals and targets in the thematic areas of human settlements, water and sanitation as contained in Agenda 21, the Programme for the Further Implementation of Agenda 21 and the Johannesburg Plan of Implementation (JPOI). The CSD-12 Chair's Summary identified constraints and obstacles to, and continuing challenges for, the implementation of these goals and targets, including the Millennium Development Target on slums. The focus of the present report is human settlements.
2. Building on the outcome of CSD-12, this report presents policy options and possible actions to address the constraints and obstacles to making progress on implementing the goals and targets related to human settlements, taking into account intergovernmental commitments made at the global level. Individual countries will need to assess for themselves which of the policy options and possible actions would help them to advance implementation, based on their own specific conditions and needs. The report provides a point of departure for the discussions at the Intergovernmental Preparatory Meeting, the outcome of which will be considered by the thirteenth session of the Commission on Sustainable Development (CSD-13).
3. The present report is based on data and information drawn from various sources, including but not limited to the United Nations system, national and regional information, other international organizations and major groups and other sources as cited in the report. UN Habitat, UNEP and ILO, as well as the World Bank and the United Nations Regional Commissions in particular provided essential inputs.
4. This report should be read in conjunction with the other Reports of the Secretary General to CSD-13 dealing with freshwater and sanitation, in view of the inter-linkages which exist among these major themes and the cross-cutting issues which are common to them all.

## II. Housing, tenure security and urban land management

### A. Housing the urban poor

5. The formal housing market in many developing countries and countries with economies in transition, often in the context of weak housing policies, does not generally meet the housing needs of the urban poor, forcing them into informal settlements with shelter conditions that violate land development regulations and housing construction codes. Rapid urbanization, economic growth and, in some cases, financial globalization have, in many cities, made land acquisition costs for building affordable housing prohibitive for the landless urban poor including new migrants from poorer rural areas.
6. While in some countries publicly owned construction companies are still involved in building low-cost housing, in most the public sector has left the housing construction field to private companies. Housing is not a public good; its construction does not enjoy economies of scale. The housing construction business is in most countries a highly competitive one. The most appropriate role for governments in this sector is to facilitate access to housing by low-income households, particularly by supporting the development of financial institutions that provide

affordable housing finance. Government mortgage lenders are one option; other options include partial equity grants or targeted interest rate subsidies on commercial housing loans to low-income households. Government also plays a crucial role in financing investment in public infrastructure (roads, electricity, gas, water and sanitation) to support low-cost housing development.

7. Governments have at their disposal a number of policy instruments to address demand-side and supply-side constraints that limit access to decent housing and constrain housing improvement. On the demand side, those instruments include tenure security provisions; laws and regulations protecting property and inheritance rights, in particular for women; well-targeted and transparent subsidy schemes that are of affordable scale; expansion of healthy and competitive mortgage lending institutions; and establishment or strengthening of innovative arrangements to improve access of the urban poor to finance. On the supply side, instruments may include removing overly restrictive land development and house-building regulations; improving construction standards and building codes; promoting the production and use of local construction technologies and building materials; and creating a competitive environment in the housing construction sector.

8. Priorities among policy instruments available to Governments will vary among countries depending on specific conditions and target groups. Experience, however, confirms the usefulness of a combination of policy instruments that address supply- and demand-side constraints at the same time. In China, for example, in order to facilitate access to affordable housing for families with limited income and savings, authorities have combined fiscal incentives for real estate developers in the form of tax reductions or exemptions to provide housing within a negotiated price range, and once-in-a-lifetime equity grants for people living in sub-standard housing to facilitate home ownership. Grants are based on the market value of the existing housing of these people.<sup>1</sup>

9. Evidence also suggests that policy instruments work best if supported by an institutional framework that guides and oversees the performance of the housing sector as a whole, provides a platform for effective interaction of public and private sector actors and community-based organizations active in meeting housing needs, and ensures that housing policies and programs benefit the urban poor and elicit their participation.<sup>2</sup>

10. Faced with the prospect of further growth of slums and informal settlements, many Governments have recognized the need for integrated strategic approaches to the provision of affordable, secure and sanitary shelter, with pro-active housing policies and programs that seek to avert further growth of slums and informal settlements and policies to improve the shelter situation in existing slums, including in the context of slum upgrading programs.<sup>3</sup>

11. A pro-active policy of acquiring low-cost land on the urban periphery to set aside for future development of housing affordable to low-income households is an option Governments may wish to consider. If low-income housing is built on the urban periphery, it is essential to ensure that residents of such peri-urban communities are connected to the water, sanitation and energy infrastructures, have access to an adequate system of solid waste collection and safe and sanitary disposal, and are provided with adequate public transport links facilitating access to employment and social interaction.

12. In many cities, Governments and municipalities are large landowners. Long-term planning can help to identify spaces becoming vacant in the city centers like old industrial areas, military facilities, docks etc. After reclamation of such areas, they can be used for housing development, with some or all plots reserved for low-income housing.

13. Serviced land for sheltering the urban poor may be secured from private land markets, through, for example, land sharing, land pooling and land banking. Land sharing is a practice that allows land owners to develop a portion of the land more intensively than permitted by normal regulations in exchange for allocating other parts of the land for sheltering slum dwellers already residing in the area. Land pooling engages a number of private landowners in an urban fringe area in a partnership for developing and servicing their lands in an integrated manner, thus reducing their development costs. The development of basic infrastructure and the provision of basic urban services for the area can be financed through the sale of some plots, which can be purchased by the Government and allocated to the construction of low-income housing. In the case of land banking, Governments acquire open land from the land market well in advance of assessed future housing demands, and hence at relatively low price, and hold it for low-income housing as demands grow.

14. Whether pursuing land pooling, sharing or banking, public authorities engaged in these activities need to have good knowledge of the functioning of land markets and the capacity to make informed decisions and administer implementation processes. Decisions should be made on the basis of sustainable city development strategies or plans that identify medium- and long-term land-use and housing requirements.

15. Self-help shelter improvement is an important option in slum communities to fulfill the housing needs and preferences of their residents within the limitations of their budgets. Community housing initiatives, often organized through associations of slum dwellers, were most successful if explicitly recognized by national Governments and municipalities in their slum upgrading programs and poverty reduction schemes and supported by investment in infrastructure and the provision of basic services, including water and sanitation, in combination with measures to secure land and housing tenure for slum dwellers and create employment opportunities. Experience also suggests that Governments may consider leniency with informal land subdivisions, standards and requirements for installation of infrastructure and accept the principle of gradual housing and community improvement. Stronger recognition by the formal banking sector of slum communities as potential customers could open new avenues for slum dwellers to access credit. One option could be to develop finance products suitable to the housing needs in slum communities, in connection with the development of appropriate risk sharing mechanisms that would reduce the cost of lending. (*Issues related to housing and infrastructure finance are addressed in section V of this report as well as in the finance section of the companion reports on water and sanitation*)

16. Community banks of construction materials have played a useful role in community-based self-help shelter improvement, e.g., in some Latin American countries. Construction materials can be locally purchased, and bulk purchases can be made directly from manufacturers and distributors. Such facilities can also provide opportunities to trade work for materials and can be a vehicle for capacity-building and technical training. Technical assistance centers set up at the local level have also proven useful in responding to the needs of slum dwellers in the

different phases of housing improvement and community upgrading processes. According to World Bank experience, such centers could assist in accessing durable building materials, the use of construction techniques, matters related to fiscal management, and the establishment of community savings schemes.<sup>4</sup>

17. Rental housing has an important role as a form of affordable housing for the poor and may be especially well-suited to the needs of newly formed households with small children, whose accumulated savings and current savings capacity may be limited. Expanding the supply of affordable rental housing may require large investments, suggesting the need for mobilization of private sector investment. This, in turn, requires an appreciation of the basic financial principles that motivate private sector investment in rental housing and of the barriers that must be overcome to increase that investment. The essential policy challenge is to reconcile two core objectives: a reasonable rate of return for investors and an affordable rental level for low-income households. If, for example, private investors are to assume market risks relating to changes in the capital value of the dwellings and subsequent changes in the rental yields, they will demand to be compensated for them through a risk-adjusted rate of return. This, in turn, may necessitate government rental subsidies to low-income renters to maintain their affordability of rented dwellings.<sup>5</sup>

#### B. Security of tenure and access to land

18. Insecurity of residential tenure has many negative consequences. Living in informal housing situations on illegally occupied land – private or public – makes slum dwellers extremely vulnerable to the threat of eviction. In addition, informal settlements are generally not eligible for public infrastructure or services as water supply, sewer, power and public transport. Residents of slums and informal settlements are often denied the right to participate in public decision-making processes that have a direct impact on them. In addressing security of tenure and access to land, the situation of residents of informal settlements located on river banks or wetland, near factories or waste dumps, or in other areas that are undeveloped because of vulnerability to natural disasters, health hazards or safety factors deserves special attention.

19. Policy interventions by public authorities to provide security of tenure, infrastructure and services on illegally occupied land may be politically sensitive as it could be interpreted as de facto recognition of their legal status of the residents, which may in turn encourage further illegal land occupation. Yet, without regularization, slum-dwellers are reluctant to invest in improving their living environment and service providers are reluctant to assume the risk of investing in infrastructure. Such issues can only be addressed on a case-by-case basis depending on the political and economic context.

20. The pro-poor land act adopted in Belo Horizonte, Brazil, is an example of how a municipality seeks to remedy this predicament. Based on enabling legislation at the federal level, the local authority suspended and relaxed, on a temporary basis, relevant laws, by-laws and standards in order to facilitate improvements and land tenure regularization. This enabled negotiations to take place among public authorities, service providers and slum dwellers to establish a plan for the improvement and regularization of the settlements. Once approved, the plan becomes a legal instrument enabling public intervention. It also empowers slum dwellers to invest in improvements, to comply with agreed codes and standards and, ultimately, gain legal

recognition and title deeds.<sup>6</sup> Other cases in point are India, the Philippines and South Africa, which have adopted legislation that not only protects people from forced eviction, but also ensures that they are relocated only as a last resort and in that event are entitled to affordable shelter and basic services. In Africa, a number of countries are giving legal recognition to already existing customary tenure systems and transferring control over access to land to customary institutions.

21. Promoting flexible land tenure arrangements is another option that has been successfully applied. Namibia and Sri Lanka, for example, use block titles to entire sections of informal settlements. These block titles enable city authorities to incorporate parts of the city that were previously excluded and begin the process of registering, and eventually titling, individual holders of land within these blocks. Legislating other flexible alternatives such as permanent or temporary occupancy rights, lease agreements, community land trusts, or protection against unlawful eviction are also options that Governments could consider to improve tenure security and access to land. These arrangements can be attractive because they do not place heavy financial demands on local government authorities.<sup>7</sup>

22. Legislation must be backed up by measures such as advocacy and awareness-raising campaigns to educate public officials, the courts and private developers that eviction should be only used when absolutely necessary, e.g., when slum communities reside on dangerous or unhealthy locations (e.g., in disaster-prone areas, along railway tracks, or on garbage dumps) and when alternative housing arrangements can be made. Those measures may yield best results if there is strong leadership and determination on the part of Government authorities, supported by non-governmental organizations and organized movements of the urban poor. As demonstrated in various countries, there is also a need to raise awareness of the importance of acquiring secure tenure. Poor people who live in slums may perceive the risk of eviction to be negligible or feel that the benefits of such documentation are not a sufficient incentive to meet time-consuming and often bureaucratic requirements.

23. When formulating or implementing an urban land tenure policy, it is important for Governments to consider that tenure issues cannot be isolated from other related policies of urban land management and city development. Tenure should be seen as part of a package of policy measures intended to improve the efficient and equitable use of urban lands and, at the same time, improve the living conditions of the urban poor. It is vital to build on tenure options that have worked well and proved to be an incentive for people to invest their own labor and savings. It is also important to offer a range of tenure options, including ownership and rental options, so as to meet the diverse and changing needs of communities and households on a long-term basis.<sup>8</sup> Policies aimed at improving security of tenure and access to land should emphasize women's equal rights to ownership and inheritance, as reflected in UN Habitat's Global Campaign for Secure Tenure.

### C. Land use, urban planning and transport

24. Pro-active land management and urban planning are essential tools for sustainable city development. Such development requires a coherent policy approach to land-use, housing, environment, and transportation as well as cooperation among the responsible institutions. It also suggests integrating urban-rural linkages into national and urban planning processes.
25. Planning for the future of cities requires an efficient land administration, which can mediate among competing interests for urban land and make informed decisions on the use of land. The costs of technology, equipment and skilled human resources required for running an efficient land administration can be considerable. Governments or local authorities operating on tight budgets can consider a progressive expansion of land administration capabilities as technology and equipment are acquired and required human resources trained.
26. The quality of the planning processes depends, to a great extent, on the availability of up-to-date and accurate data and on the ability of planners and decision-makers to use them for informed decision-making. This requires access to modern tools for data processing, including through networking of national and international data and information systems and sources.
27. In some cases, municipalities have experimented with new land planning and management tools, such mixed-use zoning and variable area ratios of serviced land, transfer of building rights without transferring land ownership, and environmental protection zones.<sup>9</sup> Administrative “one-stop shops” in which all the necessary administrative procedures are conducted can help reduce the cost and time spent on the administrative procedures for land-use development.
28. The coordination of land-use and transport planning to encourage spatial settlement patterns that facilitate access to workplaces, urban services, schools and health care and promotes social inclusion, thereby reducing the need to travel, is an important component of sustainable city development planning. Experience has shown that good results can be achieved with a flexible master plan that encourage the use of an optimal combination of modes of transport, including public means of mass transportation, private cars, cycling and walking, through appropriate pricing, spatial settlements policies and regulatory measures.
29. The cities of Curitiba in Brazil, Cuenca in Ecuador and Bogotá in Colombia, for example, demonstrated that employing a mass transit, bicycles, and pedestrian-oriented urban planning design, in combination with a well-functioning public transport infrastructure and land-use management system, can contribute to a shift from private motorized transportation to alternative transportation modes, thus reducing air pollution, congestion and accidents.<sup>10</sup> The Partnership for Clean Fuels and Vehicles, for which UNEP is hosting the Clearing House, is actively supporting developing countries in switching to the use of clearer fuels and cars, through technology exchange, technology transfer and capacity-building.<sup>11</sup>
30. In most large cities of the developing world, the informal transportation sector provides reasonably reliable and affordable transport and delivery services, especially for informal settlements. It is an important source of employment and income, particularly for new migrants to the city. On the other hand, the informal transport sector poses major challenges to



sustainable city development. The vehicles are often old, highly polluting and unsafe, and operators usually have no insurance to cover injuries or damage. Intense competition in the unregulated informal transport sector may cause aggressive driving, and competition with formal public transit may reduce the economic viability of the formal system. Some cities are addressing these problems by licensing and regulating the informal transport sector, setting vehicle standards and insurance requirements, banishing pedi-cabs or other small, slow vehicles from major streets, limiting the number of vehicles, and establishing waiting and loading points off the busiest streets.<sup>12</sup>

31. Decisions on integrated land-use and transport development seem to yield best results if planned with the active participation of municipalities and community organizations and implemented at municipal level. As demonstrated by many European countries, decentralizing responsibilities for urban transport to municipalities, together with the decentralization of revenue-raising power, has proven an area of policy success in the development of transport systems that are contributing to sustainable city development. Policy interventions by national Governments or State/provincial government authorities are crucial to provide an enabling framework for municipalities to act, including assignment of legal, investment, and land and property taxation authority.<sup>13</sup>

#### D. Participation and partnership for housing and urban services provision

32. Many city authorities have recognized the importance of bringing community-organizations directly into the planning process and including the private sector and other non-governmental stakeholders in service delivery schemes. In some cases, municipalities tender service delivery contracts to community-based organizations and non-governmental organizations, recognizing that services are more likely to reach the urban poor through these channels. Where the formal business sector is providing water, sanitation and other infrastructure services, municipal authorities can subsidize services to poor households or require cross-subsidization by the private operator.

33. Expanding and upgrading services for the urban poor from small-scale service providers is another important option to pursue, in particular for the provision of water and sanitation services to low-income urban households living in areas difficult to service with conventional water distribution and sewerage networks. These providers generally operate without subsidies and with prices and services that compare favorably with official providers. There is increasing evidence to suggest that, in many locations, in particular smaller settlements and peri-urban areas, working with and through such providers can be a cheaper, more effective way of improving and extending provision for water and sanitation than conventional public sector provision or reliance on large-scale private companies.<sup>14</sup> (*Policy options and possible actions to improve access to water and sanitation services are presented in the Secretary-General's reports on water and sanitation.*)

34. Public-private partnerships can be a promising tool for meeting the needs of the urban poor for housing, public transport, water, sanitation and other urban services. Important features of this type of partnership are that, on the one hand, the private sector partners may need to accept social responsibility for working in areas involving lower profit margins, and, on the other

hand, public sector agencies involved need to become more market-sensitive, with a better knowledge of the operation of land and housing markets and of the role of risk-sharing.

35. In order for public-private partnerships to work effectively, they require a transparent, equitable and flexible regulatory framework, including provisions for incentives for the private sector. Experience shows that, for example, service charges and subsidies can have a decisive impact on the ability of private service providers to reach the poor. Performance-based subsidies can induce private operators to finance initial investments and have a positive effect on service delivery reaching a greater number of the poor.<sup>15</sup> Providing tax incentives can encourage private sector mortgage finance institutions to go down-market.<sup>16</sup> Because of the diversity of private sector involvement in urban services provision, from the small vendor to the large company, and because of the diverse needs of users, partnerships need to be based on a real understanding of the local context to be able truly to contribute to meeting the needs of the urban poor.

36. Improved service delivery to the poor would greatly benefit from the involvement of civil society groups and community-based organizations in public-private partnerships. These organizations usually have gained valuable experiences in delivering services to low-income segments of society and also have reliable information at hand with regard to the circumstances and actual needs of the poor for housing and associated services.

### III. Developing a policy environment supportive to employment and enterprise development

37. Many cities in developing countries are facing the challenge of devising strategies and policies that increase the cities' productivity while supporting pro-poor economic growth. This essentially implies integration of a number of key elements in cities' strategic planning for economic development and poverty reduction, including a coherent policy framework, with policies and regulatory instruments that help increase productivity of existing enterprise, creates new entrepreneurial opportunities, improves access of the urban poor to productive resources and market opportunities, and creates labor-intensive jobs. Pro-poor urban economic growth needs to recognize the contribution of the informal sector to economic development and employment.

#### A. Employment in construction

38. Adoption of labor-intensive methods in construction and infrastructure development can contribute to the provision of much needed services while providing employment opportunities and building the capacities and skills of the low-skilled unemployed urban work force. Employment-intensive and local resource-based techniques can be applied to a wide range of infrastructure works, including road and side-walk construction, small bridges, drainage systems, on-site sanitation, water supply and sewerage reticulation, land development, electrification and other construction. They can also be applied to the collection of solid wastes.

39. Experience in many countries shows that explicit pro-employment choices can yield high payback levels, at equal cost, including high job-creation, development of local skills and small-scale contractors, import substitution through use of local resources, and easier maintenance. Labor-intensive methods are particularly well-suited to infrastructure solutions in densely built-up slum areas. The challenge is to bring them to scale, with national and city authorities routinely giving preference to labour-based and local resources-based technologies whenever such options

are cost-efficient and technically feasible.<sup>17</sup> Technology transfer, both from developed to developing countries and among developing countries, relating to construction techniques, materials and standards can promote construction practices that maximize economic, social and environmental benefits of new construction.

40. The procurement system is a practical instrument in the hands of municipalities that can be used to promote employment under decent working conditions, as well as other social and environmental objectives. Local authorities can give preference to small local businesses in contracts for the provision of basic urban services. Experience shows that the tendering process for public works and services can foster more entrepreneurial development if works are tendered as a series of smaller contracts, accessible to local contractors through simplified tender documents.

41. Community contracting has been used as a form of pro-poor procurement, whereby a community group enters into a contractual agreement with local government to undertake works that improve local living conditions. In particular, the combination of community contracts with labor-based approaches presents many advantages in terms of community empowerment, job creation and income generation, as well as capacity-building and partnership development.<sup>18</sup> Such arrangements furthermore create a sense of ownership and civic pride, internalize profits, and improve transparency in the use of municipal resources.

#### B. Promoting the development of small enterprises

42. Local authorities can play an essential role in the design of appropriate policies to support the development of small enterprises, including through well-crafted and transparent regulatory framework, facilitating access to production assets and utilities, and the formalization of informal employment. In particular, local authorities can play an important role in supporting small enterprises to comply with labor laws and safety standards. Recent research by the ILO shows that small enterprises which comply with registration requirements create more employment over time than those that do not comply. The costs of formalization, however, and the local tax burden are often prohibitive for many starting entrepreneurs. Simplification of registration procedure in a municipality in the city of Lima, Peru, resulted in a more than three-fold increase in enterprise registrations, from 1,100 to 4,000 between 1998 and 2000. The municipality cut about 45 bureaucratic steps to 12, reducing processing time from 70 days to just one. In addition, the municipality established a business advisory office that assists an average of 2,500 clients a month.<sup>19</sup>

43. To support the development of small enterprises, more emphasis can be given to raising awareness on the benefits of compliance with laws and regulations and providing technical assistance, than to imposing fines for failure to comply. Compliance offers practical benefits to small-scale enterprises by increasing their access to support and services. Active involvement in policy reviews or reforms of those directly affected can mobilize support for policies and result in higher levels of compliance.

44. For many micro and small businesses, a key challenge is to gain access to formal credit markets so as to avoid paying the high interest rates prevalent in informal markets. The market for micro and small-scale enterprise finance is generally characterized by relatively high

administrative costs, which can be addressed by innovations in financial services, changes in the institutional infrastructure, and policy reforms. Policy-makers can address the under-supply of small-scale financial services by promoting locally based private-public banks, relaxing collateral requirements, and offering loan guarantees or interest rate subsidies.

45. In addition to easier credit access, small enterprises would also benefit in terms of efficiency and productivity from improved access to technology, training, and public utilities, including electricity, water, sanitation, and telecommunications. Given the public good nature of much information on technologies and markets, governments and local authorities may wish to provide support to information acquisition and dissemination efforts on behalf of small enterprises. The internet can greatly facilitate this process.

46. Micro-enterprises operated from home are, in many instances, the only source of income for workers in the informal sector. People operating such businesses would benefit from health care services and training on health and safety measures provided by public authorities. Also, policies can be developed to allow street trading while assuring public safety and mobility. As a general principle, policy interventions should be guided by the recognition of the value of street trade for the poor both as source of income and opportunity for purchasing goods at low prices.

### C. Addressing the employment needs of special groups

47. Persistently high urban youth unemployment has continued to plague many cities in developing countries, compounded by continuing rural-to-urban migration. Urban youth need to be actively, consistently and positively engaged in city life. Education, vocational training to develop business skills, apprenticeships, and mentoring are useful means to improve access of urban youth to job opportunities and provide a basis for matching skills to demands in urban labor market.

48. Assisting young men and women in starting new businesses is a good investment in the future. Financial, managerial and technical support is of particular importance in the start-up years of new businesses. The more support young entrepreneurs receive during that time, the better are their chances for building sustainable and prosperous businesses in the years to come.

49. Reaching young women and addressing their special needs and situations deserves particular attention. Special assistance programmes may be needed to facilitate the development of local entrepreneurship among the many poor women who work in the informal sector, but face limited entrepreneurial opportunities. Such programmes can include access to small loans on favorable terms, special training on market access and business counseling. Organisations of women workers in the informal sector to represent their members in consultations or negotiations with local authorities can be useful.

50. The city of Cotonou, Benin, for example, has pursued an integrated approach that combines financial and non-financial assistance. Based on existing savings and credit systems, a mutual guarantee fund was established offering loan facilities for groups of women entrepreneurs. Capacity building for associations and collective initiatives underpinned the approach. A self-managed common facility centre was established with the support of the municipality, benefiting more than 2000 women directly. The groups now have well-functioning

relationships with local banks and the municipal authorities. Their success and visibility has led to the replication of the approach in other cities in Benin.<sup>20</sup>

51. The Amhara administrative region in Ethiopia offers another good example. There, women micro-entrepreneurs' associations organized a pilot trade fair, exhibiting their products in a central location in town. The commercial success – the sales of the day represented more than regular monthly turnover – has sparked a rapidly growing interest in adhesion and membership contributions. In consultation with the city authorities, one of the central road junctions has now been designated for regularly holding trade fairs.<sup>21</sup>

52. In some Latin American countries, community child-care programs have gained increasing popularity among working parents, especially single women.<sup>22</sup> Women from the concerned communities take care of a number of neighborhood children in their homes. Parents and local authorities share the cost of supplies and salaries of the day-care providers. Food donations are often provided for feeding the children. Basic hygiene education is an integral part of the daily activity schedule of the children.

#### IV. Mobilizing financial resources

53. According to UN Habitat, multilateral and bilateral international assistance for housing and urban infrastructure is less than \$5 billion annually, and less than 20 per cent of this amount is for slum upgrading. Whereas business sector investment in infrastructure increased rapidly during the 1990s and totaled more than \$750 billion over the 1990 – 2001 period, only a small proportion, less than 5 per cent, is directed to slums and other types of informal settlements. The cost of achieving the Millennium Development Goal (MDG) Target 11 – improving the lives of at least 100 million slum-dwellers by 2020 – is estimated at between \$70 and \$100 billion.<sup>23</sup>

54. External financing, however, can at best cover a small portion of the financial resources required to meet the needs of the urban poor for housing, infrastructure and urban services. Remittances from overseas workers can also be a significant source of finance for housing.<sup>24</sup> Nevertheless, domestic capital, public and private, remains the main source to be tapped, in spite of continuing problems in mobilizing such resources in poor countries.

55. The poor have a variety of financial needs (e.g., working capital for micro-enterprises, remittance and payment services, insurance, loans for housing, school fees and emergencies), and such a broad range of financial needs cannot easily be met by any single type of financial institution. Thus, an important objective of public policy would be to encourage “inclusive finance” through the development of financing institutions and financial products suitable to the requirements of the poor.

56. Traditionally, development banks, postal banks, farmers' banks, or other public banking institutions have been an important source of credit for the poor. In many instances, they act as intermediaries to channel loans from multilateral development banks or donors to development programmes and projects whose beneficiaries include poor people. More recently, community-based organizations and micro-finance institutions have taken on a more prominent role in providing financial services to the poor.

## A. Promoting community-based approaches to the financing of infrastructure and housing

57. Community-based organizations have registered notable successes in the areas of housing development and services such as health, water and sanitation at the community level. Savings and loan activities are a central function of many such organizations, drawing people together on a regular and continuous basis to make decisions on lending to meet their members' individual and collective needs. The process educates participants on the management of the community's investments and on access to external sources of finance. These savings and loan activities can be instrumental to meeting the needs of communities for improved housing, income generation, social welfare, emergency credit, and environmental improvements.<sup>25</sup>

58. Networking among community-based organizations can facilitate exchange of experience, improve access to larger financial resources with greater opportunities for risk pooling, and enhance negotiating power vis-à-vis external agencies. Networking can also lead to creation of a common fund, as suggested by experience from several Asian countries.<sup>26</sup> These networks have begun working with municipalities and other local organizations on issues crucial to the lives of the members, such as citizens' rights, housing, welfare, community enterprises, and community environment and health.

59. With regard to housing loans, although a certain scale is achieved by forming a network, such a network still often needs external funds to provide adequate finance for the poor. In addition, for many poor communities, it is difficult to finance both land acquisition and housing development. Thus, Government may be able to provide land to community groups, which would then borrow collectively to finance housing development. Revolving funds, in some countries, have supported large-scale improvements in housing for the urban poor and associated infrastructure. It is important that such funds be managed in a participatory manner, so that the needs of the users are reflected in the terms and conditions of lending.

60. Community savings programmes for housing have been used successfully, with individual savings pooled into a legal trust, thereby providing a mechanism to attract additional financing, protect against default, and receive subsidies. Funds can be used for locally purchased building materials, labor, or down payments for land purchases.

61. From the perspective of the donors, one way to increase the proportion of funding that directly reaches people in poverty is by channeling support through a local fund.<sup>27</sup> Experience shows that community involvement in the management of such funds has been successful, resulting in an allocation of funds that reflects the needs of the communities.<sup>28</sup> This type of locally-managed fund for community initiatives tends to work best in cities or city-districts where there are already effective, representative community organizations or local, broad-based NGOs.

62. Community-based organizations tend to approach housing problems in an integrated way, simultaneously addressing community infrastructure and services. However, there is still a need to connect these initiatives to the provision of large-scale infrastructure and services, such city-wide sanitation systems or solid waste management.<sup>29</sup> Donors could complement their

contributions to local funds by supporting links from local communities to wider infrastructure and service networks.

#### B. Promoting and scaling-up micro-finance schemes

63. As demonstrated in many countries, micro-finance is a promising financing mechanism that is well suited to the characteristics of the informal sector and has gained prominence as a source of finance for poor people.<sup>30</sup> Micro-finance institutions have developed to respond to certain financing needs of the poor, in particular for short-term working capital loans to start up or expand small businesses.

64. In recent years, there has been some diversification of micro-finance towards supporting the incremental investments of the poor in home improvement, in part reflecting the dual function of many poor people's homes as places of business. More than 40 programmes have been identified in Asia, Latin America and the Caribbean and Africa by various studies.<sup>31</sup> In some cases, these programs have developed as an extension of micro-finance for small-scale enterprises, reflecting the dual function of houses as shelter and work place. In other cases, housing micro-finance institutions have been developed out of community advocacy groups for shelter provision.<sup>32</sup>

65. There are, however, limitations to the actual financial capacities of micro-finance institutions. Successfully expanding small-scale enterprises may need growth capital beyond what micro-finance institutions can offer, but may have difficulties in accessing bank financing. Depending on the degree to which bank and capital markets are developed, public development banks or private banks can play a significant role in financial intermediation and liquidity generation. In Latin America and the Caribbean, guarantee funds for small businesses help small- and medium-scale enterprises gain access to bank financing. Credit scoring systems are another alternative for making bank loans less costly and more readily available to these enterprises.<sup>33</sup>

66. The amount of financing available for housing micro-finance remains far from satisfactory to meet the demands of an ever growing urban poor population. There is a need to scale up micro-finance for housing to be able to reach a wider population requiring such services. These institutions are still not well suited to provide longer-term and larger-scale finance needed for home purchase or purchase of costly capital equipment, though it is possible that they could evolve in this direction. Commercial banks and housing financial institutions can also make an important contribution to financing poor households, by moving down-market from their usual upper and middle-income customers.

67. In order for micro-finance institutions to grow and diversify, policies and regulations may need to be adjusted to better respond to the needs of these institutions. In addition, the provision of micro-finance is greatly enhanced by a clear, transparent and equitable subsidy regime and the promotion of linkages between savings, subsidy and credits. By forming networks among micro-finance institutions, they can constitute an effective lobby for policy change to support expanded financial services to the poor.<sup>34</sup>

### C. Developing market-based financial instruments and institutions

68. The combined effect of decentralization and rapid urbanization has confronted cities with an even greater need to improve the provision of basic infrastructure and to mobilize resources for this purpose. Often, having to cope with smaller transfers from the central government and competing claims for scarce budgetary resources, local governments are facing large resource gaps for infrastructure investments.

69. Many developing countries have established municipal development banks to assist local governments in financing investments. Some of these banks administer pools of loans from multilateral development banks and government sources, while others serve as a bridge to private credit markets, borrowing on domestic or foreign markets, mostly with central government guarantees, and on-lending to local governments. With the maturation of the financial sector, these development banks can be made more market-oriented, raising long-term resources on private credit markets and offering a wide range of financial services geared to the needs of local governments. They can compete with other financial institutions based on their competitive advantage in the knowledge of the local government sector. Municipal development banks may be able to mobilize long-term debt on private markets for on-lending for priority local infrastructure investments.

70. Municipalities with good financial standing and track records, and with a favorable credit rating and a solid project proposal, have a good chance of meeting some of their investment needs by tapping local bond markets.<sup>35</sup> Local governments can issue “general obligation” bonds backed by their taxing power, or “revenue” bonds secured by the earnings of specific projects, such as water supply and highways, for which the bonds are issued.

71. With regard to financing through municipal bonds, the challenge is to expand the funding pool for local governments by tapping private individuals’ and institutional savings. The development of domestic municipal bond markets should go hand in hand with efforts toward improvements in the municipal revenue base and in the institutional framework within which municipal services are delivered. Effective mechanisms to diversify and transfer risks are also necessary.

72. Municipal authorities planning to issue bonds may need to reach out for credit rating by a recognized rating agency. Bond guarantees – whether from the central government or from an international financial institution – will increase the chance of successful financing, but these need to be used sparingly. Coordinated efforts involving commercial banks, debt underwriters, institutional investors, bond insurers, utility operators, rating agencies, regulators, and central and local governments need to be directed to creating the conditions for the development of domestic credit markets for local infrastructure finance.

73. Municipal development banks and bond markets are not mutually exclusive; indeed, they play complementary roles, providing local governments with different options to fund infrastructure and other investments. While local governments with a good financial record may be able to tap the domestic municipal bond markets directly, others are likely to rely on the pooling capabilities of financial institutions to mobilize long-term credit.<sup>36</sup>



#### D. Technical and financial assistance

74. Efforts of developing countries to mobilize domestic financial resources could be supported by international development partners. Bilateral development agencies and regional and multilateral finance institutions can assist in areas of financial sector development and capacity building in financial management, while municipalities and local authorities may need particular support in capacity-building for managing funds, revenue collection, and tendering contracts to private service providers. Multilateral development partners can play a crucial brokering role, bringing together both development and financial partners, and field-testing financial mechanisms that mobilize domestic capital for urban development. Assistance in adjusting the regulatory frameworks to reflect conditions in domestic and international capital markets may also be required.

75. Grant support, equity investments and loan guarantees are some of the specific forms of financial assistance that can, preferably in combination, mobilize domestic capital in favour of human settlement development and slum upgrading. Non-governmental organizations may be primary candidates for grant support, particularly those that support income-generating activities of slum-dwellers and urban poor organizations. Equity investment in micro-finance institutions is extremely useful as it strengthens their capital base and helps them build loan portfolios over time. This is particularly true for institutions that seek to diversify their lending portfolios beyond small-business to include home improvement and tenant buy-out schemes. Loan guarantees, like equity investments, can leverage additional capital for small-business development, housing improvement and slum upgrading. They reassure lending institutions that the guarantor will meet the obligations if the borrower fails to repay. Such an assurance can motivate lending institutions to grant more loans than perceived or actual risk would otherwise justify. Alternatively, guarantors can underwrite bonds issued by cities and local authorities to finance infrastructure.<sup>37</sup>

#### V. Moving ahead: towards a framework for action

76. New approaches to the planning and development of human settlements are required that integrate urban planning, housing development; delivery of safe drinking water and sanitation services, solid waste management, education and health care services, transportation, and employment and enterprise development. While there are many examples worldwide demonstrating the impact of local policies and programs on reducing urban poverty, the challenge is to find solutions to avert the growth of slums and informal settlements that work at city- and nation-wide scale. Economic, social and environmental interdependence between rural and urban areas requires an approach to sustainable human settlements development that is both balanced and mutually supportive.<sup>38</sup> Where slums and informal settlements host the majority of the rapidly growing urban population, sustainable city development cannot be separated from slum upgrading and slum integration into the wider urban economy.

77. Pro-poor policy interventions by Governments and municipalities seem to be most effective if supporting community-based programmes or strategies. Experience shows that the most powerful examples of slum upgrading have been at the community level, where organizations of slum dwellers, e.g., in the form of village councils or slum dweller associations, have built their own capacities to improve their homes and neighborhoods. Recognition by

policy-makers of the urban poor as agents of change has proven invaluable in empowering the poor to emerge from the vicious cycle that traps them in slums and to forge partnerships with local authorities in implementing pro-poor, community-based programmes.

78. Full participation of all relevant stakeholders in decision-making and implementation is an important learning process. Governments and local authorities will have to assume the lead in setting the rules to enable the various stakeholders involved to play the roles that provide the best results in partnership. Lasting partnerships require time for the stakeholders to know and trust each other and to learn to work in concert.<sup>39</sup> For that to happen, government authorities would need to build their own capacities to communicate to their partners the main principles of participation and inclusive decision-making. Enhanced cooperation and coordination among United Nations agencies and with other bilateral and multilateral development agencies could create a solid basis for more effective assistance to Governments and local authorities in building such capacity.

79. Gender equality remains a particular challenge in most countries. Even in countries where enabling legislation for gender equality exists, social and cultural circumstances often prevent women from having full and equal access to land, housing and property.

80. Mobilizing the full potential of domestic capital and attracting financial means from external sources for expediting implementation of the human settlements goals and targets contained in Agenda 21 and the JPOI, including MDG Target 11, require a coherent macro-economic policy framework and laws and regulations that are conducive to sound financial management. At the international level, increasing ODA to the levels needed to improve housing and urban services to the poor and to achieve MDG Target 11 remains an essential and continuing challenge, and so are considerations of practical ways to ensure that ODA leverages domestic financial resources for sustainable human settlements development. Recent commitments by donors to increase ODA, including those made at Monterrey, and commitments to support developing countries in meeting the MDGs could increase the resources available for sustainable human settlements development.

## Notes

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- <sup>1</sup> *Dialogue on urban resources* (UN Habitat dialogue paper), Second World Urban Forum, September 2004 (HSP/WUF/2/7).
- <sup>2</sup> Stephen Mayo, *The do's and don'ts of housing policy* (World Bank paper), April 1994.
- <sup>3</sup> Background paper on human settlements prepared for the thirteenth session of the Commission on Sustainable Development (UN Habitat paper), November 2004.
- <sup>4</sup> *Brazil: Progressive low-income housing- alternatives for the poor* (World Bank Report No. 22032 BR), December 2002.
- <sup>5</sup> The Allen Consulting Group, *Better housing futures: stimulating private investment in affordable housing*. Report of the Affordable Housing Forum, 2004; See also: *Rental housing: an essential option for the urban poor* (UN-Habitat publication), 2003.
- <sup>6</sup> *Dialogue on the urban realities: innovative urban policies and legislation in implementing the Habitat Agenda and attaining the Millennium Development Goals* (UN Habitat dialogue paper), Second World Urban Forum, September 2004 (HSP/WUF/2/3)
- <sup>7</sup> *Dialogue on the urban poor: improving the lives of slum dwellers* (UN Habitat dialogue paper), Second World Urban Forum, September 2004 (HSP/WUF/2/6);
- <sup>8</sup> Geoffrey Payne, *Innovative approaches to tenure* (UN-Habitat Debate, vol.7, no.1), March 2001.
- <sup>9</sup> *Brazil Progressive Low -Income Housing: alternatives for the Poor* (World Bank Report No. 22032 BR), December 2002; *Municipal land management in Asia: a comparative study* (CityNet, United Nations), 1995.
- <sup>10</sup> <http://www1.oecd.org/cem/UrbTrav/Workshops/LandUse/LiGorham.pdf>
- <sup>11</sup> Background paper on environment and human settlements prepared for the thirteenth session of the Commission on Sustainable Development (UNEP paper), October 2004.
- <sup>12</sup> *Informal Transport in the Developing World*, UN-HABITAT, Nairobi, 2000.
- <sup>13</sup> *Implementing sustainable urban transport policies*. European Conference of Ministers of Transport, 2001.
- <sup>14</sup> *Dialogue on the urban poor: improving the lives of slum dwellers* (UN Habitat dialogue paper), Second World Urban Forum, September 2004 (HSP/WUF/2/9).
- <sup>15</sup> *Pro-poor regulation* (ADB Background paper), prepared for the ADB Conference on Infrastructure Development (<http://www.ppiaf.org/conference/docs/Papers/Regulation>).
- <sup>16</sup> Background paper on human settlements prepared for the thirteenth session of the Commission on Sustainable Development (World Bank paper), September 2004.
- <sup>17</sup> Background report on employment and enterprise development prepared for the thirteenth session of the Commission on Sustainable Development (ILO paper), September 2004.
- <sup>18</sup> This has been demonstrated, for example, by the Hanna Nassif Ward, Kinondoni Municipality, Dar as Salaam, Tanzania. See: Tournée, J. and Esch, W. van *Community contracting in urban infrastructure work: practical lessons from experience*. ILO, 2001.
- <sup>19</sup> *Mejores Prácticas Municipales en Desarrollo Económico Local*, PROMDE/ILO, Lima, 2002.
- <sup>20</sup> <http://www.ilo.org/seed>.
- <sup>21</sup> <http://www.ilo.org/seed>.
- <sup>22</sup> *What are the Policy Issues?* Labor Markets & Employment (World Bank publication), 2001.
- <sup>23</sup> *Dialogue on urban resources* (UN Habitat dialogue paper), Second World Urban Forum, September 2004 (HSP/WUF/2/7).
- <sup>24</sup> *World Economic and Social Survey 2004* (UN DESA publication), November 2004.
- <sup>25</sup> Somsook Boonyabancha, *Savings and loans: Drawing lessons from some experiences in Asia*. Environment and Urbanization, Vol. 13 No. 2, IIED, October 2001.
- <sup>26</sup> Good examples for the establishment of urban development funds for the poor exist, for example, in Thailand and Cambodia.
- <sup>27</sup> City Community Challenge Fund of the Department for International Development of the United Kingdom is one example; Swedish International Development Agency has programs in Central America

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and South Africa; Danish Cooperation for Environment and Development has assisted the Urban Community Development Activities project in Thailand.

<sup>28</sup> Jo Beall and Sanjiv Lingayah, *Interim external evaluation report on the C3F pilot programme*, January 2002.

<sup>29</sup> David Satterthwaite, *Reducing Urban Poverty: constraints on the effectiveness of aid agencies and development banks and some suggestions for change*. Environment and Urbanization, Vol. 13 No. 1, International Institute for Environment and Development, April 2001.

<sup>30</sup> According to the Micro-Credit Summit Campaign, as of the end of 2002, 2,572 micro-credit institutions reported that they have 67.6 million clients with an outstanding loan, 41.6 million of whom were considered among the poorest.<sup>30</sup> Of the latter, 79 per cent – or 32.7 million – were women. The number of the poorest reached has grown at an average rate of about 40 per cent per year since 1997. See: Sam Daley-Harris, *State of the micro-credit : summit campaign report 2003*, Micro-credit Summit campaign, 2004.

<sup>31</sup> For example: Harvard University Graduate School of Design/Development Alternatives Inc./USAID, *Housing micro-finance initiatives: Synthesis and regional summary, 2000*; The International Institute for Environment and Development (HiFi News, No. 9), September 2001; Cities Alliance, *Shelter finance for the poor series*, 2003.

<sup>32</sup> For instance, large organizations and federations formed by the urban poor and homeless in Cambodia, Thailand, India, the Philippines, Namibia, South Africa and Zimbabwe have usually grown out of local savings groups. These organizations not only provide housing and income-generating credits, they also lobby governments for making land, infrastructure and building policies more pro-poor. See: Celine d’Cruz and David Satterthwaite, *The current and potential role of community-driven initiatives to significantly improve the lives of ‘slum’ dwellers at local, city-wide and national levels*, August 2004

<sup>33</sup> Background paper on human settlements (regional prospective), prepared for the thirteenth session of the Commission, September 2004 (ECLAC paper); See also: Background report on human settlements prepared for the thirteenth session of the Commission (World Bank paper), September 2004.

<sup>34</sup> Consultative Group to Assist the Poor (CGAP), *CGAP phase III strategy, 2003-2008*, January 2003.

<sup>35</sup> Good examples where the gap has been filled, in part, by tapping municipal bond markets, include Ahmedabad and Tamil Nadu Urban Development Bonds of India, several municipalities of the Philippines, and Tlalnepantla municipality of Mexico. There is also a long history of bond issuance by municipalities and utilities in South Africa. A number of East European counties are also entering into the municipal bond markets.

<sup>36</sup> Samir El Daher, *Specialized financial intermediaries for local governments: a market-based tool for local infrastructure finance* (World Bank Infrastructure Notes), 2000.

<sup>37</sup> *Dialogue on urban resources* (UN-Habitat dialogue paper), Second World Urban Forum, September 2004 (HSP/WUF/2/7).

<sup>38</sup> Background paper on human settlements prepared for the thirteenth session of the Commission on Sustainable Development (UN Habitat paper), November 2004.

<sup>39</sup> Rosanna Nitti and Shyamai Sarkar, *Reaching the poor through sustainable partnerships: the slum sanitation program in Mumbai, India* (World Bank Urban Notes, No. 7), 2003.