

**"Promoting Affordable Housing financial systems in an urbanizing world in the face of global financial crisis and climate change" A paper presented at the Global Parliamentarians on Habitat for Africa on 20<sup>th</sup> August 2009 in Kampala.**

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Honourable members of Board of Directors of the Global Parliamentarians on Habitat

Honourable Margaret Zziwa President of GPH Africa and chair of the session

Honourable Speaker of Parliament of Uganda

Honourable Ministers,

Honourable Members of Parliament

Distinguished Guests,

Ladies and Gentlemen

I wish to express my sincere appreciation to the Global Parliamentarians on Habitat for helping us gather here today. To the distinguished members of the Board of Directors, your presence and support is vital to us in our quest for sustainable and harmonious cities.

This conference is very timely and it is taking place in the midst of the most severe financial and economic crisis in living memory. I must thank the organizers of this conference for their foresight in putting such a complex set of issues onto their agenda.

We have seen over the recent months an explosion of many of the world's economic problems, but this needs to be seen alongside the continuing problems of affordable housing and finance in African countries, which are not yet improving to meet demand.

The beacons of hope for the world's poor are not currently shining very brightly. But not all is lost – there are glimmers of hope everywhere, not least amongst the world's poor who are becoming recognized rightly for their ability to save, and to ensure regular repayments of loans. This thrift is now seemingly in short supply in the richer parts of the world.

UN-Habitat is pleased to be in a position to contribute positively to this debate. At the just concluded 22nd session of the Governing Council of the UN Human Settlements Programme, Financing Affordable Housing was the overall theme of the session and the subject of the central dialogue where Ministers, slum dwellers and practitioners were able to put their points of view collectively.

What is certain is that there is a major concern that 'finance', and by that we mean access to formal credit facilities, is becoming less affordable as a result of high interest rates, and the current nervousness in lending to the low-income housing market. Both of these factors have a major impact on the urban poor.

What is uncertain is when, if ever, this situation will change. Unfortunately there is a long history to the subject. The 'Habitat' international UN conferences of Vancouver 1976 and Istanbul 1996 did at least bring together the global concern for adequate shelter and housing provision. However, they did not bring about a timetable for concerted action.

The outcome of these conferences – the 'Habitat Agenda' - rightly put the issue of affordability and thus 'finance' as one of the key central challenges, together with an examination of the ways in which the global financial systems might respond to the growing gap between the housing 'haves' and the housing 'have-nots'. But even now the statistics are appalling – worldwide, some 1 billion people

are now living in sub-standard accommodation or 'slums', and this is currently on the rise - by some 25 million every year.

Reversing this trend does not mean trying to stop urbanization as such - urbanization brings many benefits to people in general, such as better chances of access to economic livelihoods, better chances of children gaining an education, and being part of the growing modern world. But how people are integrated into urban areas on a sustainable basis is indeed a challenge.

### **Ladies and Gentlemen**

In every country there have been long running debates about the ways in which the poorest can have access to at least some basic housing provision, be it affordable rented accommodation or a recognition that their own modest investments in shacks that can be improved over time is part and parcel of the modern city.

And yet housing is so central to the health of any economy that it is still amazing that there is so little attention paid now to the ways in which low-income housing can be integrated into the organization of our cities in Africa. If someone does not have a place to live he or she cannot contribute to the economy of the city.

This is where the importance of 'slums' comes into play. They are an important and unwittingly strategic part of the city economy, but they desperately need improvement in the context of a sustainable housing and housing finance strategy.

The availability of sufficient land for low-income housing, therefore, is the **first** essential component. It is amazing to many that in planning terms this requirement is likely to constitute over 50% of all the required expansion land of any city at any point of time, and this is a tall order for politicians.

But one that must be tackled if the world's poor are to have any hope of gaining access to better housing opportunities.

The **second** component is the servicing of this land with proper access and basic infrastructure – drainage, water supply and sanitation. This is most often a municipal responsibility, but one that also requires the central government's support.

And **thirdly**, the inhabitants need access to formal credit arrangements to mobilize their savings and to make their own investments in the future of the city.

This last point is the real issue that must be tackled decisively in the light of the current global economic situation.

Poorly regulated housing finance systems are directly related to the current global economic and financial crisis. At the core of the initial problem was a neglect to pay attention to the establishment of affordable housing finance systems by governments who in turn relied on people in private financial institutions whose interests were far removed from the housing needs of the poor. This led to the phenomenon of toxic debts that have in turn undermined the most valued ingredient of banking, namely trust.

I believe that there are several lessons that need to be learned in this debate. There is a need for global regulatory machinery that includes the issue of affordable housing finance

In a global world economy, we need globally responsive regulatory mechanisms and machinery. I may also observe that the current financial crisis shares a common trait with the climate change challenge. Those who contribute the least to the problem – those who live on less than two dollars a day – are likely to suffer the most and the longest. The negative effects are already tangible on the ground in the north such as housing foreclosures

and job losses rendering an estimated new 100 million joining the ranks of the world's poor!

A vision for a need for a global facility to assist in delivering housing to the poor is not a new idea. From the outset at the 1972 Stockholm conference on the human environment, the need to put in place global and national institutions for human settlements financing was discussed and agreed. It led to the creation of the Habitat and Human Settlements Foundation as a global shelter facility to assist in housing and municipal finance. It then took 35 years to enable the Experimental Reimbursable Seeding Operations.

### **Ladies and Gentlemen**

It can be said that affordable housing is rarely adequate, and adequate housing is rarely affordable.

A key conclusion that we can already draw from history and from our experience in dealing with affordable housing finance in particular is that the perennial problem of "affordable housing not being adequate" and "adequate housing not being affordable" cannot be left to the market place alone.

The sub-prime mortgage crisis that sparked off the current global financial crisis was the outcome of a one-dimensional approach to housing and a "one-size fits all" model of housing provision. It did not look at how to improve incomes to make housing more affordable. It did not look at how to make housing cheaper so as to make it more affordable. It did not look at the need to have a mix of tenures whereby poor people could access decent housing through a well-considered rental market as well as through home ownership.

Financial prudence and banking principles were thrown out of the window. Financial "engineering" became normal practice as different so-called "innovative products" from brokers competed with each other. It was all

target driven. Commissions and bonuses were collected, CEO payments rose into the stratosphere, but the risk remained on the one end – with the borrowers – and at the other end – with the shareholders across the globe where so many had their pensions and savings entrusted.

Apart from an appropriate oversight or regulatory framework coordinated at the national level and between nations, this equation is made up of an income component, a cost of construction component, a cost of money component, a tenure component, and a market component. In the vast majority of countries, these components need to be further broken down to account for gender specific needs and constraints.

### **Conference delegates**

In our efforts to assist Africa's poor in terms of finance and affordable housing, we need to discuss the convergence of global and local development agendas. Whilst the current financial crisis extends beyond the initial crisis of poorly regulated housing finance systems, most experts agree that one of the most effective ways of stimulating economic recovery is public investment in housing and infrastructure.

China, the biggest creditor nation that is underwriting a significant proportion of the economic recovery packages of the north, already decided last year to inject some \$600 billion into its own economy, two thirds of it devoted to green infrastructure and pro-poor housing.

Experts concur that investment in housing and urban infrastructure, properly planned and managed; helps create jobs and stimulate demand across all sectors of the economy.

Although housing finance in Africa is in permanent crisis as displayed by expansive slums, the sector has not been able to attract the attention it deserves from Government as well as their development partners. For

example, it still remains a struggle to have housing deprivation recognised as a critical dimension of poverty. Few African countries readily include housing development into their poverty reduction strategies supported by the World Bank or UN Development Assistance Frameworks. Hopefully the work of UN-Habitat will become more meaningful since it is becoming recognized that a country that ignores investing in affordable housing finance is not likely to achieve sustainable development and social cohesion let alone the Millennium Development Goals they have all agreed to work towards.

### **Mainstreaming sound procedures in housing and infrastructure finance operations and projects**

UN-HABITAT seeks to package technical assistance and policy reform with seed capital to enable housing cooperatives and women's groups to access housing finance. Our approach is to complement micro-credit, which is largely limited to short-term loans, with provisions for longer-term finance for land acquisition. It is our hope that such an approach will help overcome one of the last remaining barriers to urban poverty reduction – to enable and empower the urban poor to do what most wealthier people do everyday, namely to leverage their savings and assets to create wealth through housing and become true stakeholders in society.

UN-Habitat has three important field testing operations in hand – the Slum Upgrading Facility (SUF) and the Experimental Reimbursable Seeding Operation (ERSO). The third is Women's Land Access Trust which essentially is part of SUF dedicated to women's groups.

The central objective of SUF is to work with domestic financial institutions and community organisations to mobilise local domestic capital for slum upgrading and related infrastructure activities through a blending of grants, capacity building and technical assistance to poor urban communities and

municipalities. Within this framework, pilot WLAT have been established in Tanzania, Kenya, Ghana and Uganda. Projects are to be opened soon in Ethiopia and Mozambique. These housing cooperatives are assisted to access finance for land acquisition, housing development and mortgage finance to repay loans on occupation.

The objective of ERSO is to develop experimental loan operations and other innovative financial mechanisms for enabling access to housing finance and strengthen institutional capacity to leverage the contributions of communities, local authorities, the private sector, government and local/international financial institutions to achieve sound results and potential scaleable development and finance programs which can be sized over time to address the needs of all those living in substandard accommodations. Both initiatives are implemented in close cooperation with existing local/international development actors in housing finance.

This year at the GC22 governing council in Nairobi, UN-Habitat signed an agreement with Development Finance Company of Uganda (DFCU) bank, to co-finance development and ownership of affordable housing under a pilot project initiative on a 5.2 hectares parcel of land in Kasoli-Tororo Municipality. During its first phase, this project will benefit at least 125 low-income households organized around cooperative organizations that have been developed to mobilize savings through a Kasoli Housing Association. The project has adopted an innovative financial model to avail affordable housing to low income earners through commercially viable terms and aims at attracting private long term capital for investment into affordable housing supply.

Since providing financial services to the poor can be a risky undertaking from the perspective of conventional banking practice, UN-Habitat requires sound analysis of the risks involved. This transparency enables informed and sound decisions, serving both the interest of the lender and borrower.



Building on the prudence of informal communities for developing durable solutions to serve their own needs is a key element.

Experience so far shows that pre-investment activities are central for developing the right products and projects for low-income dwellers. Important elements are to combine provision of loans with technical assistance and capacity building and apply sound procedures and due diligence for selection of borrowers and implementing partners.

A key response of UN-Habitat to the financial crisis has been in terms of Global Advocacy and Dialogue. At the recent World Urban Forum in Nanjing, China, last November, UN-Habitat facilitated a dialogue with key actors on the impact of the financial crisis with a special session on housing finance and national policy and systems.

Against the background of the current global debate on new international rules and agreements for the financial markets, UN-Habitat will invite World Bank and IMF to future fora such as the Governing Council to engage in a dialogue about the implications of a new international financial architecture on housing and infrastructure finance in developing countries and stress the importance of the sector.

### **The Economic Crisis: Opportunities for climate change mitigation and adaptation**

Climate Change is now recognized as one of the biggest development challenge of the 21st century. Global warming, the risk of rising of sea levels, ever frequent and stronger tropical cyclones, and inland flooding have now become significant issues in public debate and media coverage.

No-one today can really foresee the predicament in which a town or city will find itself in 10, 20 or 30 years time. In this new urban era with most of humanity now living in towns and cities, we must bear in mind that the

greatest impacts of disasters resulting from climate change begin and end in cities. Urban growth in most developing countries mainly takes place in slums. In sub-Saharan Africa, slum dwellers constitute over 62 percent of urban populations. Everywhere the urban poor live in places no-one else would dare set foot – in wet lands along drains vulnerable to flooding, on slopes prone to landslides, near polluted grounds. In this new urban age, the mega-cities therefore loom as giant potential disaster traps.

Vulnerable cities need to prepare their infrastructure for the impacts of climate change. But climate change adaptation also means reducing their vulnerability of women, youth and the very poor. This could be in the form of comprehensive shelter programmes, income generation, micro-finance and micro insurance and health programmes to mention but a few.

However we are in the midst of the most severe economic crisis in living history. Conventional wisdom tells us that this crisis will inevitably have implications for the availability of public funds for social services and private capital to finance the much needed improvements in housing, basic infrastructure and services not to mention the investments required to reduce Greenhouse Gas emissions and to prepare for the impacts of Climate Change.

Conventional wisdom also tells us that the global economic downturn will lead to fewer employment opportunities, affecting first and foremost the developing countries and the poor.

However, the commitments by world leaders, for example at the G20 meeting give rise to the hope that we have collectively chosen to look at things less conventionally by addressing environmental concerns and the concerns of developing countries as well. The current crisis needs to be seen

as a clear opportunity to make our urban centres into the driving forces for a green economy.

The opportunities for green jobs need to be seized now. Currently they feature in city development plans more as a side product of environmental initiatives rather than with clear strategic intent. Clean, low-carbon infrastructure investments, retrofitting of buildings, the renewal of our transport systems have been identified as opportunities for 'green' investments. However, climate change adaptation also provides cities with opportunities to revisit our planning laws and bylaws, our building standards, our energy supply systems, our infrastructure and transportation systems. This is an excellent opportunity to re-examine how we manage and plan our cities. It is an opportunity to re-think many of our policies that have made cities the single biggest source of green house gas. In essence, reducing the vulnerability of cities to the effects of climate change should and needs to be seized as an opportunity to improve the living conditions of the most vulnerable segments of our urban populations.

Slum upgrading, the provision of climate proof infrastructure and services to a broader group of citizens could lead to significant job and skill creation.

UN-HABITAT has received new mandates by the General Assembly and by our Governing Council to support cities in addressing Climate Change more forcefully. In partnership with ICLEI, UCLG and other key organizations we will face the challenge.

In partnership with the Cities Alliance, the World Bank and the United Nations Environment Programme, we have started to develop a climate change inventory which we hope will soon cover 400 cities assessing their climate footprint as well as their climate change vulnerability.

UN-Habitat's *Cities in Climate Change Initiative* which is being implemented in Uganda, Mozambique, Ecuador and the Philippines seeks to minimize impacts on human settlements and increase the adaptive capabilities of local governments by strengthening governance structures and engaging the private sector and civil society in finding practical solutions. But municipalities cannot fight this battle alone. They must have the backing of government and the business sector, especially in these times of financial crisis.

### **Conclusion**

In conclusion, may I say that this conference should bring an even greater focus on the issues of finance and affordable housing? Our aim is to provide a platform where the best practices can be seen in this context with the objective to more rapidly upscale processes that can lead towards more and more people having a decent roof over their heads and be in a position to contribute to the economic recovery that the world so desperately needs.

What we find throughout the developing world is a situation where people want to invest their little savings and their hard work in their own new and improved housing as part of a new city life. To do this they need access to credit facilities and help from the city community in developing new and upgraded residential areas.

Whatever we can do to find the best pointers to this goal will be gratefully received not only by the slum dwellers and the low-income groups, but also by the citizens of every town and village that want a better urban future.

Thank you for your attention.