

Expanding the Outreach of Housing Finance for the Urban Poor – A Matter of Cooperation

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SUMMARY

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‘Achieving decent housing for all in a rapidly urbanising world’ This is the desired outcome of the Millennium Development Goal number 7, Target 11 – to significantly improve the lives of at least 100 million slum dwellers by 2020. How can this be done? And what are the complementary roles of Land, and of Finance in this regard?

Housing Finance has long been the preserve of the more affluent in society. Must it remain their preserve? Poor people cannot afford credit since it is for them exorbitantly expensive as a result of exploitation by loan sharks and high interest rates linked to the perceived high degree of risk. Need this be the case? Or can there be an awakening of formal credit systems for everyone’s housing requirements?

This fits with the economists’ Growth Model not only for financial markets, but also for eradicating poverty, so it should be possible both technically and also as one of the significant aims of the donor community.

How can Housing Finance be expanded so that greater numbers of people can have access to the fundamental credit facilities that would allow them a higher standard than the shacks and substandard housing that some 1 billion people throughout the world currently have to endure? I call this ‘Normalising’ the housing finance process for a much expanded market, reaching more and more people than ever before. It relies on cooperation at all levels – government, local government, the private sector and the communities together.

A Framework for Cooperation amongst all players

Knowledge and information are key factors – how does a household know that there are alternatives? How can community groups work towards ‘Bankable’ solutions where commercial credit arrangement such as bank loans can play a part in their plans for the future? Focal information points become vital, and sharing experience from one group to another becomes a powerful force in setting out the aspirations for projects on a sound footing. Bringing the required expertise to this process is elaborate, but can be achieved through dedicated cooperation.

It seems from the work UN-HABITAT is doing with their Slum Upgrading Facility, that bringing people together around their own common interest in improved housing, their longer term housing requirements can be achieved through a ‘project finance’ approach where the community retails the project finance loans through their members. This requires detailed cooperation with the local government in fitting with the municipal planning and infrastructure development plans, and with the commercial banks so that realistic business plans are produced. In this way, the evidence base breeds further investment (what we might call ‘investment climate change’!)

Conclusion

Finally, haven’t we seen this all before in the North American ‘Sub-Prime’ markets? The perception of risk is rife. However, where housing upgrading schemes are based on the plans of community groups (as opposed to individuals accessing bank loans) then there is a greater ‘due diligence’ of the process leading towards formal credit facilities. This is where the Business Plan process comes in – and results in a clearer picture of sustainable financing. This is working in practice, and is the model that needs to be developed and expanded.

CURRICULUM VITAE

Michael Mutter, OBE is an international development expert focused on the relationship between low income housing and slum upgrading demand with the finance systems that can play a significant role in achieving credit facilities through project finance for improving the housing conditions of the world’s urban poor – the slum dwellers that make up over 20% of the world’s population.

Michael developed his expertise through a combination of developing country field experience, honing skills in appropriate techniques for planning for rapidly expanding cities, and as a chartered architect-planner in the sphere of project finance for mixed use developments in the developed world.

For ten years Michael led the development of the urban sector team at the UK’s Department for International Development (DFID) where this combination of skills proved worthwhile in promoting the client of community-led approaches for dealing with urban issues ranging from research to the practical realisation of slum upgrading epitomised by the Community-Led

Infrastructure Finance Facility (CLIFF) operated by Homeless International through the Cities Alliance.

In September 2004 Michael was appointed as the Senior Adviser to UN-HABITAT for the development of the new Slum Upgrading Facility (SUF), an innovative financing mechanism designed to attract private sector finance, from domestic capital markets, to municipalities and community groups for their inclusive urban development projects and slum upgrading, thus responding to the MDG target to improve the lives of 100m slum dwellers by 2020. Michael has led the SUF Team in coordination with Cities Alliance, DFID, Sida, the Government of Norway and the World Bank for the current SUF Pilot Programme which commenced in mid 2006 for a period of three years.

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