Multilateral and Bilateral Funding of Housing and Slum Upgrading Development in Developing Countries

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PREFACE

This paper presents an overview of funding trends for slum upgrading and housing finance and construction by bilateral donor countries and multilateral organizations and the results of interviews with representatives of foreign assistance agencies. It was prepared by Michael Shea, senior study director at Westat and was presented at a networking session jointly sponsored by Westat and the International Housing Coalition (IHC) at the UN HABITAT World Urban Forum IV in Nanjing, China in November 2008.

The IHC is distributing this paper in an effort to highlight the importance of focusing increased foreign aid on urban development and housing issues in the developing world. The IHC would like to thank the Reaume Foundation for supporting the IHC’s participation in the World Urban Forum.

The IHC is a non-profit advocacy organization located in Washington, D.C. that supports Housing for All and seeks to raise the priority of housing slum improvement on the international development agenda. The IHC supports the basic principles of property rights, secure tenure, effective title systems, and efficient and equitable housing finance systems—all essential elements to economic growth, civic stability, and democratic values. To learn more about the IHC visit its web site at www.Intlhc.org.
1. Introduction

This paper presents an overview of funding trends for slum upgrading and housing finance and construction by bilateral donor countries and multilateral organizations. It may serve as an outline for more detailed research on this topic and lead to further research. The paper reflects information based on a limited number of interviews and secondary research.

The purpose of the paper is to show the decline in funding and technical support for slum upgrading and housing finance and construction from bilateral donors and the relatively steady state funding of these activities by the three major multilateral organizations—the World Bank, the Inter-American Development Bank (IDB), and the Asian Development Bank (ADB). The paper also examines ways to generate more interest in slum upgrading and housing activities from the country level and suggests actions to assist donor countries in raising the priority of housing in their sector activities.

2. Methodology

A number of in-person interviews were conducted with representatives of organizations that are deeply involved in international development and the funding of slum upgrading and housing programs. A consistent topic interview guide was used for all of the interviews. The people interviewed do not, however, represent any scientific sample of people in the development community.

In addition to the interviews, secondary source data was used in preparing this paper. The source material is referenced in footnotes, and full bibliographic citations are at the end of the paper.

3. The Need for Housing and Slum Upgrading

Urbanization is proceeding at a very fast pace, with an urban population of almost five billion projected by 2030. Much of the increasing urbanization will take place in developing countries and

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will be focused on Asia and Africa. Currently one-third of all urban residents are estimated to fall below the poverty level of their country. It is estimated that half of today’s urban poor are located in South Asia and one-third in Africa. UN Habitat estimates a need for 22.6 million dwelling units per annum for urban housing during the next 25 years.

In Africa, the proportion of urban residents living in slums is at 72 percent. The growth rate for slums is highest in Sub-Saharan Africa with an annual growth rate of 4.53 percent between 1990 and 2001. Africa is the most rapidly urbanizing region in the world, and poverty rates in urban areas are increasing.

4. Overview of Funding Trends for Housing and Slum Upgrading Since 1990

4.1 Multilateral Lenders

The three major multilateral banks—the World Bank, the Inter-American Development Bank (IDB), and the Asian Development Bank (ADB)—have maintained fairly consistent funding for the broad category of housing and slum upgrading since 1990. The World Bank serves the entire world and is by far the largest multilateral lender, while the IDB serves Latin America and the Caribbean (LAC) and the ADB serves Asia. Other multinational banks such as the European Investment Bank, the European Bank for Reconstruction and Development, and the African Development Bank, do not fund any significant housing activities. The African Development Bank has adopted a housing strategy within the past year and may begin some loans in this sector in the future.

The World Bank has maintained a fairly consistent funding level since 1992, but the funding percentage of its overall portfolio of loans has reduced slightly. The World Bank has also shifted from its early emphasis on small slum upgrading and sites and services loans that served the low income to a focus on large-scale policy-related loans in housing finance, adjustment loans, and privatization of public services. The result of this shift was a smaller share of the funding going to support low income housing and a smaller share going to low income countries. In his 2006 book, Thirty Years of World Bank Lending: What Have We Learned, Robert Buckley suggested a refocus by the World Bank on slum upgrading and serving more households in poverty and the World Bank responded positively.

Between 1972 and 2005, the World Bank supported 278 projects that provided $16 billion in housing assistance to more than 90 countries. Approximately nine percent of the Bank’s current portfolio goes to urban programming, the highest percentage since 1975. Table 1 shows the Bank’s funding for shelter loans by type and the proportion going to each world region and to each program type from 1992 to 2005.

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2 Baker, 1.
3 Baker, 3.
4 Baker, 6.
5 Baker, 7.
7 Baker, 14.
8 Buckley and Kalarickal, 10.
Table 1 Regional Breakdown of World Bank Shelter Loans By Type for 1992 to 2005

<table>
<thead>
<tr>
<th>Regions</th>
<th>Slum Upgrading</th>
<th>Sites and Services</th>
<th>Housing Policy</th>
<th>Housing Finance</th>
<th>Disaster Relief</th>
<th>Total</th>
<th>Percentage in Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>42.42</td>
<td>16.32</td>
<td>2.47</td>
<td>17.04</td>
<td>2.92</td>
<td>81.26</td>
<td>1.2%</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>40.78</td>
<td>35.80</td>
<td>36.12</td>
<td>439.05</td>
<td>33.92</td>
<td>585.66</td>
<td>8.6%</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>10.61</td>
<td>16.46</td>
<td>311.34</td>
<td>235.20</td>
<td>305.37</td>
<td>878.98</td>
<td>12.9%</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>128.97</td>
<td>0.00</td>
<td>656.73</td>
<td>1,584.89</td>
<td>397.34</td>
<td>2,773.29</td>
<td>40.8%</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>94.42</td>
<td>358.26</td>
<td>48.37</td>
<td>290.43</td>
<td>549.82</td>
<td>1,341.31</td>
<td>19.7%</td>
</tr>
<tr>
<td>South Asia</td>
<td>21.18</td>
<td>79.00</td>
<td>2.37</td>
<td>145.32</td>
<td>883.95</td>
<td>1,131.81</td>
<td>16.7%</td>
</tr>
<tr>
<td>Total</td>
<td>338.38</td>
<td>505.84</td>
<td>1,057.40</td>
<td>2,711.93</td>
<td>2,173.32</td>
<td>6,792.31</td>
<td>100%</td>
</tr>
<tr>
<td>Percentage by Program Type</td>
<td>5%</td>
<td>7.4%</td>
<td>15.6%</td>
<td>39.9%</td>
<td>32%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

2001 US$ in millions

Latin America and the Carribbean (LAC) received the largest percentage of funding between 1992 and 2005 with 40.8 percent, and Sub-Saharan Africa received the lowest percentage with 1.2 percent. It is reasonable to assume the Sub-Saharan percentage will go up significantly during the next 20 years. The program types of housing finance and disaster relief received 72 percent of the funding during this period with slum upgrading and sites and services only receiving 12.4 percent. Slum upgrading and sites and services could receive a higher percentage of funding over the next 20 years. The Bank has committed $2 billion for slum upgrading in the past two years.11

The Inter-American Development Bank (IBD) supports a significant amount of housing and slum upgrading in Latin American and the Caribbean. Two principal areas of housing activity are the development of housing voucher programs and the upgrading and rehabilitation of existing low income settlements. IDB expanded its housing finance activities in the 1990s and shifted support toward sector reforms that increased the capacity of housing finance and delivery mechanisms to meet the needs of the low-income.12 Between 1993 and 2005, the IDB approved 29 housing loans totaling US$2.6 million.13 The IDB also has undertaken 36 slum upgrading projects to date worth US$3.2 billion in loans. The IDB provided 80 percent of the funding and the total investment for the projects was US$5.1 billion.14 The principal investment components of the IDB’s housing loans included:

- Upgrading and titling at 47 percent of housing loans;
- Development of long-term mortgage credit at 18 percent of housing loans;
- Up-front, one-off, demand-side subsidies or vouchers to individual households at 20 percent of housing loans;

10 Buckley and Kalarickal . 20.
13 Engel 6.
14 Interview with Eduardo Rojas. October 6, 2008.
• Subsidized core home construction at three percent of housing loans;
• Institutional reforms at three percent of housing loans; and
• Serviced sites at two percent of housing loans.¹⁵

The IDB plans to continue expanding the housing stock, upgrading low-income informal settlements, and improving housing institutions in borrower countries. The IDB has found that housing investment is a long-term and complex activity. The IDB is now transitioning from a focus on slum upgrading to a broader focus on urban development.

The Asian Development Bank (ADB) does not list housing as a major sector area, but it has funded a significant number of housing projects across Asia. Housing is supported through loans and technical assistance grant projects in the developing member countries. The ADB funds the development of housing strategies, the reorganization of housing authorities, and technical assistance to establish housing finance entities and mortgage systems. The ADB also makes housing loans to finance housing development. Several specific examples include: supporting the development of an affordable housing strategy and $30 million for a housing finance system and institution in Vietnam; and developing a housing strategy, developing plans for specific housing developments, and making a $15 million dollar loan for a housing development in Mongolia. India has received several market-based housing finance loans for low-income households including one for $300 million. The ADB also provided an $88.6 million loan to Indonesia for neighborhood upgrading and shelter sector improvement.

4.2 Bilateral Funding from Donor Countries

A large number of donor countries provide a significant amount of funding and technical assistance to developing countries. However, only a few developed countries have provided significant amounts of housing funding and technical assistance in developing countries since 1990, and this amount has dropped dramatically in recent years. UN HABITAT has identified eight bilateral donors that have a specific urban policy.

The United States used to be the largest bilateral funding country for slum upgrading and housing. The United States Agency of International Development (USAID) managed the Housing Guarantee Loan Program (HG) that began in the 1960s, sites and services programs and large technical assistance programs that focused on converting state owned housing in the former Soviet Union into condominiums and establishing a free market for housing. The HG Program operated at a level of about $110 to $150 million per year in new loans.¹⁶ Ninety percent of the loans were focused on housing programs that served families below the median income. The HG Program provided loan guarantees for housing that totaled $2.7 billion in loans to 44 countries. There were also numerous technical assistance projects to support HG loans in countries. In 1990, the Office of Housing and Urban Programs in USAID had a staff of approximately 40 Full Time Equivalents (FTEs) with about half in Washington and half in developing countries. USAID began its housing programs by funding sites and services projects and continued funding slum upgrading programs in Africa and the Middle East. The United States Congress ended the HG Program in 1993. The Office of Housing and Urban Programs

was placed in a new Environment Center, and the staffing started to decrease in the 1990s. The overseas Regional Housing and Urban Development Officer positions were eliminated in 2001.

USAID program levels for housing and slum upgrading are much smaller today. USAID currently has a four-person Urban Programs Team, and the team provides field support across a wide variety of program objectives. USAID funds a small grant to the International Housing Coalition, a real estate project in Egypt, and a Cooperative Housing Foundation microfinance project. USAID also supports housing construction after major disasters.

The United States Millennium Challenge Corporation (MCC) has entered into a large number of multi-million dollar compacts with developing countries and has funded several projects focused on land titling, but has not provided any specific funding for housing projects.

The United States Overseas Private Investment Corporation (OPIC) has compensated for the housing funding decrease at USAID. OPIC’s mission is to support economic development by promoting U.S. private investment in developing countries and transition economies. Since 1971, OPIC has supported more than $164 billion worth of investments in a broad variety of sectors and provided significant loan and investment funding in housing programs. For example, in 2003 OPIC financed $66.76 million for housing construction and mortgage programs and insured other mortgage lending programs. In 2007, OPICs guaranteed loans for broad housing programs increased to $796 million. Over the past three years, OPIC has built an African housing portfolio of nearly $400 million. OPIC has invested $1 billion in housing finance and insurance already, and there is more than $1.5 billion in prospective housing investment in OPIC’s project pipeline. OPIC funding and investments has produced more than 450,000 housing units. When its funding is broken out by world regions, OPIC funds a small amount in Asia, about one third in the Middle East, and one third in LAC; the remaining one third is divided between Eastern Europe and Sub-Saharan Africa. OPIC’s housing portfolio is 27 percent of its total portfolio.

The United Kingdom’s Department for International Development (DFID) has supported housing and slum upgrading programs over a number of years, but has been deemphasizing these activities more recently. Housing will probably only be supported when it is an ancillary component of a disaster reconstruction activity or perhaps in conjunction with infrastructure projects where funding for housing funding is obtained from another source. Several years ago, DFID reorganized and minimized its housing group.

The Swedish International Development Cooperation Agency (SIDA) has supported programs for housing micro-finance in Central America since the 1990s. The total support from SIDA for these programs since 1990 was about $60 million U.S. SIDA restructured last year and eliminated its urban group.

17 Interview with Jessica Tulodo and Anthony Kolb. October 14, 2008.
18 “The Development Impact of OPIC-Supported Housing Projects.” Office of Economic Development, OPIC.
19 “The Development Impact of OPIC-Supported Housing Projects.”
21 Interview with Billy Cobbett. October 3, 2008.
22 Email with Per Froberg, Senior Advisor SIDA. October 14, 2008.
Germany has funded a moderate level of housing programs over the years. The Agency for Technical Cooperation (GTZ) is funding housing programs in several African countries and in Brazil. The KfW Development Bank has provided funding to local financial institutions in Bosnia and Herzegovina for housing and small and medium enterprise (SME) loans and to El Salvador for disaster housing.

The Spanish Agency for International Cooperation (AECI) has been very active in funding housing programs in Latin and Central America. Spain has funded more than 115 housing projects in LAC since 2000 and 45 of these projects were in El Salvador. AECI is providing housing funding to virtually every LAC country.23

Table 2 (from an unpublished U.N. Habitat report) illustrates the decline in bilateral funding and a recent increase in multilateral funding for housing. The Official Development Assistance (ODA) and Official Aid (OA) are combined in this chart. The total ODA and OA funded by multilateral organizations in 2003 was US$67 billion and the bilateral funding was US$110 million. Assistance to housing rarely constitutes more than two percent of bilateral funding.

Table 2 Housing as a Percentage of All ODA/OA, 1995-200324

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</tr>
</thead>
<tbody>
<tr>
<td>Multilateral</td>
<td>0.001</td>
<td>0.177</td>
<td>0.233</td>
<td>0.072</td>
<td>0.023</td>
<td>0.015</td>
<td>1.254</td>
<td>0.314</td>
<td>0.253</td>
</tr>
<tr>
<td>Bilateral</td>
<td>0.247</td>
<td>0.147</td>
<td>0.508</td>
<td>0.461</td>
<td>0.344</td>
<td>0.160</td>
<td>0.168</td>
<td>0.180</td>
<td>0.164</td>
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5. Reasons for Decline in Donor Country Funding for Housing and Slum Upgrading Since 1990

Interview respondents provided a variety of reasons for donor countries reducing their funding for housing and slum upgrading since 1990. These included:

- The organization has other, higher sectoral priorities for funding.
- It is difficult for a long-term housing or slum upgrading project to maintain the visibility that a funding country might want.
- Housing development is very complicated and much slower than many other types of programs a donor country can fund. Donor countries want short-term results.
- Housing and slum upgrading programs are riskier to implement than other types of programs.

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• Bilateral countries follow trends, and they saw the leader, the United States, cut back its funding for housing drastically.

• International housing programs do not have a large constituency for funding in the donor countries and other programs with an active constituency, such as funding for HIV/AIDS, take priority.

• Slum upgrading and housing development can be very difficult to implement successfully because of land titling issues and local political problems.

• A number of the donor countries have older, experienced staff that have a rural focus and do not have the urban expertise.

• Donor countries seem to have an inability to stay focused on long-term goals and move rapidly to various short-term goals.

• Decision making from the donor country capital to regions and developing countries has been decentralized.

A problem that several multilateral and bilateral lenders raised is the lack of coordination in funding projects in developing countries. They have tried to coordinate lending programs for housing and slum upgrading with other multilateral lenders and were not successful. A better mechanism for coordinating the funding of loans in developing countries needs to be established.25

Foundations are beginning to play an increasing role. The Rockefeller Foundation, the Ford Foundation, and the Gates Foundation are becoming more involved with urban programs. The Ford Foundation was an early funding entity and innovator in urban programs in developing countries.26

The Cities Alliance and several lenders said that they were supporting increased funding for housing and slum upgrading programs by the donor countries. William Cobbett of the Cities Alliance contends that there is a 10 to 20 year window for growth control, and urbanization in Sub-Saharan Africa, and countries need to move quickly to address this issue.27 The Cities Alliance is targeting the Organization for Economic Cooperation and Development (OECD) member countries to address the rapid urbanization issue in Sub-Saharan Africa. He sees Sub-Saharan Africa as the critical focus point for urbanization in the world over the next 20 years.

Donor countries need a long-term plan for implementing housing and slum upgrading programs. Many of the recently implemented programs have short-term goals and visibility but do not have the long-term impact of housing and slum upgrading programs. Combining housing and micro-lending in countries may help with the problem. The bilateral trust funds that go to the World Bank are huge, but it is difficult for housing and slum upgrading programs to tap into these funds.

Chris Williams of UN HABITAT suggests that donor countries lack a framework for urban development assistance. This framework might include land and housing, water and infrastructure,
and urban planning and development. UN HABITAT sees its role as facilitating advocacy for urban programs with donor countries.

6. The Need for Developing Countries to Become More Interested in Funding for Slum Upgrading, Housing Construction, and Finance

A number of respondents indicated that developing countries appear to have a limited interest in improving their housing stock and conditions in their slums. Some of the countries do not want more migration from the rural areas to urban areas, and they think that implementing slum upgrading programs will make the urban areas more attractive and increase the rural to urban migration. A number of African countries still have a rural development focus. Many countries in Africa do not see urbanization as a positive force for economic growth.

OPIC sees a need for large-scale slum upgrading and sites and services programs, and it is willing to finance these kinds of projects if they can generate a cash flow. Issues that need to be resolved before OPIC can finance these projects include land ownership and titling and the accessibility of the land to urban centers. Two countries, Kenya and South Africa, have expressed an interest to OPIC about funding future projects.

Eduardo Rojas of the IDB says that in Latin American housing is an important funding sector for public funds. Between 1950 and 2000, there was very rapid urbanization. Latin American countries have a high level of consciousness about urban growth. He says that South Africa has contacted the IDB about sharing their experiences in dealing with urbanization and slum upgrading.

Robin Rajack of the World Bank notes a lack of country demand for housing and slum upgrading in Africa. The World Bank partially relies on its country directors to identify funding priorities in countries, and African countries do not see housing and slum upgrading as a funding priority. He sees the World Bank playing an increasing role of advocacy to countries to generate more demand in this area. Several of the advocacy measures include:

- Describing what other countries and their neighboring countries are doing in this area;
- Documenting successful programs with case studies that can be disseminated; and
- Providing more advocacy on the programs to World Bank country directors.

William Cobbett of the Cities Alliance sees two major problems for Sub-Saharan countries dealing with the rapid urbanization:

1. The countries don’t understand how big the problem is and how big it will become.
2. The political leaders in the countries are focused on the middle and lower middle class instead of the poor.

The Cities Alliance is taking an advocacy position with the countries by offering to quantify the extent of the problem in 54 countries over the next couple of years.28

Chris Williams of UN HABITAT sees associations of city governments in developing countries as a potential target for advocacy in countries to raise the knowledge base and interest level of national programs.

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politicians. He also sees ministerial conferences that represent countries across the continent as a good target for advocacy. Another way to promote advocacy in countries is to sponsor peer exchanges among both African countries and developed donor countries. He also feels it is very important to link poverty reduction in countries to improved housing conditions.

A potential advocacy constituency for international housing and slum upgrading could be developed in the United States by gaining the active support of several major organizations that have an urban focus. These organizations might include the National League of Cities, the U.S. Conference of Mayors, the International City and County Managers Association, and the International Society of Urban Health.

U.S. interest in the reform of foreign assistance is increasing, as is an awareness of the importance of urbanization assistance for slum upgrading and urban development. For example, the International Housing Coalition (IHC) was formed in 2005 to raise the priority of housing and urban investments on the international development agenda.

Advocacy to expand the funding for housing and slum upgrading is really a two part issue – advocacy with countries to generate more demand and advocacy with donor countries to meet that demand. Developing countries need to be convinced that investments in housing and slum upgrading are a critical response to the urbanization phenomenon and can lead to economic growth and poverty alleviation.
Bibliography


