

QUICK  
GUIDES  
FOR  
POLICY  
MAKERS



# housing the poor in Asian cities



UN-HABITAT



United Nations  
ESCAP

# 5

**HOUSING FINANCE:** Ways to  
help the poor pay for housing

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United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)  
Rajdamnern Nok Avenue  
Bangkok 10200, Thailand  
Fax: (66-2) 288 1056/1097  
E-mail: [escap-esdd-oc@un.org](mailto:escap-esdd-oc@un.org)  
Web: [www.unescap.org](http://www.unescap.org)

and

United Nations Human Settlements Programme (UN-HABITAT)  
P.O.Box 30030 GPO 00100  
Nairobi, Kenya  
Fax: (254-20) 7623092  
E-mail: [tcbb@unhabitat.org](mailto:tcbb@unhabitat.org)  
Web: [www.unhabitat.org](http://www.unhabitat.org)

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The Guides were prepared by Mr. Thomas A. Kerr, Asian Coalition for Housing Rights (ACHR) based on documents prepared by Mr. Babar Mumtaz, Mr. Michael Mattingly and Mr. Patrick Wakely, formerly of the Development Planning Unit (DPU), University College of London; Mr. Yap Kioe Sheng, UNESCAP; Mr. Aman Mehta, Sinclair Knight Merz Consulting; Mr. Peter Swan, Asian Coalition for Housing Rights; and Mr. Koen Dewandeler, King Mongkut Institute of Technology, Thailand.

The original documents and other materials can be accessed at: [www.housing-the-urban-poor.net](http://www.housing-the-urban-poor.net).

The above contributions have all shaped the Quick Guide series, which we hope will contribute to the daily work of policy makers in Asia in their quest to improve housing for the urban poor.

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*One community dollar equals a thousand development dollars. Why? Because that community dollar represents the commitment of thousands of poor people to their own development. When development comes from people's own savings it is theirs, they own it.*

*Jockin Arputham, SDI*



PHOTO: ACHR

# Housing finance: Ways to help the poor pay for housing

## QUICK GUIDE FOR POLICYMAKERS NUMBER 5

The objective of this Quick Guide is to introduce some of the key concepts of housing finance and to provide a quick overview of how housing finance works, especially as it relates — or fails to relate — to the urban poor. The guide presents information about both the formal and informal systems of delivering housing finance, and examines the key advantages and drawbacks of both systems when it comes to directing housing finance to the city's poor.

The basic mechanisms of formal and informal housing finance systems may be similar, but by removing many of the barriers that make the formal system inaccessible to the poor, the informal system has in many places become the chief system for delivering what meager housing finance does actually reach the poor. The guide closes with a brief description of some new and unconventional housing finance strategies being tested and expanded in Asia, which are attempting to link formal sources of finance with poor communities and the informal systems by which they live their lives and build their housing.

This guide is not aimed at specialists, but instead aims to help build the capacities of national and local government officials and policy makers who need to quickly enhance their understanding of low-income housing issues.



### **Housing mismatches:**

*So far, no system in the world has been able to perfectly match the great variety of housing needs with actual housing production. There is almost always either a surplus or a shortage, and many households end up having to live in housing that is not quite what they need, what they want or what they can afford.*

## **Housing conditions and the need for housing finance**

Housing comes in all shapes and sizes, including blocks of low, medium or high-rise flats, rental rooms, row-houses and free-standing houses. To accommodate a wide range of housing needs and a growing population over time, a city needs to provide a steady supply of new housing and expand the existing housing supply. Housing which grows too old or too deteriorated to be habitable also needs to be repaired or replaced.

A housing unit can be built by a household itself, or by a carpenter or small contractor that a household hires. Housing can be built by developers for profit or by government agencies. And housing can either be sold or rented, under a variety of rates, arrangements and payment terms.

You don't have to study Asian cities very long to realize how serious their housing problems are, and how many urban households simply cannot afford decent housing of any size or shape. In most countries, large portions of the urban population cannot afford adequate housing, and are having to make do squeezing their households into smaller and smaller housing units, or living

far from work on the periphery of town, or building their own houses or renting shacks in slums or squatter settlements. (See *Quick Guide 2 on Low-income housing*)

The shortfall of housing is primarily for low-income housing, where the population is the least able to pay for rising land and housing construction costs and where the market has not been able to provide affordable housing in locations where poor people can access employment and other services.

So, shelter is not affordable to the poor, and this is where housing finance becomes so important. Options to afford housing are needed that can meet the scale required in the context of rapid urbanization. Especially needed are different housing finance mechanisms that can reach the poor. The role of housing finance is also gaining importance as governments are becoming less concerned with direct provision of housing, and acting more in the role of enabler, including working with finance to provide more housing choices for people in cities.

# Who produces housing in Asian cities?

## 1

### Owner-built housing: Housing as something people make themselves

The majority of houses in Asian cities are not built by the government or the private sector but by the people who live in them. Owner-built housing is still the most popular form of housing production in the region, among all income groups and across all types and qualities of housing. There are good reasons for this: when people build themselves (or hire their own carpenters, masons or small contractors to build for them), they can control the whole process and build the house which precisely suits their tastes, their needs, their aspirations and their resources. Another advantage of owner-built housing is that it allows households to find creative ways of helping pay for their houses. If they have enough land, households will often build more than one housing unit and sell-off or rent the additional units, as a way of offsetting their house construction costs or generating a long-term income.

In the absence of any effective, large-scale response to housing shortages by the state or

the private sector, the urgent housing needs in Asian cities are being addressed by the poor themselves, through the housing they build in informal settlements. More than half the population of many Asian cities is now living in informal settlements. The enormous stock of affordable housing which these slums and squatter settlements provide may be insecure, of poor quality and badly-serviced, but by housing their workforces, it has enabled cities to grow and prosper. There is an urgent need to upgrade these informal settlements into better-serviced and secure neighbourhoods.

There are many lessons to be learned from this people-produced housing delivery system. These include how to understand better the housing needs of the urban poor, and how to help their informal housing supply systems work more efficiently and equitably. (See *Quick Guide 2 on Low-income Housing*).

## Housing is a process

For people from all income groups — *but especially for the poor* — housing is not a product, but a process. It's not something that is completed all at one time according to a plan, but is developed in stages, as a household's needs and resources change. Many complain that the sub-standard housing you find in slums, which is often built in this incremental way, is not acceptable. But this kind of housing represents an extremely delicate expression of poor people's gradual capacity to climb out of poverty. Like the houses they build, it's not something that happens all at once. But in cases where housing finance and



secure tenure are made available to people, the quality of owner-built housing — even at the bottom-end of the economic ladder — can improve dramatically.

## 2

## Government-built housing: Housing as something the state supplies

In various countries and at various times, governments have tried to act as the main producers of housing, usually in the form of subsidized apartments in low, medium and high-rise blocks, and in large housing colonies at the periphery of cities. It was thought that this kind of mass-produced public housing could be produced cheaper and faster by governments, through economies of scale. But most government-built housing is not cheap at all, nor is it mass-produced enough to be able to meet more than a tiny fraction of actual needs. Many governments have now adopted a more realistic *enabling* approach towards housing, and are attempting to increase the supply of housing by shifting from a focus on constructing housing



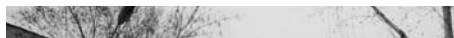
to supporting the housing production of others, such as the private sector, cooperative societies, or individual households themselves, with help from various regulatory and financial tools.

## 3

## Government-built social housing: Housing as a form of subsidized welfare

For those who cannot afford to own or rent acceptable housing through the formal sector, social housing that is rented at subsidized rates has long been a housing policy option. Governments are often a key producer of social housing, but are not the only one to supply social housing: there are also social housing projects developed by

housing might be a practical solution. But the reality is that a great majority of urban poor households can't afford formal sector housing of any sort, and their housing needs are far too big for governments to be able to meet in this way.



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