

# Housing for All: Essential to Economic, Social, and Civic Development

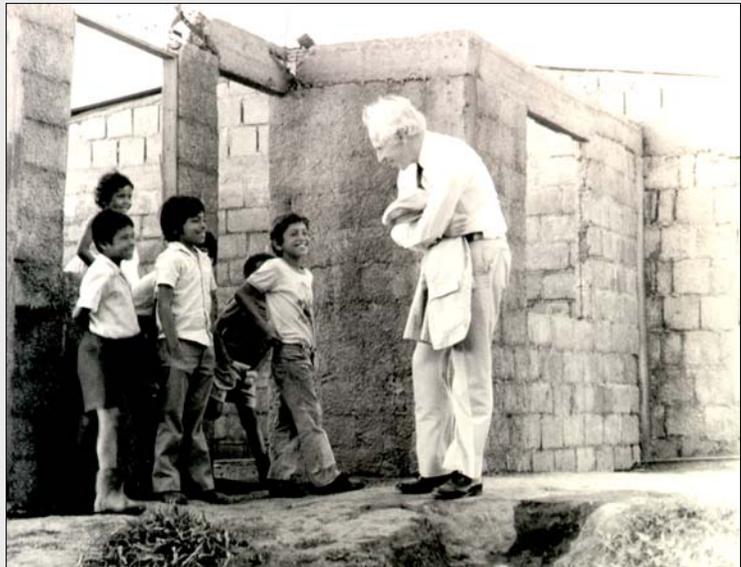
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This study was prepared as part of a series of studies organized by the International Housing Coalition (IHC) for presentation at the World Urban Forum III to be held June 19-23, 2006 in Vancouver, Canada. It is the joint intention of PADCO and the IHC that the paper contribute ideas and review the results of experience to assist in the search for solutions to the problems of housing low-income families and slum dwellers around the world. Both PADCO and the IHC subscribe to the goal of “Housing for All” as an essential element to ending poverty around the world.

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## Executive Summary

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*Failure to settle the problems of land distribution and housing in the world's cities threatens not only . . . the developing world — it also threatens world stability.<sup>1</sup>*

*Urban poverty will become the most significant and politically explosive problem in the 21st century.<sup>2</sup>*

The world is facing a global housing crisis. In cities around the world, almost 1 billion people live in sub-standard housing without clean water or adequate sanitation. More than 14 million refugees and internally displaced people live in tents or other temporary shelters. Millions of homeless men, women, and children live in the streets of Washington, DC; Sao Paulo, Brazil; Johannesburg, South Africa; Mumbai, India; and other cities. And the problem is getting worse: Every week more than a million people are born in or move to cities in the developing world, driving up the need for new and better housing.

The international response to the housing crisis has been muted. While many international donors have helped develop effective models for housing policies and programs, the scale of their application has not been large enough to significantly affect housing outcomes.

Many international institutions have turned away from the housing sector over the past

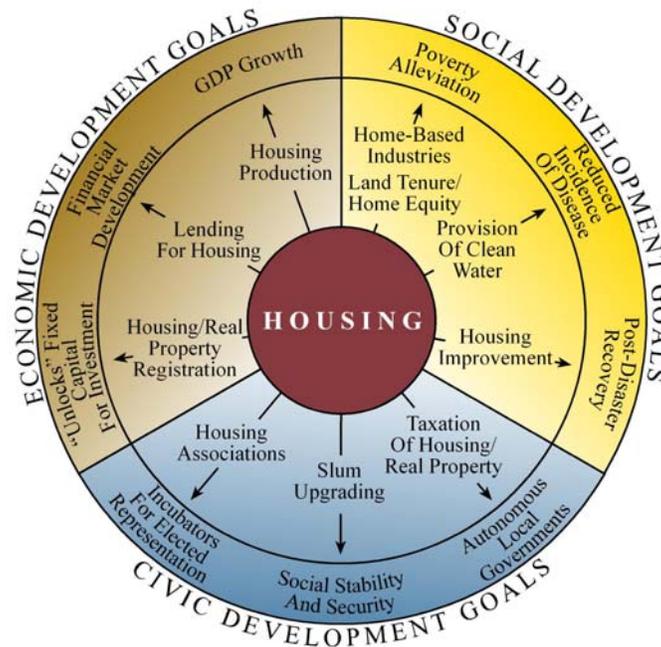
15 years. Some successful programs were not widely replicated, while others withered as donor funding shifted toward other priorities. The result has been assistance strategies that missed important opportunities for advancing economic, social, and civic development. And many national and local housing institutions have not maintained the commitment or sustained level of intervention needed to make a substantial difference in housing outcomes. The result is a growing crisis.

Housing is a key input in economic, social, and civic development. As summarized in the figure on the next page, many housing-related activities contribute directly to achieving broader socioeconomic development goals. Housing investment is a major driver of economic growth. Better data permits more precise estimates in developed countries, but the same overall effect is true in developing countries. In the United States, housing directly contributes 14% of gross domestic product (GDP) and triggers another 6% on average in downstream expenditures. Lending for housing helps develop primary and secondary financial markets. Worldwide and especially in low-income countries, housing construction creates job opportunities for migrants to cities. Legalization of informal settlements and registration of housing and other real property helps “unlock” fixed capital for productive investment and builds local property tax bases.

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<sup>1</sup> Charles Abrams, “Housing in the Modern World, Man’s Struggle for Shelter in an Urbanizing World,” Joint Center for Urban Studies of the Massachusetts Institute of Technology and Harvard University (Faber and Faber, 1964).

<sup>2</sup> Urban Policy and Economic Development: An Agenda for the 1990s, pg. 4 (Washington, DC: International Bank for Reconstruction and Development/World Bank).



On the social side, housing is, after food and medical care, the first need of vulnerable populations following natural and man-made disasters. In better times, good housing builds wealth by appreciating in value, providing a hedge against inflation, providing secure premises for income-generating activities, and opening the door to credit. Incremental investment in housing allows poor families to improve their asset base over time, as resources become available. And clean, warm housing is an essential input for prevention and care of diseases of poverty like HIV/AIDS, tuberculosis, diarrhea, and malaria.

Housing is also an effective way to promote good governance. The need to improve housing conditions stimulates civic organizations (housing associations, community-based organizations) that act as incubators for elected representation. Investing in housing expands the local tax base, thereby facilitating the emergence of autonomous and responsive local governments. Safe homes and neighborhoods, in which residents are satisfied with housing conditions and public services, help build social stability and security.

Despite the clear evidence of the linkages between housing and socioeconomic goals, many policy makers and practitioners are not taking advantage of them. In many countries around the world, opportunities to achieve economic, social, and civic development goals through housing-related initiatives are being missed. Good models include:

- USAID's Housing Guaranty Program, which helped develop institutional and policy frameworks for low-income housing, slum upgrading, and neighborhood infrastructure;
- World Bank programs to reform housing markets, remove bureaucratic obstacles, and enable housing production by private sector builders and developers;
- national efforts to increase access to housing finance, as championed by the United Nations Centre for Human Settlements (UNCHS), India's Housing Development Finance Corporation, and other institutions;
- local initiatives, as championed by Cities Alliance, Sister Cities, and a growing number of innovative municipal leaders; and

- targeted subsidies, such as those that have enabled an average daily production of 500 new houses for low-income families in South Africa since 1994.

This paper presents the case for how housing can advance the broader development agenda. Section 1 discusses housing as a driver of economic development. Section 2 analyzes the role of housing in poverty alleviation, health, and humanitarian relief and reconstruction. Section 3 looks at housing as a foundation for democracy, governance, and security. Key points from each section are summarized below as talking points that can be used in making the case for housing.

Through discussion and refinement of these ideas during and after the World Urban Forum, we hope to stimulate better integration of housing programs in achievement of economic, social, and civic development goals. Urbanization is generating a massive housing shortage and the growth of slum conditions in Third World countries. Improving conditions and addressing the global housing crisis should be a high priority for national governments and international donors, but, for reasons that are not clear, it is not. Despite the Millennium Development Goals, the development community has made only modest efforts. We look forward to collaborating with the international community to make housing work for all of us.



**Housing as a Driver of Economic Development**

<p><b>Developed Economies</b></p> <ul style="list-style-type: none"> <li>• Macroeconomic impacts of housing account for a significant portion of annual GDP</li> <li>• Housing generates expenditures outside the housing sector</li> <li>• Housing and real estate asset classification leads to greater market efficiency, stability, and liquidity</li> </ul>	<p><b>Developing Economies</b></p> <ul style="list-style-type: none"> <li>• Housing construction in low-income neighborhoods is a stimulus to creation of small businesses</li> <li>• People are more likely to use their homes as places of employment</li> <li>• Cultural and personal value of housing</li> <li>• Microfinance for housing that may be bundled with loans for business development</li> </ul>
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**Housing as a Key to Poverty Alleviation, Health, Humanitarian Relief, and Reconstruction**

<ul style="list-style-type: none"> <li>• Poverty Alleviation                     <ul style="list-style-type: none"> <li>✓ Strong motivator for savings and investment</li> <li>✓ Extra income from rental housing</li> <li>✓ Housing may bring people to jobs</li> <li>✓ Asset base for rural poor with few other resources</li> <li>✓ Absorption of rural immigrants</li> </ul> </li> <li>• Humanitarian Relief and Reconstruction                     <ul style="list-style-type: none"> <li>✓ Recovery from natural and man-made disasters</li> <li>✓ Reconstruction and economic recovery</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Health                     <ul style="list-style-type: none"> <li>✓ Healthy children need healthy homes</li> <li>✓ Clean housing is critical to prevention and care of AIDS, tuberculosis, and malaria</li> <li>✓ Overcrowded homes are crucibles for disease</li> </ul> </li> </ul>
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**Housing as a Foundation for Democracy, Governance, and Security**

<ul style="list-style-type: none"> <li>• Community and Public Participation                     <ul style="list-style-type: none"> <li>✓ Housing needs catalyzes civic activism</li> <li>✓ Stimulus for community-based organizations</li> <li>✓ Empowering women</li> </ul> </li> <li>• Security                     <ul style="list-style-type: none"> <li>✓ Economic security</li> <li>✓ Social security</li> <li>✓ Community stability</li> <li>✓ Alternative dispute resolution</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Decentralization and the Democratic Process                     <ul style="list-style-type: none"> <li>✓ Experience for elected leadership</li> <li>✓ Local government capacity building</li> </ul> </li> </ul>
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## Section 1. Housing as a Driver of Economic Development

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Although this paper is mainly concerned with the impact of housing investment in the developing world, we start with an examination of the known impact in the developed countries, where better data is available.

### 1.1 Impact and Roles of Housing in Developed Economies

The housing sector affects national and local economies in several important ways.

- Housing markets have **significant macroeconomic impacts**. Homebuilding accounts for a notable portion of annual GDP. In addition, housing expenditures in mature economies respond quickly to interest rate changes. As a result, the housing market is often referred to as the handmaiden of monetary policy.
- Housing **generates expenditures outside the housing sector** itself, thus contributing to the strength of an overall economy. These expenditures arise from two causes.
  - ▶ Housing represents a significant store of individual wealth, and increases in wealth are highly correlated to consumption.
  - ▶ Housing formation, even without wealth effects, stimulates significant expenditures on both housing-related and non-housing-related services and goods.
- In Western countries, housing and real estate are seen as a distinct asset class. This fact leads to **greater market efficiency, stability, and liquidity**.
- Housing is a basis for taxation — often local government taxation — and is thus a **significant contributor to the fiscal health of local governments** and their capacity to deliver basic urban services.

These and other aspects of housing are discussed in more detail below.

### Significant Contribution to GDP

Due to its size, the housing sector has a major impact on any country's macroeconomy. For example, for the year 2000 in the United States, the combination of fixed investment in residential real estate and housing service expenditures amounted to 14% of GDP.<sup>3</sup> Added to direct expenditures on housing are expenditures to support the production and distribution of housing-related services: water supplies, wastewater treatment, solid waste disposal, street paving, parks, and other basic elements of urban infrastructure. These account for about 7% of GDP.<sup>4</sup>

### Tool for Monetary Policy

Housing expenditures of this magnitude have a macroeconomic effect, as consumers of housing react to changes in prices and interest rates. In the United States, the United Kingdom, and several other countries, housing prices in the past several years have appreciated while the respective central banks forced interest rates to historically low levels, thus permitting new home owners to enter the market and existing homeowners to withdraw their equity in the form of loans secured by second mortgages or cash-out refinancings of first mortgages. This increase in funds available for consumption has fueled demand for both domestic and imported goods, thus contributing to increases in GDP. In 2001, for example, consumer spending increased sig-

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<sup>3</sup> National Association of Realtors, "Economic Impacts of the Housing Sector" (Chicago, 2003).

<sup>4</sup> U.S. Statistical Abstract, 2004.

nificantly due in part to increased home sales and refinancings.<sup>5</sup>

### **Builder of Wealth**

Housing leads to consumer expenditures through a phenomenon called the “wealth effect.” In this respect, housing is not alone; other forms of wealth, such as stocks and bonds, also generate wealth effects. A recent study in the United States<sup>6</sup> found the wealth effect on consumer spending for both equities and housing were roughly the same, yet the wealth effect for housing was realized much more quickly. The data from this study indicated that 80% of the long-run wealth effect of housing was realized in one year, as compared with five years for stocks. A study by Case, Quigley, and Shiller, analyzing data from the United States and 14 other countries, also suggests an increase in consumer spending due to increases in housing values.<sup>7</sup>

### **More Equitable Distribution of Wealth**

Housing wealth contributes to increased consumer spending because it is more equitably spread throughout society than other forms of wealth. In the United States, data from 2001 indicate 68% of households own their own homes. Furthermore, home ownership is not concentrated among the wealthy. The wealthiest 1% of homeowners control only 13% of the nation’s home equity. This contrasts markedly with the corresponding figures for stock ownership: The country’s

wealthiest 1% own 33.5% of the country’s stock.<sup>8</sup>

### **Multiplier Effect on Local Economy**

Data from the United States show the extent to which housing is a driver of the national economy. The National Association of Realtors reports a multiplier of 1.34 to 1.62 for every dollar spent on direct housing activity. Furthermore, with respect to jobs, for every job in housing construction, 2.448 other jobs are generated in other industries. By some measures, up to 40% of a household’s income is spent on housing-related purchases. Much of that spending is local, resulting in stronger local economies as well.<sup>9</sup> A recent newspaper report on the broader impact of the housing market on the economy of the United States showed a positive association between growth in the housing market and employment increases in the appraisal, building services, architectural, financial, contracting, and material supply sectors of the economy.<sup>10</sup>

### **Non-Housing-Related Expenditures**

Housing formation also generates non-housing-related expenditures that are drivers for the economy. The major class of expenditures is related to family formation. Lifecycle expenditures related to the arrival of children in a family are triggered by housing formation activities and drive

<sup>5</sup> E. Belsky and J. Prakken, “Housing Wealth Effects” (Chicago: National Center for Real Estate Research, National Association of Realtors, 2004).

<sup>6</sup> Ibid.

<sup>7</sup> K. Case, J. Quigley, and R. Shiller, “Home-Buyers, Housing and the Macroeconomy,” paper prepared for the Reserve Bank of Australia Conference on Asset Prices and Monetary Policy, copy in possession of authors, 2003. The Case, Quigley, and Shiller study cast doubt on the wealth effects of stock value increases.

<sup>8</sup> E. Belsky and J. Prakken, *op. cit.*

<sup>9</sup> National Association of Realtors, *op. cit.*

<sup>10</sup> B. Hagenbaugh and N. Knox, “Slowing Home Market to Ripple through Many Layers of Jobs” (USA Today, March 20, 2006, Section B, page 1B). It must be noted, however, that during the Clinton and Bush administrations (roughly 1995–2005), low interest rates distorted the creation of new economic value to housing-related activities rather than to more broad-based growth across many sectors. Reportedly up to 50% of all new employment creation was linked to the housing boom and the rapid buildup of asset prices, rather than to diversified, incremental growth (personal correspondence with Bertrand Renaud, 2006).

expenditure for clothing, furniture, and education.

### **Market Efficiency, Stability, and Liquidity**

Housing in Western financial systems, and some developing economies as well, provides an asset base that contributes to greater market efficiency, stability, and liquidity. While housing obviously provides shelter and in some cases a place where work is performed, housing is treated in the financial markets as an asset, and the financial markets have developed the sophisticated infrastructure necessary to deal with it as such. Open information, strong financial systems, and solid institutions all contribute to market stability, which transforms activities such as speculation into positive impacts on the macro economy and otherwise smoothes, to some extent, real estate cycles.<sup>11</sup> Furthermore, real estate assets, in a mature economy, are not unitary, but are in fact divided into different markets. These various markets follow different cycles; the impacts of these cycles on the macro economy will be market specific.<sup>12</sup> The Western real estate market is more stable and liquid because the risk of investing in the sector can be hedged. This is of critical importance, given the role housing plays in capital formation, as well as the consumption effects (both in the housing sector and outside the sector), as noted above.

### **Support for Economic Flexibility and Responsiveness**

Well-operating housing markets support flexible labor markets. U.S. workers are able to move from communities with declining economic basis to those with employment prospects because of a ready supply of

housing to rent or buy. This has been a major factor in maintaining the low unemployment rate in the United States relative to many European countries with less well operating housing markets.

### **Local Government Finance**

Housing, through property taxes, is a significant contributor to local government finance and thereby to the provision of essential services, such as water, sanitation, transportation, and education. The traditional property tax base is the market value of the property, and as housing prices rise, property assessments rise. The tax base is further strengthened by new construction. The typical contribution of residential properties to the municipal tax base is 43%. To give an example of the potential financial contribution of housing to municipal revenues, assuming a 1% tax rate and assessment at 100% of market value, during 2001, the total property tax revenue in the United States rose by \$185 billion from new residential construction alone.<sup>13</sup> Of course, many jurisdictions assess at only a fraction of the full value of the property, while in other states value increases are limited. Yet as this example shows, the revenue potential of the residential property tax is substantial.

### **1.2 Impact and Roles of Housing in Developing Economies**

Housing is important in the developing world for many of the same reasons that it is important in the developed world. Housing is a significant component of developing countries' economies. A review of housing policy in developing countries by the World Bank showed investment in housing ranged from 2% to 8% of GDP and represented between 15% and 30% of fixed capital formation.<sup>14</sup> In

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<sup>11</sup> B. Renaud, "Speculative Behaviour in Immature Real Estates Markets: Lessons of the 1997 Asia Financial Crisis," *Urban Policy and Research*, 21(2), pp. 151–173, 2003.

<sup>12</sup> Ibid.

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<sup>13</sup> National Association of Realtors, *op. cit.*

<sup>14</sup> R. Buckley and S. Mayo, "Housing Policy in Developing Countries: Evaluating the Macroeconomic

addition, housing is a store of wealth. A study of three countries — China, India, and Indonesia — indicated that more than 40% of the wealth of urban dwellers in those countries is in their housing.<sup>15</sup> A study of the housing market in South Korea shows that up to 55% of consumer wealth is in housing, excluding underlying land values.<sup>16</sup> Housing provides shelter, obviously, but it also serves other needs in developing countries. Housing is a location for business and provides other intangible emotional and cultural benefits.

As in the developed world, housing activities in developing countries have economic benefits beyond the housing sector. Studies in the developing world show the same kind of multiplier effect demonstrated by the U.S. data. Tipple<sup>17</sup> reports the multiplier generated by housing construction is 1.0, meaning that for every dollar spent in a developing country on housing, another dollar is spent in other sectors. This estimate, however, may be overly conservative; other indicators suggest the actual multiplier may be larger. Strassman found substantial labor multipliers, and the multiplier is generally higher in countries with high labor content.<sup>18</sup> More recently, Rietveld, for example, found multipliers of 1.8 in Indonesia.<sup>19</sup>

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Impacts” (Washington, DC: International Bank for Reconstruction and Development/World Bank, 1988).

<sup>15</sup> J. Davies and A. Shorrocks, “Wealth Holdings in Developing and Transition Countries,” paper presented to the Luxembourg Wealth Study Conference, copy in possession of authors, 2005.

<sup>16</sup> K-H Kim, “Housing and the Korean Economy,” *Journal of Housing Economics*, 13, 321–341, 2004.

<sup>17</sup> A. Tipple, “A Matter of Interface: The Need for a Shift in Targeting Housing Interventions,” *Habitat International*, 18(4), 1–15, 1994.

<sup>18</sup> W. Paul Strassman, “Employment in Construction: Multi-Country Estimates of Costs and Substitution Elasticities for Small Dwellings,” *Economic Development and Cultural Change*, Vol. 33, No. 2, 1985.

<sup>19</sup> P. Rietveld, “Housing and Employment in Indonesia: Prospects for Employment Generation in the

### **Labor-Intensive Domestic Production**

Housing in developing countries, especially low-income, single-family housing, is generally constructed with domestically produced goods, which results in a greater benefit to the local economy than would use of imported materials. Furthermore, research has shown that less expensive housing is actually more labor-intensive than more expensive housing. This means that by constructing housing more cheaply, not only can more people be provided with homes, but more low-wage workers can be employed, benefiting them directly and benefiting many others who gain from the multiplier effect.<sup>20</sup>

### **Stimulation of Small Business**

Research has shown that housing construction in low-income neighborhoods in the developing world is a stimulus to creation of small businesses; much housing construction is done by small firms, largely in the informal sector.<sup>21</sup> While some housing is self-constructed, owners in informal neighborhoods generally weigh competing opportunities when deciding whether to build themselves or to use the assistance of small construction “companies” operated by relatives, neighbors, or other members of the local community.<sup>22</sup> The use of small firms gives these firms an opportunity to gain experience in the market and to develop capacity to take on larger jobs. Because of constant in-migration from rural areas, the need for housing continues to

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Construction Materials Sector,” *Bulletin of Indonesian Economics Studies*, Vol. 28, No. 2, August 1992.

<sup>20</sup> A. Tipple, “Dear Mr. President: Housing Is Good for Development,” *Norsk Geografisk Tidsskrift*, 49(4), 175–86, 1995.

<sup>21</sup> A. Tipple, “A Matter of Interface: The Need for a Shift in Targeting Housing Interventions,” *Habitat International*, 18(4), 1–15, 1994.

<sup>22</sup> A. Tipple, *op. cit.*; J. Perlman, “Misconceptions about the Urban Poor and the Dynamics of the Housing Policy Evolution,” The Mega-Cities Project, Publication MCP-016, <http://www.megacitiesproject.org/publications/pdf/mcp016.pdf>, 1987.

expand, leading to more opportunities for housing construction by these small firms. Housing thus becomes a contributor to the creation and expansion of small businesses.<sup>23</sup>

### Home-Based Income Opportunities

People in developing countries are more likely to use their homes as places of employment, and by providing houses, the potential for creating additional work opportunities is expanded.<sup>24</sup> In fact, Perlman identified six additional functions of housing.<sup>25</sup> In her view, housing functions as shop, factory, source of rental income, financial asset, entry point into the urban economy, and storage space or warehouse. In Asia, housing is viewed by households as a unique socioeconomic asset, and many Asian businesses see their real estate assets as having a strategic importance beyond a physical place in which to conduct their business.<sup>26</sup>

### Cultural Value of Housing

It is precisely the role of housing beyond shelter that renders market-oriented approaches somewhat difficult in some areas of the developing world. Whereas in many Western countries housing is treated almost exclusively as an asset, the situation is far more nuanced in other cultures. Some African groups, for example, place such a

high and personal value on housing, they do not sell it.<sup>27</sup>

Cultural differences and informal settlements systems also suggest that other Western reforms — development of a secondary mortgage market, municipal bond financing, improved financial markets, better bank regulation and supervision, and bankruptcy and foreclosure reform<sup>28</sup> — may require different approaches.

### Unlocking Asset Value in Housing

DeSoto has discussed the need to free the “dead capital” locked in housing and other real estate assets because mortgage financing is not available, whether because titles are not properly registered or because mortgage markets do not function.<sup>29</sup> In middle-income countries, real estate reforms may lead to better land registration systems and assist in creating a viable mortgage market. These options may not be currently available in poorer countries or in informal settlements.

### Microfinance for Housing

Innovative programs have been developed, however, to bring lending opportunities to those who do not currently have them. Microfinancing is being used increasingly for housing loans, with terms affordable to those with modest incomes.<sup>30</sup> Features of housing

<sup>23</sup> It has been observed that the informal sector is more effective in creating jobs than the formal sector (Todaro and Smith 2003).

<sup>24</sup> A. Tipple, “Dear Mr. President: Housing Is Good for Development,” *Norsk Geografisk Tidsskrift*, 49(4), 175-86, 1995; J. Perlman, *op. cit.*; V. Mitullab and K. Kibwana, “A Tale of Two Cities: Policy, Law, and Illegal Settlements in Kenya,” in E. Fernandes and A. Varley, eds., *Illegal Cities* (London: Zed Books, Ltd., 1998).

<sup>25</sup> J. Perlman, *op. cit.*

<sup>26</sup> B. Renaud, “Speculative Behaviour in Immature Real Estates Markets: Lessons of the 1997 Asia Financial Crisis,” *Urban Policy and Research*, 21(2), pp. 151–173, 2003.

<sup>27</sup> A. Tipple, personal communication with the authors, 2006.

<sup>28</sup> B. Renaud, “Speculative Behaviour in Immature Real Estates Markets: Lessons of the 1997 Asia Financial Crisis,” *Urban Policy and Research*, 21(2), pp. 151–173, 2003.

<sup>29</sup> H. deSoto, “The Mystery of Capital” (New York: Basic Books, 2000).

<sup>30</sup> UN-Habitat, “Small Loans for Shelter: The Rise and Rise of Microfinance,” [unhabitat.org/mediacentre/documents/ghs/grhs05f5.pdf](http://unhabitat.org/mediacentre/documents/ghs/grhs05f5.pdf), 2005; M. Klinkhamer, “Microfinance Housing Projects and Experience with Land Title as Collateral,” <http://wbln0018.worldbank.org/lac/lacinfoclient.nsf/49a0102c9b95cf028525664b0>

microfinance include a maximum 2-year term for improvements or a maximum 5-year term for land purchase; collateral that is usually not required, although co-signers may be necessary; loans for housing that may be bundled with loans for business development; and microfinance housing loans that are specifically targeted to low-income salaried workers, micro-entrepreneurs, or the poor.<sup>31</sup>

### **Community-Led Finance for Infrastructure**

Another innovative program, the Community-Led Infrastructure Finance Facility (CLIFF), has helped more than 2,700 families in India with shelter needs, and has funded two sanitation projects benefiting some 215,000 families. CLIFF provides funding to organizations within the informal sector directly, bypassing, but yet supporting, programs available from communities or banks. By using CLIFF funding, organizations in the informal sector can attract other funding, thus leveraging CLIFF funds and making them even more productive and beneficial. The program is being expanded to Kenya.<sup>32</sup>

### **Development of Land and Real Estate Systems**

The recent innovations in housing finance may solve another problem related to “dead capital,” namely, ignorance of the financial benefits that real estate may provide. It is not unusual, in developing or transitional countries, to meet individuals who ignore land registration laws because they simply see no benefit in registering title to their properties.

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06a17a4/bbf39167afafd94a2852569e70047965e/\$file/panaritis-klinkhamer.doc, 2000.

<sup>31</sup> Consultative Group to Assist the Poor, “Donor Brief: Housing Microfinance,” [http://www.cgap.org/docs/donorbrief\\_20.pdf](http://www.cgap.org/docs/donorbrief_20.pdf), 2004.

<sup>32</sup> M. Jack and I. Morris, “The Community-Led Infrastructure Finance Facility,” [http://www.citiesalliance.org/doc/resources/financing/cliff/article1adf\(fullversionfinal\)\\_jun05.pdf](http://www.citiesalliance.org/doc/resources/financing/cliff/article1adf(fullversionfinal)_jun05.pdf), 2005.

Yet without registration, loans cannot generally be secured by real estate, and the equity real estate represents cannot be freed for other uses. The owner of a beauty salon in Serbia saw no reason to register her property. She was, however, in need of funds to expand her business. When she was told she could secure financing based on the value of her property, but only if it were properly Registered, she then understood the importance of registration and compliance with real estate laws.<sup>33</sup> As more and more people take advantage of microfinance and other targeted loan programs, real estate markets further expand, thereby freeing capital for development.

### **Development of Primary and Secondary Financial Markets**

The development of capital markets to support housing and collateral investments in urban infrastructure have been a major factor in the West in creating more open, accountable, and honest local governments. Capital markets scrutinize urban financial practices far more closely than can other levels of governments or citizens. Local governments failing to meet the standards of lenders and underwriters in the municipal credit markets quickly find themselves shut out of these markets. At the same time, active mortgage credit markets promote the effective enforcement of building codes and safety and hygiene standards.

Active mortgage markets also provide an important long-term investment for both public and private pension funds — providing the elderly with a more secure income in old age. As more and more countries adopt partial funding for their pension systems, the role of municipal credit and mortgage markets is growing.

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<sup>33</sup> J. Eckert, personal communication with the authors, 2006.

### Role of Land and Real Estate Assessment Diagnostics

Reform of land and real estate markets in developing countries will be required in the long run. Effective reform also requires reform of financial markets, government policies and institutions. In reality, such a comprehensive approach is rarely, if ever, taken, and reforms are usually piecemeal.

Recognizing the situation, the World Bank convened a multi-sectored, cross-network association of partners to develop a diagnostic tool for country-specific action plans that define a comprehensive sequence of steps for reform of real estate markets, including housing. The result was the Land and Real Estate Assessment (LARA), which follows a decision tree approach with a series of diagnostic questions, indicators, and metrics divided into three main reform areas: rights, information, contracting, and enforcement (RICE); finance and risk management; and market structure.

In addition, there are sections dealing with the housing market and its performance, specifically whether the market is efficient and productive, and whether the market is equitable and capable of meeting all housing needs. Use of the LARA diagnostic tool in a developing country can provide a rich data source to describe existing conditions and point the way to needed housing reform.

The LARA survey can also be used to derive indicators that are comparable across countries. LARA was first implemented in four transitional countries (Armenia, Croatia, Moldova, and Russia) and South Africa (Eckert 2004), as well as in two post-conflict countries, Iraq and Kosovo (Eckert et al. 2005). These surveys provide an interesting contrast between reforms necessitated by economic regime change and reforms driven by conflict. These results are displayed in the table below.

Overall Score <sup>†</sup>		Rights		Financing		Market Structure	
Kosovo	1.21	Iraq	1.69	Kosovo	1.09	Kosovo	0.50
Moldova	1.33	Kosovo	1.79	Moldova	1.09	Moldova	0.62
Russia	1.60	Armenia	1.79	Armenia	1.39	Russia	1.38
Armenia	1.78	Croatia	1.92	Russia	1.61	Iraq	1.56
Iraq	1.81	Moldova	2.04	Croatia	1.65	Armenia	1.62
Croatia	2.03	Russia	2.21	Iraq	2.11	South Africa	2.44
South Africa	3.02	South Africa	3.62	South Africa	2.78	Croatia	2.75

<sup>†</sup> The lower the score, the less friendly the country is to the market. Higher scores indicate more market-oriented land policies and practices.

Iraq, because its property rights regime is neither robust nor comprehensive, its land cadastre is outdated, and its likelihood of immediate reform is low, scores at the low end of the scale with respect to the rights framework, but compares favorably with respect to real estate finance and is in the mid-range with respect to market structure. Kosovo, on the other hand, is consistently at the low end of the scale in all categories. Its market structure is the least favorable among the seven entities studied and its real estate financing market is tied for the least favorable.

The studies, taken together, identify specific problem areas in these countries and provide information to the specific countries and international donors that can be used to design appropriate targeted and coordinated intervention remedies. They illustrate the work that must be done prior to attempting to build or reform the housing and real property markets in Third World countries. The costs of this type of planning are small compared to the benefits that well-functioning housing and real property markets can bring to national economies.

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## Section 2. Housing as a Key to Poverty Alleviation, Health, Humanitarian Relief, and Reconstruction

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**H**ousing is a basic human need, yet one-sixth of the world's population lives in slums.<sup>34</sup> Data from recent studies show that as much as 70% of the urban housing stock in sub-Saharan Africa, 50% in South Asia, and 25% in Latin America and the Caribbean was of poor quality and out of compliance with local regulations. Median usable living space in sub-Saharan Africa and South Asia was about 7 square meters (75 square feet) per person compared to 32 square meters (350 square feet) in the industrialized countries, and per capita expenditures on roads, sewerage, drainage, water supply, electricity, and garbage collection was 10 to 40 times greater in the industrialized countries than it was in developing countries. Almost a quarter of a billion people in urban areas lacked potable water and more than half a billion lack basic sanitation.<sup>35</sup>

### 2.1 Housing and Poverty Alleviation

Thirty percent of the world's urban population lives in poverty.<sup>36</sup> Though the poor migrate to cities in search of jobs, urban poverty can be as devastating as the rural

poverty they left behind. The Woodrow Wilson Center Comparative Urban Studies Program looked at studies of slums in Argentina, Brazil, Hungary, Mexico, and Russia and found that “those left behind in the accelerating process of globalization are more marginalized with fewer paths out of poverty . . . .”<sup>37</sup> Housing plays several important roles on that path.

### Strong Motivator for Savings and Investment

The desire for a decent home is every household's dream. It is the single largest investment most families will make and an asset with generally appreciating value. Just as in industrialized countries, building or buying a home in a developing country grows the worth of a family and helps build a more equitable distribution of wealth. Sites and services programs, expandable core housing, and home improvement lending around the world over the years have all shown that, with a relatively small investment, families can and will start with what they can afford and then expand and improve over time, building their way to a better quality of life. Homebuilding allows families and relatives to invest their labor. Homebuilding can also be a form of direct savings, where families buy and stockpile materials as they are able. Home equity is also the basis for credit, which is very important and often hard for the poor to access. In many low-income countries, however, household investments are discouraged by cloudy ownership rights, the inability of local governments to provide necessary residential services, nontransparent

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<sup>34</sup> World population in 2000 was approximately 6 billion; UN Habitat estimates that 1 billion live in slums.

<sup>35</sup> Coalition for Sustainable Cities Discussion Paper, May 16, 1997, based on several sources: “Global Report on Human Settlements” (UNCHS, 1996); “Financing and Infrastructure Projects: Emerging Trends from IFC's Experience” (World Bank, 1994); “Housing: Enabling Markets to Work” (World Bank Policy Paper, 1993); and “Urban Policy and Economic Development: An Agenda for the 1990s” (World Bank, 1991).

<sup>36</sup> “Reinventing Planning: A New Governance Paradigm for Managing Human Settlements,” position paper for the June 17-20, 2006, World Planners Congress in Vancouver.

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<sup>37</sup> Lisa Hanley, Blair Ruble, Joseph Tulchin, eds., “Becoming Global and the New Poverty of Cities” (Woodrow Wilson International Center for Scholars, 1995).

land use and planning processes, and the lack of access to credit.

### **Extra Income for Families Who Rent Out Rooms**

Rental housing plays an important role by providing extra income for families who rent out rooms in their homes and by providing critical transitional housing for rural immigrants, young families, and those still saving. These informal rental arrangements also support greater flexibility in the labor force to move to where economic opportunities are growing.

### **Bringing People to Jobs**

Development and economic progress are inexorably associated with urbanization. Whether in the developed West, the transitional economies of the former Soviet Union, or developing countries in Asia, Africa, and South America, cities and towns are growing, while rural communities are shrinking. People migrate to cities in search of a better life for themselves and their families. Urbanization helps alleviate poverty by providing alternative sources of income and services for the poor. Local governments need to better provide for the accommodation of new migrants. Better planning and development is needed to ensure adequate access to land, housing, and urban services.

### **Asset Base for Rural Poor with Few Other Resources**

Homes of the rural poor are often just a single room, sometimes shared with livestock, with no latrine, electricity, or water. Habitat for Humanity, which works in both urban and rural areas in 100 countries, reports that decent shelter in rural areas is critical to rural development. A decent place to live allows families to tackle other needs in their lives, like work, health, and education. It creates an asset base — which is particularly important to those who have few other resources — and

it provides a space in which to work and through which the owner can generate income.<sup>38</sup>

### **Absorption of Rural Immigrants**

The labor-intensive nature of homebuilding is important to job creation and income generation. It absorbs rural immigrants, in many places employs both women and men, and offers opportunities for youth. Unskilled workers can learn construction trades on the job, skilled workers can start small homebuilding and improvement businesses of their own, and small builders can grow into larger entrepreneurs.

## **2.2 Housing and Health**

### **Healthy Children Need Healthy Homes**

The very poor — whether urban or rural — have short life expectancies and high rates of child mortality. They experience very high incidences of infectious disease. Gastroenteritis and respiratory diseases in particular are exacerbated by substandard housing and services. Indoor air pollution from cooking in poorly ventilated homes is taking a toll on women and children, and children from households without piped water are 3 to 5 times more likely to die of diarrhea than those from households with piped water supply and sewerage systems.<sup>39</sup>

An Emory University research study on Habitat for Humanity work in Malawi provided evidence of the impact of improved housing on key indicators. Children under five living in houses built by Habitat for Humanity showed a 44% reduction in malaria and respiratory or gastrointestinal diseases compared to children living in traditional houses. The researchers concluded that the

<sup>38</sup> Shawn Reeves, “Rural Poverty and Housing” (Habitat World, [www.habitat.org](http://www.habitat.org), June 2005).

<sup>39</sup> “Housing: Enabling Markets to Work” (World Bank Policy Paper, 1993).

effect of improved housing on the health of young children was as high as that of water and sanitation programs.<sup>40</sup>

### **Clean Housing Critical to Prevention and Care of AIDS, Tuberculosis, and Malaria**

Preventive strategies are more effective and more cost-effective than curative strategies with diseases of poverty like HIV/AIDS, tuberculosis, and malaria. A decent home and environmentally safer neighborhood offer better prospects for prevention and care for these and many other diseases. HIV drugs are less effective where living conditions are poor. Sufferers should have to have a clean, warm home with safe drinking water (40% of fatal complications in HIV patients are caused by polluted water supplies), and they need to be able to keep warm (to resist complicating infectious diseases).<sup>41</sup> Housing for AIDS orphans in Africa is also an acute problem that needs to be addressed.<sup>42</sup>

### **Overcrowded Homes as Crucibles for Disease**

In the United States, studies show that poor housing contributes to the number of children suffering from asthma, viral infections, and other health problems. Victor Barbiero, previously with USAID's Global Bureau for Health and now at George Washington University, calls urban areas "crucibles," where overcrowded housing and poor sanitation allow disease to heat up and build strength. He worries that an avian influenza

pandemic will start in the slums of the developing world.<sup>43</sup>

At the same time, moving from rural to urban areas in low-income areas does bring people closer to formal medical care. A poor woman living in an urban area is much more likely to receive prenatal care than one living in a rural area, for example.

### **2.3 Housing and Humanitarian Relief and Reconstruction**

When events like the Asian tsunami and the recent earthquakes in Pakistan and Indonesia occur, we are reminded of the destructive power of natural disasters. The need for immediate shelter usually draws a lot of attention, but temporary answers during recovery often turn into unintended permanent housing as support for long-term reconstruction fades. Further, the regularity of natural disasters in regions like the Caribbean and South Asia requires that housing solutions meet higher development standards to protect families and their homes from future natural disasters.

### **Recovery from Natural and Man-Made Disasters**

Reconstruction efforts after natural disasters present an opportunity to "build back better" and incorporate disaster mitigation measures into construction practices and government policies that regulate this industry. USAID dubbed "Build Back Better" as the motto for their hurricane recovery program to help the Caribbean recover from the 2004 hurricane season, which damaged more than 90% of the entire housing stock in Grenada alone. The program also provided the opportunity for both displaced families and the government

<sup>40</sup> Wolf et al., "The Effect of Improved Housing on Illness in Children under Five Years Old in Northern Malawi: Cross-Sectional Study" (BMJ 322, 2001).

<sup>41</sup> Ron Spreekmeester, "The Habitat Dilemma" (UN-Habitat Debate, June 2004).

<sup>42</sup> "AIDS Orphans in Africa: Building an Urban Response" (Woodrow Wilson International Center for Scholars, Center for Policy Studies, 2001, edited proceedings of a forum held in Johannesburg in July 2000).

<sup>43</sup> Victor Barbiero, speaking at a Woodrow Wilson International Center for Scholars Panel Discussion on "Urbanization and Health in Developing World Cities," December 2005).

to take a hard look at land tenure and land cadastre, a politically volatile issue that is often avoided.

Many of the beneficiaries of homes repaired under this program in Grenada realized the benefits of better construction standards when they were hit by Hurricane Emily in 2005, less than one year after Hurricane Ivan ravaged their island. The day after the storm, those families with roofs still over their heads were able to go about their business as usual, not worrying how they would replace their household goods or attend work or where to sleep.

### **Reconstruction and Economic Recovery**

Housing reconstruction plays an important part in economic recovery and growth following disasters in both the short and the long term. In the short term, the provision of housing through host government or donor programs provides immediate investments in the economy through the procurement of materials, labor, and other inputs required for construction. But just as important, though often underappreciated, are the long-term benefits that housing provide to economic recovery and growth through, for example, the home-based enterprises that are enabled through shelter provision. An analysis by the

Cooperative Housing Foundation found a strong link between the provision of shelter and increased household income, citing the following.<sup>44</sup>

- Families provided with shelter following disasters typically attain a significantly higher increase in income than those who are not.
- The benefits of shelter last beyond the emergency assistance period and include positive effects on increased income and family health.
- The benefits of shelter provision appear to be larger after a period of a year or two has passed to enable forward linkages in the economy (e.g., the use of shelter as a platform for business, investments as a consequence of rent-saving, or inducements for a range of trades serving the investments in the home).

Often, the populations most affected by disasters, particularly natural disasters, are low-income households whose houses are most vulnerable to the forces of nature. Replacing their homes can provide the foundation for the development of their household income and their communities' economic recovery.

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<sup>44</sup> Stephen Sheppard and Richard Hill, "The Economic Impact of Shelter Assistance in Post-Disaster Settings" (Cooperative Housing Foundation, 2005).

## Section 3. Housing as a Foundation for Democracy, Governance, and Security

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The bond between elected representatives and their voters, often termed “social capital,” is fundamental to democracy, good governance, and social progress. By definition, social capital is generated through the shared values of a community — none of which are more passionately expressed than through housing. Individuals alienated from communal bonds through lack of or inadequate housing are less likely to engage in civic life than those with quality housing.<sup>45</sup> A community can never build social capital unless the vast majority of its residents have access to basic shelter and trust that their investments in housing will be protected by their leaders. Communities with transparent systems to meet and sustain basic housing needs are more likely to build the trust and social cohesiveness on which democracy and development are founded.<sup>46</sup> Acquiring and maintaining housing, therefore, fosters a commitment to community.

### 3.1 Role of Housing in Community and Public Participation

There is an interdependent relationship between decent housing, the social fabric, and public participation in governance. In many parts of South America, for example, formal public and private approaches did not produce sufficient housing to meet demand. The pent-up frustrations of the resulting squatter communities provoked unrest and political destabilization. As a consequence, de facto informal housing settlements have created informal social organizations that

have succeeded in improving and developing local housing. These organizations, in turn, have strengthened civil society and local democracy.<sup>47</sup> The success of such grassroots, demand-driven efforts to increase housing supply and public participation is rapidly becoming conventional practice in the region.<sup>48</sup>

### Housing Needs as a Catalyst for Civic Activism

Housing demand often manifests itself in coordinated and organized collective action. In the United States, for example, a strong correlation is found between housing and civic activism.<sup>49</sup> In the developing world, where housing need is more pressing, the impact is more profound. Indigenous populations in Cerro Colorado, Peru, had been alienated from quality housing opportunities: Land owned either by the state or by private individuals was denied to large groups of Peruvian Indians. With support from local architects and community organizers, the present residents of Cerro Colorado sustained a prolonged effort of informal subdivision and home construction. Despite official state resistance, the Indians and other aggrieved groups learned to use passive resistance and advocacy to express their need for housing. Based on their success on housing issues, indigenous groups applied their skills in civic engagement to successfully fight for other basic services.

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<sup>45</sup> Michael Woolcock and Deepa Narayan, “Social Capital: Implications for Development Theory, Research, and Policy.”

<sup>46</sup> Susan Saegert and Gary Winkel, “Social Capital and the Revitalization of New York City’s Distressed Inner-City Housing” (City University of New York).

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<sup>47</sup> Michael Cohen, “Preparing for the Urban Future: Global Pressures and Local Forces.”

<sup>48</sup> Ian Docherty, Robina Goodlad, and Ronan Paddison, “Civic Culture, Community, and Citizen Participation in Contrasting Neighbourhoods.”

<sup>49</sup> Weicher, *op. cit.*

### **Housing as a Stimulus for Community-Based Organizations**

In Glasgow and Edinburgh, Scotland, as in other communities around the world, community-based housing organizations have proven to be effective in developing community-based responses to post-industrial social and economic decline.<sup>50</sup> In the face of unresponsive city governments, tenant-managed cooperatives and neighborhood (or other housing) associations pressured elected representatives to improve services and to promote a more socially inclusive approach to urban development.<sup>51</sup> Another example, in the Philippines, is the Pagtambayayong Foundation in Cebu City. This initiative shows how housing organizations can help fulfill government housing policy.<sup>52</sup> By coordinating with the Division for the Welfare of the Urban Poor, the foundation organizes community associations to help collect loan repayments for slum improvement and resettlement sites.<sup>53</sup> Due to the prominent role that housing plays in an individual's life, housing issues lend themselves well to public participation in the political sphere. A housing policy that mobilizes local governments and community members leads to better housing, local government, and civil society.

### **Empowering Women**

Often marginalized from formal decision making, women have traditionally been influential in informal community-based decision making. The development challenge

is, therefore, to elicit the needs and voices of women in an accepting, open format. Housing organizations, such as the Women's Housing Coalition in Baltimore, Maryland, address issues unique to both housing and women when their options in conventional housing markets are severely constrained. In response, the Women's Housing Coalition worked to found the first emergency shelter for women in Baltimore, the first Transitional Housing Program for women and the first single-room occupancy program for women in Maryland, which has become a national model for low-income, special needs housing.<sup>54</sup>

### **3.2 Role of Housing in Decentralization and the Democratic Process**

The global trend toward the decentralization of responsibilities for housing and public services promotes greater responsibility for meeting human needs at the local level. To rise to this challenge, local authorities need greater human, administrative, fiscal, and institutional capacity to meet the increasingly complex demands of managing and financing housing and urban services. Increasingly, non- and quasi-governmental organizations are assisting local governments in this regard.

### **Role of Housing in Building Experience for Elected Leadership**

Elected officials alone cannot solve the housing crisis, but their willingness to empower and collaborate with citizen-based organizations — from housing boards to advocacy groups — will build systems of governance that everyone will feel and respond to. Housing policy must blend the capacities of governmental and nongovernmental entities<sup>55</sup> to ensure effective policy implementation through building technical

<sup>50</sup> Iain Docherty, Robina Goodlad and Ronan Paddison, "Civic Culture, Community, and Citizen Participation in Contrasting Neighbourhoods."

<sup>51</sup> Bo Bengtsson, "Member Utility, Democracy, Interaction and Deliberation — A Theoretical Perspective on Housing Organisations."

<sup>52</sup> Lucia Kiwala, "Is the Habitat Agenda Working for Women?" (UN-Habitat Debate, 2004).

<sup>53</sup> Felisa U. Etemadi, "Civil society participation in city governance in Cebu City."

<sup>54</sup> <http://www.womenshousing.org>.

<sup>55</sup> John Hogan, "Building Capacity" (UN-Habitat Debate, 2004).

and managerial skills. Indeed, most Americans believe elected officials should place a higher priority on making housing affordable.<sup>56</sup>

In South Africa, implementing housing policy through councils or community organizations refines governance practices with multiple benefits for other sectors. Toward the end of apartheid, mistrust of an illegitimate government and the desire for representative government led to civic engagement and policy dialogue that helped the current democratic landscape emerge. Interest groups — most influentially, the Housing Forum — created debate and helped develop policies for a new government. The Housing Forum sparked sustained civic engagement that determined the course of government policy, leading to elected representation and an active civil society.<sup>57</sup>

### **Role of Housing in Local Government Capacity Building**

Properly functioning housing markets enhance local financial and administrative capacities — two key challenges facing many local governments. Local property taxes are a predictable source of financing for local public services. The demands of homeowners have also encouraged local governments to better plan for the delivery of those services and to seek ways to deliver the services more efficiently and responsively. In the United States, for example, 7 of 10 urban planners are employed in local governments.<sup>58</sup> Increased competence of local government staff creates a dynamic, sustainable movement toward more effective local services and

greater community involvement. As decentralization expands the role of local governments, most local governments are showing that they can rise to meet the challenge.

### **3.3 Role of Housing in Security**

Transnational threats, civic disorder, and natural disasters have forced security to the top of the policy agenda. The aftermaths of Hurricane Katrina in 2005 and the tsunami in 2004 destroyed lives and homes, displaced thousands of families, and threatened social cohesion. Citizens are questioning the current allocation of responsibilities, budget priorities, and the capacities of local and national governments and international organizations. Furthermore, terrorism feeds on and compounds these concerns. According to the U.S. Department of Defense:

*Large numbers of rural people will migrate to cities in search of a better life only to find worse conditions. Unable to afford urban dwellings, these migrants will settle in slums and shantytowns on the outskirts, creating a fervent ground for crises, conflict, insurgency and other forms of political violence.*<sup>59</sup>

Housing alone does not address the complexity of security, but it undeniably mitigates threats.

### **Economic Security**

“[Homeownership] brings stability to our neighborhoods and security to our families.”<sup>60</sup> This sentiment, expressed by

<sup>56</sup> National Association of Realtors Survey, cited in *USA Today*, May 24, 2004.

<sup>57</sup> Bo Bengtsson, “Member Utility, Democracy, Interaction and Deliberation – A Theoretical Perspective on Housing Organisations.”

<sup>58</sup> U.S. Department of Labor, Bureau of Labor Statistics, 2006.

<sup>59</sup> U.S. Department of Defense, Special Operations Forces Posture Statement, “Shaping of Tomorrow’s SOF,” 1998.

<sup>60</sup> Statement of The Honorable Alphonso Jackson, Secretary, United States Department of Housing and Urban Development, before the United States House of Representatives Committee on Financial Services, April 13, 2005.

U.S. Secretary of Housing and Urban Development Alphonso Jackson, alludes to much more than physical security. Stable property values (when based on a legal system that promotes private property ownership) mitigate investment risk and enhance confidence and stability. Individuals and organizations may use homeowner equity to support community development or entrepreneurship. Municipal bonds can be issued if investors have confidence that the local government's actions will strengthen and stabilize property values. If citizens are confident that reliable housing will be available to them in other locations, they will be more likely to be more flexible with their employment prospects; therefore, housing policy permits mobility. The benefits gained from increased capital and mobility are derived explicitly from economic security, but have implications that reach far beyond housing.

### **Social Security**

Janice Perlman has been studying the poor of world's mega-cities since the 1960s. Her early work showed that poor residents in the *favelas* of Brazil shared many of the same goals and values as middle-class residents nearby. Returning there three decades later, she found that cynicism and exclusion had become worse because the poor in the city's slums felt disconnected from society at large. Today's *favela* residents are not only poorer in income, but poorer in the capacity to hold their lives together. They are more vulnerable, more susceptible to the damaging realities of their cities, and more likely to be victimized by drugs and violence than were their parents and grandparents.<sup>61</sup>

<sup>61</sup> Janice E. Perlman, "The Myth of Marginality Revisited: The Case of the Favelas in Rio de Janeiro, 1969-2003" (Woodrow Wilson International Center for Scholars, in *Becoming Global and the New Poverty of Cities*, Hanley, Ruble and Tulchin, eds., 1995).

The alternative is integration of slum areas with the administrative and social fabric of the rest of the city. In the 1970s, USAID and the Municipality of Tunis, Tunisia, collaborated on an integrated improvement program in the Mellasine slum settlement at the edge of a polluted lagoon on the outskirts of the city. The area was drained; houses were legalized; roads, water, and sanitation were provided; and a municipal office with administrative and social services was built. A PADCO team went back to Tunis in 2000, as part of our support for the Urban Development Timeline (see [www.urbantimeline.org](http://www.urbantimeline.org) and the exhibit at WUF III). We found that residents have continued to improve their homes, and today Mellasine is a vibrant community, fully integrated with the city that now surrounds it.

### **Community Stability**

The USAID Housing Guarantee program during the late 1900s and early 2000s demonstrated that long-term housing vision produces both immediate and sustainable results affecting community stability. An evaluation of the program in Ecuador and Honduras found that beneficiaries not only obtained adequate and affordable shelter solutions at the outset, but also over time very noticeably improved their physical homes, family wealth, and earnings potential, as well as their safety, social, educational, health, cultural, and recreational conditions.<sup>62</sup> Housing policies and programs address the core of community stability due to the multiplied benefits of the initiative. Health, education, and other sectors are certainly important prongs of productive development, but they lack the ability to permeate and profoundly affect a community in a way that stabilizes and motivates a frustrated commu-

<sup>62</sup> LAC Housing and Urban Upgrading Assistance Retrospective: Honduras and Ecuador, 1980-2005 (USAID).

nity. Due to the Housing Guarantee program, the people of Ecuador and Honduras were able to provide a meaningful contribution to their community while enhancing their economic and subsistence capacity and significantly improving their standards of life and health.<sup>63</sup>

### **Alternative Dispute Resolution**

Conflicts between individuals within informal housing settlements are exacerbated by the lack of adequate housing, which tends to have a compounding negative effect on the greater population. The ability to mitigate tensions through housing needs demonstrates an effective interdependent relationship between housing and peace building. Informal settlements in South Africa have adopted a housing governance practice of alternative dispute resolution to address housing needs. The process, termed “zwelethemba” (a Xhosa word that means “place of hope”), has been

replicated with positive results across South Africa.<sup>64</sup> The zwelethemba model works to develop local capacity governance through the lens of security, where local people considered to have the knowledge and capacity to contribute to a solution eschew the identification of a victim and an offender, since these roles tend to shift as the dispute (and resolution process) develops. The objective of the zwelethemba model is to find solutions that create a better future rather than focusing on the past. Members of the community come together in structures called “Peace Committees,” which facilitate gatherings that bring community members together within a problem-solving forum.<sup>65</sup> Of the 1,300 peace gatherings that have been held in South Africa, 57% of the participants were women and 12% were youth. Outcomes of the model include housing improvements for the elderly, play areas for children, and cleaner public spaces.<sup>66</sup>

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<sup>63</sup> LAC Housing and Urban Upgrading Assistance Retrospective: Honduras and Ecuador, 1980–2005 (USAID).

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<sup>64</sup> Clifford Shearing and Jennifer Wood, “Nodal Governance, Democracy, and the New ‘Denizens.’”

<sup>65</sup> <http://www.temple.edu/lawschool/phrhcs/lcgovernance.htm>.

<sup>66</sup> Ibid.

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## Conclusions: Housing, Urbanization, and the National Interest

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The global housing crisis is not just a problem confronting poor people or low-income countries. Urbanization is a natural and continuing consequence of economic growth in rich and poor countries alike. Failure to create viable communities based on access to housing that meets citizens' needs and to enroll citizens in the community-building process creates problems that are as visible in the suburbs of Paris and in the growing numbers of China's emerging urban areas as they are in the squatter settlements of La Paz, Mexico City, and Jakarta. It is in the national interest of the developed economies to work out a strategic response to the problems and opportunities associated with urbanization in the developed and developing world. We ignore these problems at our own risk. If we address them, economic and social development will expand, business opportunities will grow, state and local governance will be stabilized, and the need for crisis intervention will decrease.

An analysis by PADCO of urban issues and opportunities in the national interest found that unless a concerted response is engineered to improve policies and to increase public and private investment in cities of the developing world<sup>67</sup>:

- markets for goods and services in developing countries will not reach their potential;

- world environmental and health hazards will increase; and
- world security risks and the costs of crisis intervention will rise.

Urbanization and development can mean substantial opportunities in the interest of all. The United States now exports more to South Korea in just one year than it gave in total to that country in foreign assistance throughout the 1960s and 1970s.<sup>68</sup>

Urbanization is not the problem, poverty is. Cities are engines for economic, social, technological, and cultural progress. Urban economies provide more than one-half of the economic growth of every country of the world, with percentages ranging from 55% in developing nations to 85% in the developed countries.<sup>69</sup> Urbanization also correlates with improved household income and health and declining household size.

Globally, cities accommodate 3 billion people, and many cities — large and small — work reasonably well. The challenge is that the cities of the developing world will have to accommodate another 3 billion over the next 25 years and they lack the resources and the capacity to do so.

Our words and actions will largely determine whether we are to be successful or not.

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<sup>67</sup> "The Urban Crisis in Developing Countries," discussion paper prepared by Duane Kissick with the Coalition for Sustainable Cities, in conjunction with a Capitol Hill Staff Briefing on May 16, 1997.

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<sup>68</sup> Business Alliance for International Economic Development, "What's in it for Americans?" June 1996.

<sup>69</sup> Marc Weiss, "Metropolitan regions are dynamic economic engines of global prosperity and quality of life for everyone" (Prague: Prague Institute for Global Urban Development, 2003).

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