



Habitat Debate

Global Overview

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Alleviating Poverty Through Housing Development

by Rainer Nordberg

Research has clearly demonstrated that in most regions housing has the potential of becoming an engine of economic growth because of its high yield on invested resources, a high multiplier effect, and a host of beneficial forward and backward linkages in the economy. However, while the economic benefits of housing have been widely recognized, housing is rarely used as an element of poverty alleviation strategies. This article attempts to redress this deficiency by examining practical approaches to poverty alleviation through housing development. As a great part of the urban poor live in informal settlements, and derive their livelihoods from the informal sector, policies aimed at alleviating urban poverty must focus on promotion of the informal sector. Based on lessons learnt from UNCHS (Habitat)'s projects implemented over the past decade, the following eight points are presented as a tool kit for poverty alleviation through housing and construction.

I. Upgrading informal housing

Despite the fact that the informal housing sector produces the majority of all new housing units in the cities of developing countries, it is rarely appreciated or supported. On the contrary, the houses and the economic activities in informal settlements have often been destroyed by public authorities, thus aggravating, instead of alleviating, poverty. However, governments are gradually realizing that informal housing can, indeed, become a solution because it requires minimum public investments. Informal settlements, regardless of quality, provide affordable housing for the poor. Destruction of informal settlements decreases the housing stock, increases poverty and only shifts the slums into another location. As governments are unable to build houses for all the needy, they should support the efforts of people to provide housing for themselves. This implies the acceptance of informal settlements as legitimate forms of urban housing which should be improved rather than demolished.

II. Providing land for informal housing development

However, slum improvement does not solve the housing problems of the new urban migrants as it does not generate

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new housing stock. Therefore, governments should designate special areas for informal housing development where people can build their houses over time with whatever building materials are available and affordable to them. Building sites should be offered to the urban poor with the same conditions as land in existing informal settlements, that is, without infrastructure and services. The reason for this is simple: if infrastructure is provided, the urban poor cannot afford the price of land because it has to include the cost of infrastructure in order to achieve cost recovery. Yet, in contrast with the existing informal settlements, the government-sponsored informal settlements schemes should offer security of tenure. This will stimulate investment in housing, even in areas that are not serviced with infrastructure. In exchange, people will have to build the infrastructure themselves according to plans and technical advice provided by the local authorities. If employed under a purposeful master plan of the city, allocation of planned land for informal settlements would direct informal housing into prescribed sections of the city, and reduce the growth of slums. In addition to increased employment, the designation of informal housing areas will contribute directly to poverty alleviation by providing access to housing for the urban poor.

III. Supporting community-based construction and management of infrastructure

Public agencies should provide licences and/or contracts to informal bonafide firms and community associations for the execution of specific tasks in the construction of infrastructure and provision of services. The community-contract system for the provision of infrastructure and services has proved to be an effective tool for poverty alleviation as it uses unskilled and semi-skilled labour. However, the use of a community-based approach to infrastructure provision requires training of both public authorities and community groups in participatory approaches and effective technical supervision and assistance.

IV. Supporting informal sector contractors

Small-scale contractors can play an important role in poverty alleviation because they use unskilled labour, local materials and labour-intensive techniques. However, their growth is constrained by many factors, such as lack of access to markets, finance, vocational training, equipment and information. Public agencies tend to favour large-scale public or private enterprises through various practices and procedures such as tender conditions that call for large financial capacity, machinery and equipment, cheap credit, preferential pricing, building material concessions, specifications calling for high-tech building techniques and materials. Strategies to support the small-scale formal and informal sector contractors include:

- development of mechanisms to make credit available to small scale contractors;

- targeted procurement, e.g. instead of minimum financial capacity, the procurement conditions could exclude the contractors above a certain financial capacity;
- revision of regulations on preferential pricing and building;
- splitting large contracts into several smaller contracts;
- creating a revolving fund for equipment procurement;
- provision of training in tendering and contract management;
- facilitating access to credit.

V. Supporting small-scale building materials producers

Due to the high employment content and low capital costs, production of building materials have been successfully combined with poverty alleviation in many countries.

Experience has shown that small building materials producers are often very viable in comparison with their industrial counterparts. Yet, their growth is often constrained by lack of access to credit, government policies that favour large-scale suppliers, barriers to register and compete for tenders and lack of appropriate standards for local building materials. Strategies to support small scale building materials producers include:

- simplifying registration procedures;
- development of specifications and quality standards for local building materials;
- facilitating participation in tenders through targeted procurement by considering employment aspects besides financial and technical aspects;
- specifying local materials for the construction of public buildings.
- provision of training and technical assistance, especially in the development of production lines and quality control; and
- facilitating access to credit;

VI. Supporting informal and community-based financial systems

In most developing countries, the formal housing finance institutions provide services mainly to the upper and middle-income groups because the urban poor lack collateral, regular income and savings. The urban poor depend on informal credit sources, such as family members, rotating credit societies and savings clubs. These are often successful because they are based on social ties. They require little paperwork or no collateral, they are not regulated by the government, and they use peer pressure to prevent default. They are constrained, however, because they can offer only limited capital for a short term and because they do not have

a wide enough base to diversify risk. Rotating credit societies are major players in informal housing, and they can become important tools in poverty alleviation. The challenge is to link them to a wider, national housing finance system. This can be achieved, for instance, by developing bridging organizations that will assist in streamlining the administrative processes related to the servicing of the loans. Successful examples include the Zimbabwean building societies that lend to low-income households through cooperatives. The active presence of a technical support NGO has proved to be crucial in linking the cooperatives and building societies.

VII. Supporting low-cost rental housing

For many of the urban poor, including small households, young couples and newly arrived migrants, rental housing is the only practical form of tenure. Urban poor tenants often use a large part of their income on rent, even for grossly inadequate housing. Research has shown that the proportion of income spent on housing is highest for the poorest. After paying the rent and buying daily food, the poor often have nothing left for savings. Thus, many low-income households find themselves in a vicious circle of poverty: lack of steady income forces them to rent accommodation, and high rents keep them poor.

The availability of cheap rental housing is a vital element in any poverty alleviation strategy. However, many developing countries lack a policy to support the low-cost rental housing sector. In many cases, planning and building standards discourage or even forbid low-cost rental housing. In addition, banks often offer loans only for ownership housing. Yet, there is an increasing demand for rentals. By providing incentives to private sector investors to invest in rental housing, especially at the lower end of the market, governments can reduce shortage of housing and alleviate poverty through employment generation. Studies show that rental housing could be used as a method to finance housing for the "no-income group" who cannot service a loan.

Support activities to stimulate rental housing include:

- developing loan systems for the construction of rentals;
- provision of land for low-cost rental housing development by small-scale developers;
- revision of planning and building standards to facilitate rental housing;
- tax exemptions for rental housing construction and rental incomes;
- integrating rental rooms in low-income housing schemes as a method to finance housing for the urban poor;

VIII. Revision of building regulations and codes

In many countries, building regulations and codes prohibit the

use of the only building materials the poor can afford: mud-bricks, compressed earth blocks, hand-made roofing tiles, or soil-cement flooring, etc. As the urban poor cannot afford to buy officially recognized building materials, they are obliged to build in informal areas where the building code is not enforced. However, as there are no standards for locally produced building materials, banks do not provide loans for houses built with local materials. Besides impeding access to adequate housing for the urban poor, prohibitive building codes hinder the development of the small-scale and informal building sector which could play an important role in poverty reduction. Revision of building codes and establishment of technical norms and standards for local building materials will contribute indirectly to poverty alleviation through increased low-cost housing construction and employment.

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