



# Innovative financing for low-income housing improvement: lessons from programmes in Central America

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**SUMMARY:** *This paper discusses what has been learnt from housing and local development programmes in Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua supported and funded by the Swedish International Development Co-operation Agency (Sida) during the last 15 years. It identifies common financial mechanisms that have proven to be effective and affordable by the urban poor in their search for better housing. It also discusses the different policies and interventions by national and sub-national governments and the "non-market incentives" that were required to make low-income housing programmes feasible and affordable, and what these imply for the financial and institutional sustainability of such programmes. It ends with recommendations for other international donors and national institutions that are seeking to design new financial services for housing for low-income groups.*

## I. INTRODUCTION

AROUND 900 MILLION urban dwellers worldwide live in settlements that can be characterized as "slums", and most of these are in low-income nations.<sup>(1)</sup> Their numbers have grown rapidly over the last 20 years, and will continue to do so unless the housing policies of governments and international agencies become far more effective. The urgency of addressing this is recognized by the Millennium Development Goals, which has as one of its main targets to improve significantly the lives of at least 100 million slum dwellers by 2020. The Millennium Project Task Force on Improving the Lives of Slum Dwellers has interpreted this to mean not only significantly improving the lives of 100 million slum dwellers but also putting in place the policies that provide alternatives to "slums" for all new urban dwellers.<sup>(2)</sup> Achieving this will require new ways of addressing such critical issues as access to land for housing, secure tenure, provision of basic services and improvements to housing for the urban poor. It will also mean supporting the incremental processes by which low-income households build, since this is how most dwellings are built or improved. Creative measures and new ways of financing these must be found.

This paper draws on the authors' own experience over the past 15 years in the design and implementation of low-income housing programmes in Central America, financed by Sida. It begins by describing the difficulties of financing low-income housing improvement programmes, and the main types of financial schemes and sub-markets for housing that are available

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to the urban poor in low-income countries. It then describes the objectives and main characteristics of the low-income housing programmes that Sida financed in Central America, including issues of management of low-income housing loan portfolios, financial conditions – including the types of interest rate and collateral used – and other aspects that constitute the core of the financial housing schemes used by these programmes. The concluding recommendations emphasize that low-income housing improvement schemes cannot and should not be treated strictly as a regular type of market product offered by conventional or non-conventional housing financing and micro-lending institutions.