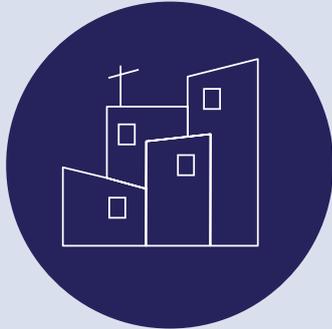


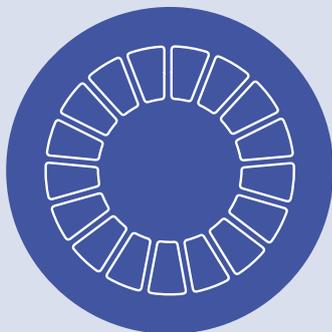
INFORMAL SETTLEMENTS: NO LONGER INVISIBLE

The role of impact in scaling capital mobilisation
to fund slum-upgrading programmes globally

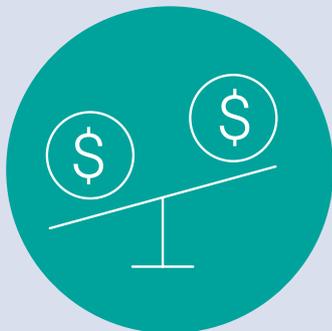




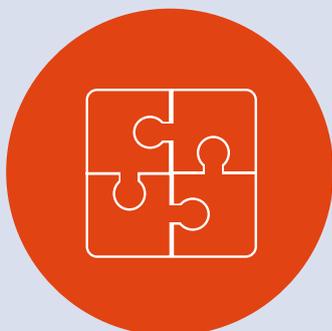
Over 1 billion people live in slums and **informal settlements** across the Global South, without formal access to potable water, sewage or electricity



Urban informality must be placed at the centre of the global impact agenda if we are to **deliver the SDGs by 2030**



Government budgets alone are not enough to fund the necessary improvements to informal settlements - given **total investment needs** estimated at **US\$6 trillion globally**



There is sufficient private capital to invest in urban programmes that target the most vulnerable. Mobilising this capital will require multi-stakeholder collaboration and financial structures that can align incentives

Abstract

Over 1 billion people live in slums and informal settlements across the Global South, without formal access to potable water, sewage or electricity, amongst other deficits. Despite the severe social and environmental effects of urban informality, it remains invisible to the impact community as an issue area.

In this document, we make the case for prioritising urban informality as a core area for impact and development, and we emphasise the contribution this would make to achieving the UN SDGs. We are calling on all stakeholders to no longer view slums and their inhabitants as a problem only, by acknowledging the potential in transforming urban liabilities into assets.

We estimate that there is a total investment need of about \$6 trillion for slum upgrading globally, which is a sizeable gap from the limited amount of capital that currently goes into related programmes. We also explain why this is a particular area in which supply of capital does not guarantee its own demand. Finally, we propose a basic framework for the design of thematic investment vehicles that can help break the deadlock and reach scale.

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Acronyms

AfDB - African Development Bank

CEPACs - Certificates of Additional Construction Potential

CO2 - Carbon Dioxide

DFIs - Development Finance Institutions

ESG - Environmental Social and Governance

GDP - Gross Domestic Product

GIIN - Global Impact Investing Network

GRESB - Global Real Estate Sustainability Benchmark

GSSS bonds - Green, Social, Sustainability and Sustainability-linked bonds

GSG - The Global Steering Group for Impact Investment

ICMA - International Capital Market Association

KIP - Kampung Improvement Program

LEED - Leadership in Energy and Environmental Design

MDBs - Multilateral Development Banks

NABs - National Advisory Boards

NGOs - Non-Governmental Organisations

OECD - Organisation for Economic Co-operation and Development

SBPs - Social Bond Principles

SDGs - Sustainable Development Goal

SMEs - Small and Medium size Enterprises

UNHCR - United Nations High Commissioner for Refugees

UN - United Nations

UNCTAD - United Nations Conference on Trade and Development

UNDP - United Nations Development Program

UNEP - United Nations Environmental Program

Introduction

The pandemic has made long-standing inequalities facing societies across the world far more visible. Vulnerable communities have suffered the greatest health, economic and educational effects of COVID-19, leading many global leaders, experts and decision-makers to call for solutions to “build back better” and create more just and sustainable societies.

Beyond emergency response, there have been encouraging signs of positive outcomes through some policy interventions, and targeted government, philanthropic and private investment has flowed into community development programmes. Despite this, the need to improve the living conditions of slum dwellers in informal settlements across the Global South continues to be very much in the shadows of mainstream public debate.

Informal settlements, which house well over 10% of the world's population, are home to some of the most vulnerable communities on the planet. Yet slums are often seen as an intractable issue by local and national governments, which lack sufficient funding to finance improvements. They are also overlooked by investors and other private sector stakeholders, many of whom are unaware of the scale of the issue or the challenges faced by the residents.

As increasing urbanisation and migration - in many cases driven by climate change and violent conflict - force people into underserved areas that lack access to basic infrastructure, the growth of informal settlements accelerates, making the need to address the issue ever greater and more urgent.

This work, prepared by The Global Steering Group for Impact Investment (GSG), aims to bring together a broad audience of governments, urban experts, multilaterals, non-governmental organisations (NGOs), investors, other private sector stakeholders and the GSG network of National Advisory Boards (NABs) to address this issue. Its purpose is to spur the creation of financial vehicles and solutions that both help to address many of the complex issues slum-dwellers face and to offer purpose-driven investors the opportunity to deliver impact at scale whilst meeting their financial return objectives.

We designed this document to be:

Action-oriented, as we aim for it to ultimately help increase investment in informal settlements.

People and issue-centred, because putting the issue ahead of, and above, any given financial, technical or programmatic aspects of the analysis, as well as taking into account the perspectives of those affected, is vital to delivering consistent solutions.

Context-sensitive, as we acknowledge that there are no silver bullets or no-one-size-fits-all solutions. However, we also believe that there is merit in deriving some basic principles that could be universally relevant.

How to read this document

The document is organised as follows:

Section 1: Why informal settlements?

The first chapter outlines the scale and complexity of the structural challenges faced by slum-dwellers, who are often in poverty traps, as well as those faced by adjacent city dwellers, governments and the environment. We demonstrate how urban liabilities can be transformed into urban assets, lifting up communities, through careful, considered and well-funded planning and implementation. We set out the case for place-based investing as a powerful tool for mobilising private capital to target the communities that need it most, as well as for making a significant contribution to the achievement of the SDGs.

Section 2: Why impact investment?

The second chapter describes the nature and extent of the financing gap for slum upgrading globally – investment in necessary infrastructure would require a spend of up to 8% of low and middle-income countries' GDP, according to the World Bank – and demonstrates that governments, multilateral organisations and philanthropists cannot tackle this alone. We argue that governments and regulators can create the right frameworks to encourage innovative solutions, with (impact) investors playing a transformative role by scaling up capital to fund slum-upgrade programmes.

Section 3: Design principles for an impact investment instrument

The third chapter lays out the basic design principles for financial vehicles to help solve the problem at scale, exploring how existing structures, such as green, social and sustainable bonds, could provide the basis for innovation. Recent market growth for such bonds demonstrates increasing investor appetite for directing capital towards investments with clear impact goals alongside financial returns.

The principles we describe are not to be seen as prescriptive, since local context and regulations vary significantly from place to place. However, they offer a robust framework for collaboration between governments, NGOs, multilaterals, and investors, among other players, offering a high-level

description of what is needed to create a market-based, mission-driven solution to improving the lives of slum-dwellers and making progress on the SDGs.

Section 4: From potential to practice

- our core recommendations

The final chapter presents our main recommendations for each of the following audiences: a) impact, ESG and other investors; b) governments, regulators, multilaterals and development finance institutions (DFIs); c) urban and habitat experts and d) all stakeholders.

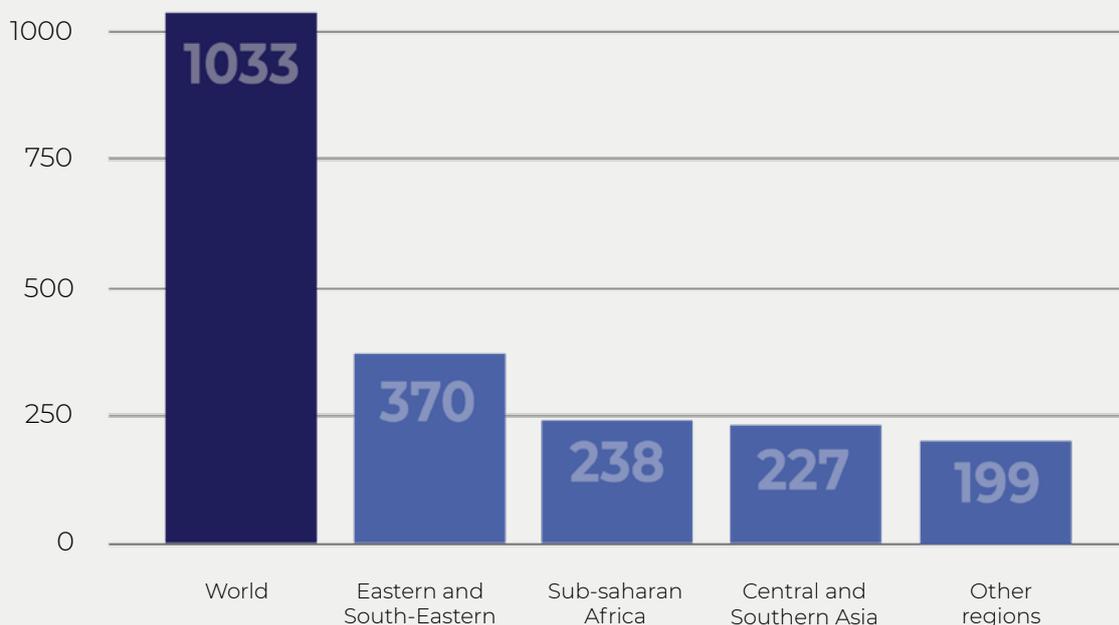
We hope readers find this document engaging and thought-provoking and – most importantly – that it prompts all stakeholders to drive real change.

1 Why Informal Settlements?

A growing issue

Over 1 billion people currently live in informal settlements.¹ That is one in eight of the world's population living in appalling conditions, with neither access to basic infrastructure, such as running water or sewage, nor a decent roof under which to shelter and sleep at night. This multidimensional issue affects developing countries almost exclusively, with more than 80% of slum populations located in Eastern and South-Eastern Asia, Sub-Saharan Africa, Central and Southern Asia and Latin America (Figure 1). In some countries across these regions, the percentage of the urban population living in slums is over 50% (Figure 2).

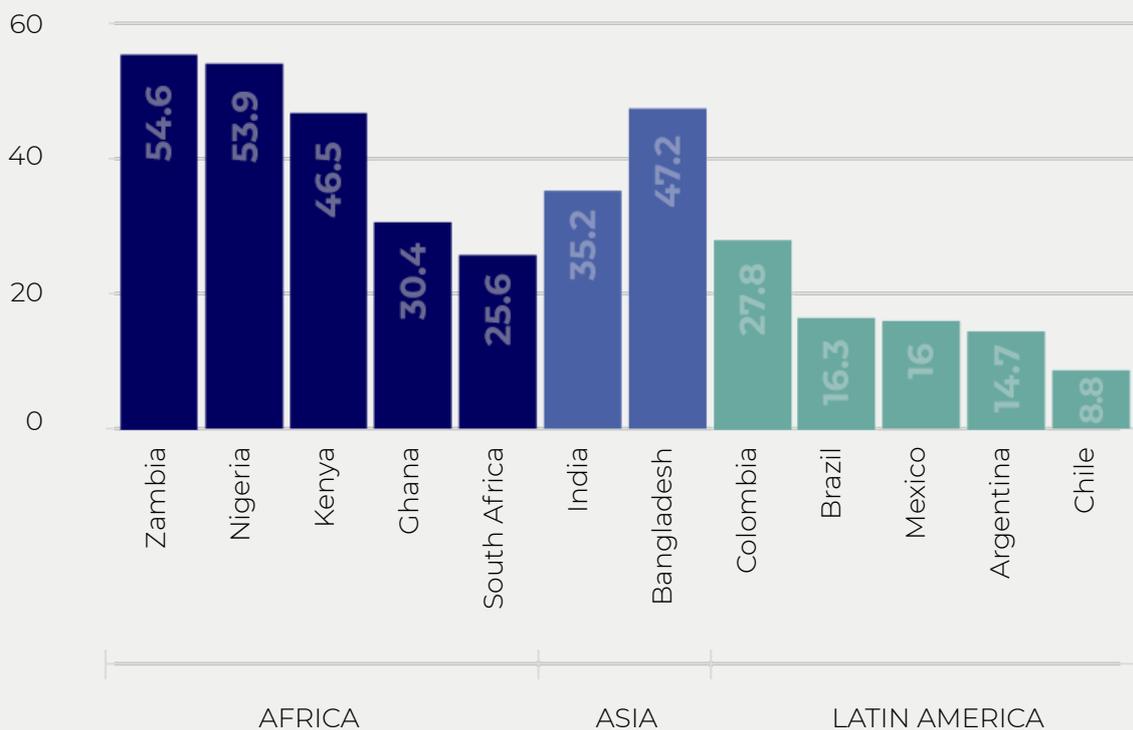
FIGURE 1. Urban population living in slums or informal settlements, 2018 (millions of people)



Source: [UN Stats https://unstats.un.org/sdgs/report/2019/goal-11/](https://unstats.un.org/sdgs/report/2019/goal-11/)

¹ <https://unstats.un.org/sdgs/report/2019/goal-11/>

FIGURE 2. Urban population living in slum area
(% of urban population, 2018)



Source: [United Nations Human Settlements Programme \(UN-HABITAT\) https://data.worldbank.org](https://data.worldbank.org)

The high numbers of people living in informal settlements is largely the result of rapid and often unplanned and uncontrolled urbanisation. By 1950, 30% of the world's population lived in cities; in 2018, that figure had risen to 55%. The United Nations (UN) forecasts that by 2050, 68% of the world's population will be urban.² The developing world will be driving this growth, with 95% of urban expansion expected in these countries, according to the UN's Department of Economic and Social Affairs.³

Urbanisation, combined with population growth and displacement (some of which is climate-driven), places immense pressure on the availability and affordability of urban land (See Box 1) and housing, forcing many people into informal settlements. Indeed, the UN estimates that, by 2050, 3 billion people will live in informal settlements, a figure that may rise further because of the pandemic's effects.⁴

^{2/3} <https://population.un.org/wup/Publications/Files/WUP2018-Report.pdf>

⁴ <https://www.un.org/youthenvoy/2013/08/un-habitat-united-nations-human-settlements-programme/>

At any given point in time, across cities, regions and countries, older, more consolidated slums co-exist with others of relatively more recent formation. Newer slums are often the result of negative socio-economic shocks or sudden, unplanned mass-migration into urban areas. For example, in Argentina 55% of all registered slums existed before the year 2000, whilst 26% of the current stock was created in the 2001-2010 decade - a period of dramatic economic collapse in the country. This mix of age and consolidation and the different local context in each slum area means that development strategies should be tailored according to different scenarios.

BOX 1 LAND USE REGULATION AND ITS LINK TO INFORMALITY

The rise of informal settlements is the palpable consequence of poorly functioning land market systems and an insufficient supply of serviced land at affordable prices. Urban planning systems in the Global South have clearly been unable to respond adequately to the demand for affordable land for housing.

The biggest barrier to land and housing access is usually perceived to be poverty. However, there is a growing consensus that we should look at the issue in a different way: that land use laws and regulations hinder access to land through the formal market. Strict regulations governing the formal markets increase prices, which forces low-income families to look to informal markets, where they can access plots without services or land tenure rights at prices they can afford. These regulations were originally designed to provide optimal conditions for housing, but they tend to have the opposite effect; they end up promoting untitled, informal housing with low rates of legal compliance.

Argentina, for example, has the most highly regulated construction permitting and property registration system in Latin America. A 2016 study into how this affects housing supply and prices found that “municipalities that have incorporated more land planning regulatory measures into their legal and regulatory frameworks also face the cost of larger informal land sectors”.⁵

This highly restrictive regulatory landscape is based on unrealistic assumptions and features inflexible standards and weak enforcement. It constrains the development of a formal land and housing market, forcing low-income households into the informal sector and fostering low rates of compliance with property laws.⁶ (Goytia, 2016). While there is a shortage of affordable serviced land, there are also vast areas of vacant and under-used land that, with the right incentives and policies, could be part of the solution to the issue.

⁵ Goytia, C., & Pasquini, R. (2016). Housing Informality: The Land Use Regulation link to Informal Tenure in Developing Countries.

⁶ Goytia, C. (2016). Informal Land Market and Land Use Regulations in Latin America, Working paper prepared by the Program on Latin America and the Caribbean exclusively for the Meeting of the Board of Directors (April 24–29, 2016).

Defining urban informality

Informal settlements or slums - also locally known as *favelas* (Brazil), *shantytowns* (India), *villas* (Argentina), *aashwa'i* (Egypt) or *campamentos* (Chile) - are typically defined by the attributes they lack. Slum-dwellers usually have no formal access to basic services and face a whole range of issues, including inadequate infrastructure, labour market informality and limited access to education and health services. They also often have to breathe polluted air or drink water that is unsafe, despite the fact that housing and access to basic services is recognised as a human right by law in most countries as well as in international agreements.⁷

UN-HABITAT⁸ defines a slum household as a group of individuals living under the same roof in an urban area who lack one or more of the following:

- 1** Durable **housing** of a permanent nature that protects against extreme climate conditions;
- 2** Sufficient **living space** which means not more than three people sharing the same room;
- 3** Easy access to safe **water** in sufficient amounts at an affordable price;
- 4** Access to adequate **sanitation** in the form of a private or public toilet shared by a reasonable number of people;
- 5** **Security of tenure** that prevents forced evictions. (See Box 2)

⁷ Strengthening this idea, the UN-Habitat argues that “In large, the language to describe shelter interventions has shifted to an increased emphasis on the right of the poor to the city, rather than on the more restricted right to housing” (UN-Habitat, p. 5).

⁸ https://mirror.unhabitat.org/documents/media_centre/sowcr2006/SOWCR%205.pdf

BOX 2 HOW LAND TITLING CAN BRING ABOUT INFRASTRUCTURE INVESTMENT AND ECONOMIC DEVELOPMENT

Households in slums typically gain access to land through transactions negotiated in informal markets, meaning that in many cases poor families invest a huge proportion of their savings or future incomes in unregistered land assets - including through illegal channels. Without a land title, families risk eviction, cannot transfer property and do not have a formal address, which in turn precludes them from accessing many education and healthcare services, the labour market or financial services.

Land titling is therefore essential to economic and social development, as extensive academic research shows.⁹ Secure property rights can help poor families boost access to credit and savings products. They can use this capital to invest, for example, in new tools or machinery that improve labour productivity, ultimately leading to increased income and economic development.

Academics Galiani and Scharfrodsky¹⁰ studied data of families occupying similar plots of land in a poor area in the outskirts of Buenos Aires, only some of whom had land titles - a natural experiment following a government programme that left families out of a titling scheme randomly. The authors found that families with land titles invested around 40% more in their house infrastructure than those without. They also showed that fertility rates were lower among households with land title and that this induced households to increase their investment in education and healthcare.

Land titling needs to be a core element of any socio-urban integration programme. Whilst historically this has been hard to deliver at scale and it continues to be a challenge, new technologies, including drones and handheld apps to map and title land can play an important role in reaching scale at greater speed and at lower cost. In India, the Odisha Land Rights to Slum Dwellers Act from August 2017 put a programme in motion “to identify, map, and issue title for parcels of land in 2,000 slums that house a population of 1 million people”.¹¹

Living conditions in informal settlements contrast sharply with those prevalent in the formal city. Infants and children living in slums have a greater incidence of communicable diseases and higher death rates than their urban peers, according to evidence from more than 190 demographic and health surveys across 73 developing countries.¹² Further, issues such as

⁹ De Soto, H (2000), *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York: Basic Books.

¹⁰ Galiani, S and Scharfrodsky, E (2010), “Property Rights for the Poor: Effects of Land Titling”, *Journal of Public Economics* 94 (9-10): 700-729.

¹¹ <https://www.esri.com/about/newsroom/blog/how-one-million-people-in-indias-odisha-slums-gain-land-rights/>

¹² Fink, G., Günther, I., & Hill, K. (2014). Slum residence and child health in developing countries. *Demography*, 51(4), 1175-1197.

poor air quality or earthen floors cause a high prevalence of respiratory infections among slum-dwellers. Besides, there is recognition that those living close to dumping grounds or drinking unsafe water are prone to contracting infectious diseases.

Finally, the urban poor are also the most vulnerable to climate change and natural hazards, because of the risks in areas where they live, such as in low-lying coastal areas with a high risk of flooding or, at the other extreme, in areas susceptible to drought.¹³

The role of urban planning

Slums form and expand in many parts of the world for a variety of reasons. These can include economic impoverishment and stagnation, international and internal migration (See Box 3), urbanisation and population growth, unemployment, poverty, natural disasters, social conflict, or any other phenomenon that forces populations to settle in a new place where affordable land and/or housing is not available at the required scale. When these dynamics coincide with governments' reduced capacity to plan for urban growth, people are forced to live in settlements that hinder social cohesion, equality and inclusion because they lack spatial organisation and planning.

These settlements often start as transitory accommodation on unregulated land but become permanent over time. Neighbourhoods form, with construction both unplanned and unregulated, which presents safety and adequacy hazards. For instance, illegal connections to the grid commonly result in shutdowns and power outages.

Urban policy therefore has a vital role to play, given the strong correlation between good quality urbanisation and socio-economic development - a fact recognised in [The New Urban Agenda](#), adopted at the UN Conference on Housing and Sustainable Urban Development (Habitat III) in 2016, in Quito.¹⁴

¹³ In a changing environment, the urban poor will disproportionately bear the brunt of changing weather patterns and natural hazards, increasing already deep inequalities even further.

¹⁴ <https://habitat3.org/the-new-urban-agenda/>



Urban policies that focus on slum upgrading and increasing the availability of affordable housing and land, can help reverse economic exclusion, physical disconnection, and social and socio-spatial segregation. At the same time, more and better urban planning is also needed to prevent the creation and expansion of new informal settlements.

Improved urban policy and increased socio-urban integration is beneficial to, and creates net positive value for, society as a whole. Better educated and healthier populations in informal settlements, more secure and sustainable ecosystems and prosperous economies, all have a positive impact on the quality of life of those living in formal areas as well. For example, well-planned and regulated waste management systems in slums can result in fewer waste dumping sites, improving the environment and reducing health hazards for all.

However, most governments in the Global South are, evidently, not addressing informality appropriately. Public funding is often mis-used in low-scale, anecdotal approaches that subsidise new housing and urban upgrading at a rate of investment that is not even enough to cope with the natural growth of overall housing needs (see more in Section 2 below). At the same time, policies to prevent new informal areas from forming through adequate land regulatory frameworks and/or subsidised credits and mortgages are often missing. Rental markets both in formal and informal areas, which are important for increasing the housing offer at affordable rates, helping prevent migration to unplanned informal settlements, are also typically underdeveloped.

BOX 3 MIGRATION AND REFUGEES

Migrants and refugees are often forced to settle in camps or slums (or in emergency camps that turn into slums over time). They are usually forced to migrate because of violent conflict, persecution, climate change or poor economic prospects, and so they usually arrive in great numbers, which suddenly creates infrastructure and services shortages.¹⁵

Whilst informal settlements are predominantly found in the Global South, over recent years millions of refugees have been seeking safety, and this now includes those arriving in Northern countries. For example, the UNHCR estimates that, in 2016 alone, around 5.2 million refugees and migrants reached Europe, fleeing Syria, Iraq, Afghanistan and other countries experiencing conflict.¹⁶ Indeed, we are now seeing this happen on an even larger scale following the Russian invasion of Ukraine. As of May 2022, almost 6 million people are reported to have fled the country.¹⁷ Many of these people still live in precarious conditions, which, if not addressed, will become permanent settlements as time goes by.

¹⁵ <https://www.un.org/en/development/desa/population/events/pdf/expert/27/papers/VI/paper-Murillo-final.pdf>

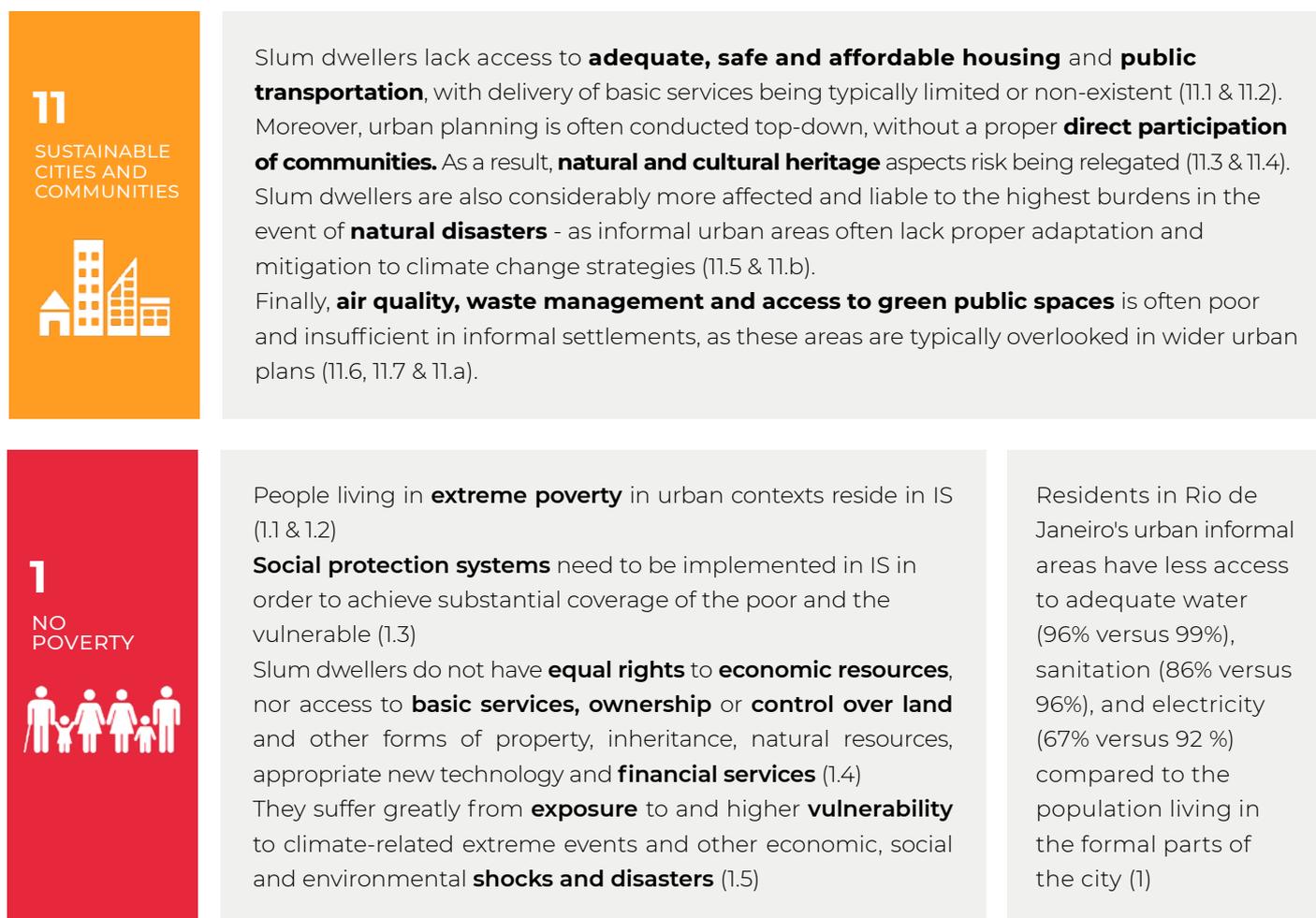
¹⁶ <https://www.unrefugees.org/emergencies/refugee-crisis-in-europe/#:~:text=By%20the%20end%20of%202016,apart%20by%20war%20and%20persecution.&text=In%202018%2C%20more%20than%20138%2C000,than%202%2C000%20of%20them%20drowned>

¹⁷ <https://data2.unhcr.org/en/situations/ukraine>

Investing in slum upgrading at scale can help meet many of the SDGs

Tackling the issues faced by slum dwellers is critical to all aspects of socio-economic development and the environmental agenda, touching on most of the 17 SDGs the UN set as part of its 2030 agenda. Whilst the issue area relates most directly to Global Goal 11, aimed at making cities "inclusive, safe, resilient and sustainable", investing in multi-dimensional programmes aimed at rehabilitating informal areas is critical to make progress across the whole 2030 Agenda. For instance, the lack of a formal postal address often prevents slum-dwellers from securing a registered job, which can result in lower income (SDGs 1, 2 and 10) and precarious working conditions (SDG 8). Financial limitations, in turn, hinder access to health supplies or education (SDGs 1, 3 and 4). Importantly, consistent strategies to rehabilitate habitat conditions in the most vulnerable urban areas is also closely linked to the delivery of SDG 13 on climate action (see further references across this document). Figure 3 illustrates how investing in informal settlements relates to the SDGs.

FIGURE 3 Linkages between SDGs and Informal settlements



2 ZERO HUNGER



People living in IS can not easily access **safe, nutritious and sufficient food** all year round (2.1)

A study in food security in Johannesburg shows that 68.1% of people living in IS consumed a diet of low diversity, versus a 15.4% for those in formal settlements (2).

3 GOOD HEALTH AND WELL- BEING



Maternal mortality ratio and **neonatal mortality** are higher in poor IS than in the formal cities (3.1 & 3.2)

Many **epidemics, water-borne diseases** and other **communicable diseases** spread rapidly because of the living conditions in IS, increasing **premature mortality** (3.3 & 3.4).

To prevent and treat **substance abuse**, including narcotic drug abuse and harmful use of alcohol, a strong focus needs to be placed in IS (3.5).

IS residents usually lack **access to sexual and reproductive health-care services**, including for family planning, information and education, resulting in high levels of unintended pregnancy (3.7).

Health coverage, including financial risk protection, access to high quality essential health-care services and access to safe, effective, high quality and affordable essential medicines and vaccines, does not widely reach IS dwellers (3.8)

Air, water and soil **pollution** and **contamination** are risk factors in IS, leading to a high amount of deaths and illnesses (3.9).

Maternal mortality ratio is higher in the slum population of Nairobi City than the national average. While estimates of maternal mortality ratios in Kenya are 560 deaths per 100,000 live births, for two Nairobi slums, the number rose to 706 maternal deaths per 100,000 live births (3)

4 QUALITY EDUCATION



Children in IS, do not normally have the same **education opportunities** as children in the formal city, suffering from a restricted access to **free, equitable and quality pre-primary, primary, secondary and university education** (4.1, 4.2 & 4.3).

The number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship is usually lower for people in IS (4.4).

Literacy and numeracy rates are lower in the informal parts of a city than in the formal ones (4.6).

In general, education facilities in IS need upgrading to be child, disability and gender sensitive and provide safe, nonviolent, inclusive and effective learning environments for all (4.A)

The 2009 Multiple Indicator Cluster Survey (MICS) reports that the primary net attendance rate in slums in Bangladesh's city averaged only 65%, compared to 81% nationally. Secondary attendance was much lower still: 18% in slums, compared to 49% nationally (4)

6 CLEAN WATER AND SANITATION



One of the distinguishing characteristics of many IS is its lack of adequate access to **safe and affordable water** and **sanitation** (6.1 & 6.2)

IS in general tend to have **low water quality** caused by pollution, dumping of untreated wastewater and hazardous chemicals and materials (6.3)

Water-related ecosystems (mountains, forests, wetlands, rivers, aquifers and lakes) near the IS require **protection and restoration** (6.6)

A study on the quality of water in Langas slum, Kenya, finds high levels of faecal contamination were present in consumed water because the wells used for domestic water were in close proximity to pit latrines. By contrast, no contamination was found in the tap water that only a small proportion of the population can access. (5)

7

AFFORDABLE
AND CLEAN
ENERGY



Other important characteristics of many IS is its lack of access to **affordable, reliable and modern energy services** (7.1) In many cases, the sources of energy are not **renewable** and usually not **efficient** (7.2 & 7.3)

Analysing access to energy in Jardim Bom Retiro, a Brazilian favela, a study finds that:

- Electricity consumption is very high compared to the service provided (inefficient usage) and expenditures are generally disproportionate to the households' income
- Outages and variable tension which damage electric appliances are critical issues;
- Around 16 % of the population is illegally connected to the grid. (6)

8

DECENT
WORK AND
ECONOMIC
GROWTH



In IS **decent job creation** and the **formalization and growth of micro, small and medium-sized enterprises, through access to financial services**, is usually scarce. (8.3) In general, IS dwellers cannot access **full and productive employment** and **decent work** opportunities.(8.5) **Forced labour, modern slavery and human trafficking** are issues that affect vulnerable populations, many of which reside in IS (8.7) **Slum dwellers' labour rights** tend not to be protected and their **working environment are usually not safe** and secure (8.8.)

Analysing Colombian cities, a study finds a strong relation between labor informality and urban informality, with an increase probability of being affected by one with the presence of the other. This association is usually mediated by variables such as income, household size and education. (7)

13

CLIMATE
ACTION



People residing in IS are generally less **resilient** and have lower **adaptive capacity to climate-related hazards and natural disasters**, due to different reasons such as low access to resources or the location of their houses in flood-prone areas, for example (13.1)

An OECD study analyses the consequences of the 2005 Mumbai flood and find that the poorest households were the most vulnerable, as they lacked the resources for coping with the requirements during and after the flooding. It concludes that a significantly large proportion of poor households were located near areas with chronic and localized flooding. These households were either below the poverty line or have low incomes and reside in informal settlements or old and dilapidated structures. The surveys show that losses to the marginalized population could lie around \$250 million, which represents a limited share of total losses but a large shock for poor households, obstructing their ability to recover. (8)

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The impact of COVID in informal urban areas

The Covid-19 crisis exacerbated long-standing problems and made the need to invest in informal settlements even more evident. Overcrowding and poor housing conditions; inadequate access to water, sanitation and other basic services; limited employment opportunities and high economic informality; limited access to high-nutrition foods or digital technology; and the higher exposure of slum communities to natural disasters. These are just some of the factors that exacerbated the pandemic's effects in informal settlements, according to the Inter-American Development Bank.¹⁷

Throughout the Covid-19 pandemic, public health recommendations to wash hands frequently or maintain social distance were almost impossible to follow for communities in slum areas. Further, the greater prevalence of pre-existing health conditions amongst people living in informal settlements increased the severity of Covid-19 for many residents.

Slum-dwellers are also typically employed in the informal market in jobs that cannot be carried out remotely, and they have no access to any kind of safety net or savings. The long lockdowns many countries observed therefore severely disrupted the economic lives of informal settlements' residents.

School closures due to Covid-19 also affected long-term participation in education, worsening already high drop-out rates and increasing "learning poverty" (the share of children who do not learn to read and understand a simple text by age 10) in informal settlements. A World Bank study¹⁸ for Pakistan calculates that the share of children who are learning poor will increase from 75% to 79% because of the pandemic. It also estimates that Covid-19 forced 930,000 children out of the school system, most of whom are from low-income families.

¹⁸<https://publications.iadb.org/publications/spanish/document/Como-han-respondido-las-ciudades-al-COVID-19-en-areas-vulnerables.pdf>

¹⁹Geven, Koen; Hasan, Amer. 2020. Learning Losses in Pakistan Due to COVID-19 School Closures: A Technical Note on Simulation Results. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/34659>
License: CC BY 3.0 IGO. <http://hdl.handle.net/10986/34659>

The need for a just recovery from the pandemic in the immediate term, coupled with the medium-term global objectives, encapsulated in the SDGs, of building more sustainable economies and societies, present an opportunity to spur investment in informal settlements.

The impacts of slum-upgrading programmes and projects reach far beyond providing much needed basic infrastructure; they improve living conditions, public health and educational outcomes, and stimulate local economies by boosting quality job creation.

2 Why Impact Investment?

Public money alone is not enough

National and (to a lesser extent) local government budgets account for most of the historic and current investment in urban infrastructure, with some contribution from philanthropic and multilateral organisations. Residents also make investments themselves, by “creating their own habitat” - through bottom-up, community investment in projects, ranging from paving and (informal) electricity connections, to improving green spaces and community buildings.

It is evident that these sources of financing are already not nearly enough today, and the funding gap is expected to grow as informal settlement populations continue to expand. There is therefore an urgent need to design new, smarter financial vehicles and structures that can attract capital at scale for slum-upgrading programmes.

The private sector’s role in this type of infrastructure investment has historically been limited, given the barriers to investment. Private actors are often unwilling to operate in informal settlements because of perceived risks, which include:

- **Illegality and informality** that reduce the value of assets
- **Local politics** that threaten the delivery of development schemes and make it difficult to extract both assets and revenues, and
- **Lack of short-term returns.**²⁰

Despite these barriers, there is strong evidence that supports the financial and social case for investing in the urbanisation of informal settlements. Indeed, these programmes can reduce costs for current and future generations and/or create social and economic value today that will last for decades to come. In 2010, the World Health Organisation estimated that every dollar invested in water and sanitation produces a return of US\$4.30 by lowering healthcare costs and increasing workplace productivity.²¹

²⁰<https://pubs.iied.org/pdfs/G04180.pdf>

²¹https://apps.who.int/iris/bitstream/handle/10665/139735/9789241508087_eng.pdf;jsessionid=206AD53C6EFDAA-B91E499973A8BED923?sequence=1

The slum economy

It is important to recognise the existence of a “slum economy” which, albeit informally, moves billions of dollars annually. For instance, the Data Favela Institute and Locomotiva Institute published a study in 2020, *Economia das Favelas* (Favela Economy), which found that residents of Brazilian favelas have a combined purchasing power of R\$119.8 billion (US\$27.7 billion) per year, an amount that exceeds the annual GDP of entire countries, such as Cambodia or El Salvador.²²

Remittances also channel significant capital into informal settlements and these are rising. In 2019 alone (the last year for which actual figures are available), international migrants sent US\$719 billion home (up from US\$600 billion in 2016), according to World Bank data²³, with families in low and middle-income countries receiving over 75% of the total. Evidently, not all of these resources are channelled to slum-dwellers (although no data is available) but it would be fair to assume that the vast majority of remittance recipients experience some sort of deprivation.

The basic message is that the urban poor have an active and complex economic life, contrary to the perception that they are passive recipients of state and charitable aid.

Slum-dwellers around the world spend vast amounts of money to improve their living standards. The SDG 11 Synthesis Report calculates that more than 55% of households in sub-Saharan Africa spend more than 30% of their income on housing costs.²⁴

²²<https://www.ilocomotiva.com.br/single-post/2020/01/24/valor-econ%C3%B4mico-favelas-t%C3%A0-poder-de-compra-de-r-1198-bi>

²³<https://www.worldbank.org/en/topic/labormarkets/brief/migration-and-remittances>

²⁴<http://uis.unesco.org/sites/default/files/documents/sdg11-synthesis-report-2018-en.pdf>

If this purchasing power were recognised by the formal markets (including the banking system) and were better structured and organised, it would unlock a significant opportunity to attract more affordable private sector capital, including through financial vehicles that invest directly in slum upgrading. Both governments and consumers bear the cost of informality, in the form of reduced tax revenues for the public sector and through a “poverty penalty” paid by the poor via high prices (including higher costs of capital) for often low-quality goods and services.

BOX 4 WILLINGNESS TO PAY, ABILITY TO PAY

A widespread perception that poor people are either unable or unwilling to pay for basic services, such as electricity or water, hinders the development of financial tools tailored to their needs. Yet this is a misperception. The poor do pay, and in general, pay more than people with higher incomes who live in the formal city.

This is true of even the most basic of products. For example, a study from the University of Michigan found that poor people spend 5.9% more per sheet of toilet paper than the rest of society.²⁵ This is because they cannot buy the product more cheaply in bulk because they lack space to store it and/or have no access to credit and they might also need to buy in small shops close to their homes, which are likely to charge high prices. This applies across the board, including for services like water. The 2019 UN World Water Development Report found that houses without running water pay between 10 and 20 times more than their neighbours in wealthier neighbourhoods for water of similar or lesser quality purchased from water vendors or tanker trucks.²⁶

Similar disparities are observed across a wide range of goods and services, from mobile phones and data (the more expensive plans are cheaper on a unit basis), to credit, despite the fact that institutions that provide housing loans for poor women tend to perform better than those in the traditional banking industry.²⁷

²⁵<https://journals.sagepub.com/doi/full/10.1177/0022243718821660>

²⁶<https://en.unesco.org/themes/water-security/wwap/wwdr/2019#:~:text=The%202019%20World%20Water%20Development, and%20for%20building%20prosperous%2C%20peaceful>

²⁷<https://dialnet.unirioja.es/servlet/articulo?codigo=6862266>

Urban liabilities can become assets

If we stop viewing informal settlements and their inhabitants as a problem, we can design and deploy market-based mechanisms to transform urban liabilities into assets, unlocking significant untapped opportunity. This by no means implies extracting wealth and resources from the poor to increase private capital gains; it is instead about deploying smarter solutions that connect with the win-win-win nature of investment in urban improvement (for communities, for investors and for the public sector/society as a whole).

Some organisations are already working in this space. For example, Reall works to unlock innovation and investment in affordable housing for people on low incomes in urban Africa and Asia. With the aim of "improving the lives of 100 million people", its investment thesis is built on the commercial viability of lending to people on low incomes. Running projects in Mozambique, Pakistan and India, Reall is creating multi-stakeholder partnerships across the housing and finance sector, which are underpinned by supportive political and regulatory environments.²⁸

With such high demand for housing and service infrastructure, there is a need to scale up and mobilise resources. This requires a rethink of the way in which urban development is financed, together with the creation of structures designed to foster an environment that is attractive to investors. The New Urban Agenda recognises the need for an "urban paradigm shift" and commits to "readdress[ing] the way we plan, finance, develop, govern and manage cities and human settlements... by supporting effective, innovative and sustainable financing frameworks and instruments".²⁹

How big is the global financing gap?

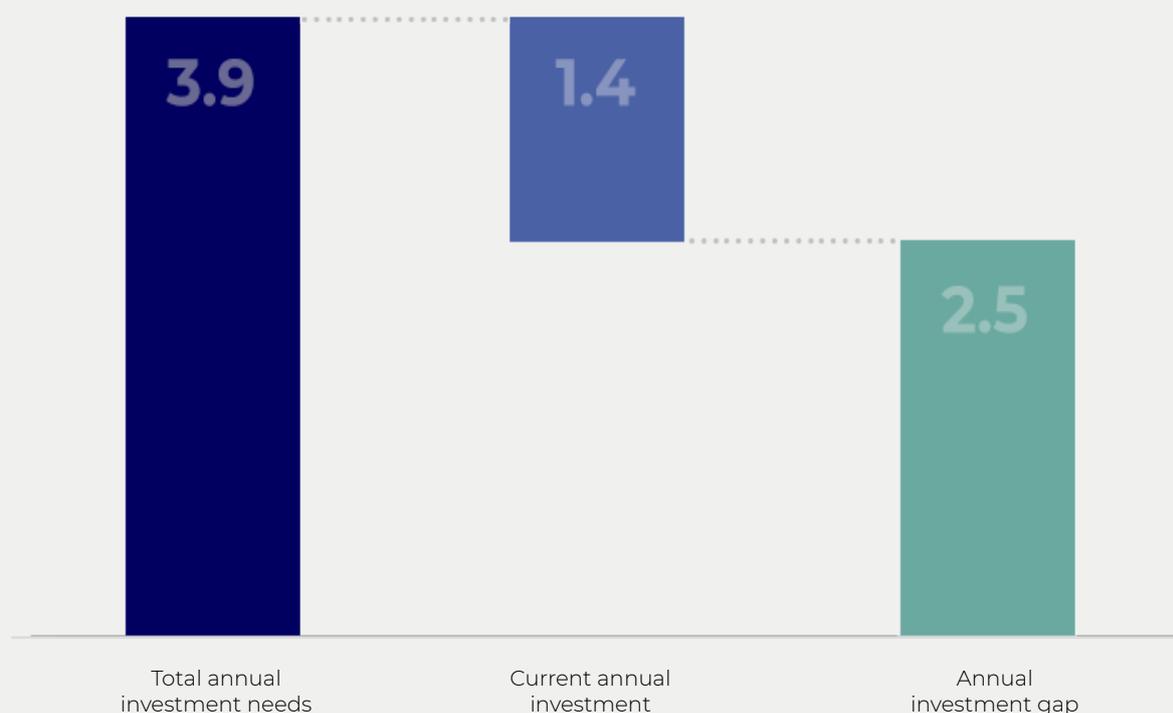
Addressing the economic, social and environmental challenges faced by urban centres in the Global South will demand far more investment than has been deployed to date over several decades. Current levels of annual investment are not enough even to cope with the natural growth of the need

²⁸<https://www.reall.net/wp-content/uploads/2020/10/Jones-Stead-Livesley-Reall-and-unlocking-affordable-housing-markets-in-urban-Africa-and-Asia.pdf>

²⁹<https://habitat3.org/wp-content/uploads/NUA-English.pdf>

for new affordable housing and habitat solutions, let alone to tackle and improve the existing “stock” of informal settlements.³⁰ If we extrapolate how much investment is needed to urbanise Argentina’s more than 4,400 slums and informal settlements (See Box 5 below) to the global investment need, it would point to a staggering US\$6.5 trillion - accounting for over a third of the global infrastructure financing gap, which is estimated to be US\$15 trillion out to 2040 by the Global Infrastructure Hub.³¹ Additionally, the UN points out that, at today’s level of public and private investment in SDG-related sectors in developing countries, there remains an annual funding shortfall of some US\$2.5 trillion (see Figure 4).³²

FIGURE 4. Total annual investment needs, current annual investment, and annual investment gap (trillions of dollars).



Source: [UNCTAD, World Investment Report 2021](#) ³³

³⁰The challenge lies not only in the need to increase financing but also in how efficiently the resources are used. At the same time, it is crucial that resources are available reliably to maintain the existing infrastructure.

³¹https://cdn.gihub.org/umbraco/media/4368/gihub_infrastructuremonitor2021_executive-summary_feb.pdf

³²https://unctad.org/system/files/official-document/diaemisc2019d4_en.pdf

³³<https://unctad.org/webflyer/world-investment-report-2021>

The aggregate numbers above are consistent with sector-specific figures. The US\$156 billion invested in infrastructure by the private sector in 2020 represents just 0.2% of global GDP – far less than the 5% of global GDP (combining public and private investment) some studies indicate is required to close the infrastructure gap.³⁴ In the water and sanitation sector, despite efforts in recent decades to improve access globally, important funding gaps remain, which is hampering progress towards the delivery of the SDGs. In its *SDG Investment Trends Monitor*, UNCTAD estimates that developing economies invest, under a “business as usual” scenario, close to US\$150 billion in water and sanitation annually. However, that leaves a yearly gap of US\$260 billion in this area alone.

The recession brought on by the Covid-19 pandemic negatively affected trade and investment flows in both developed and developing countries and had disastrous effects on the labour market.³⁵ It hit informal and vulnerable workers the hardest, with most slum-dwellers seeing their income fall from little to zero during lockdown. It also stressed public budgets, which has reduced capital expenditure and widened the funding gap still further.

All in all, the OECD estimates that Covid-19 could have increased the overall SDG financing gap by as much as 70%, to a need of around US\$4.2 trillion.³⁶ Yet, the OECD argues, if just 1.1% of US\$379 trillion in global finance were aligned with the SDGs, this gap could be filled. This seems an achievable goal.³⁷

UNEP claims that the SDG investment shortfall is “first and foremost a business model gap”³⁸. In line with this view, we believe that developing innovative impact-based investment vehicles and business models could trigger investment at scale and make a significant contribution to achieving the SDGs. In many cases, this would require adaptations to regulatory and market frameworks to ensure the right conditions are created for scalable, systemic solutions to emerge.

³⁴https://cdn.github.org/umbraco/media/4368/github_infrastructuremonitor2021_executive-summary_feb.pdf

³⁵https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_766949/lang--en/index.htm

³⁶[oecd.org/development/global-outlook-on-financing-for-sustainable-development-2021-e3c30a9a-en.htm](https://www.oecd.org/development/global-outlook-on-financing-for-sustainable-development-2021-e3c30a9a-en.htm)

³⁷<http://www.oecd.org/development/global-outlook-on-financing-for-sustainable-development-2021-e3c30a9a-en.htm>

³⁸<https://www.unepfi.org/positive-impact/positive-impact/>

BOX 5 LOCAL FINANCING GAP - ARGENTINA'S CASE

BACKGROUND

From 2016 Argentina's Central Government, in partnership with a wide range of social sector organisations (including NGO Techo, and the Catholic Church, through Caritas, among others), conducted a comprehensive census of slums and informal settlements in the country. The census, carried out by over 10,000 slum dwellers trained in the use of a dedicated surveying app, shed light for the first time on a pressing social issue that had been hidden for decades from policy makers at all levels of government.

Through the creation of the National Registry of Informal Settlements (RENABAP), which built on data from the census, the government learnt that, as of 31 December 2016, there were 4,416 informal settlements, home to over 930,000 families (roughly 4 million people, or almost 10% of the Argentinian population), who lack formal access to basic services (water, sanitation, electricity) and do not hold the title of the land they inhabit.

In October 2018, Congress passed a law that: i) declared of "public utility" and "subject to expropriation" the land on which slums are settled (spanning over 450 km²); ii) mandated the creation of a special land titling scheme; iii) temporarily suspended judicial evictions; iv) established the creation of a dedicated socio-urban integration programme (PISU); and v) mandated the creation of a trusteeship to act as the main financial vehicle of the PISU, a blended capital, dedicated fund to deliver better solutions at scale.

The challenge is daunting: it is estimated that more than \$26 billion in investment will be required to regularise the more than 4,400 settlements. This is equivalent to over 150 times the annual direct investment from the federal government for programmes related to the development of slums and informal settlements - making it clear that this is a social issue where government alone (or philanthropy alone) cannot respond at the required scale.

The fund created by law aims to pool public resources with development and private capital. This is a first-of-its-kind impact fund that offers private and institutional investors a new asset class in Argentina. The fund is envisaged as a debt vehicle for provinces and municipalities aiming to invest in the regularisation of the informal settlements of their jurisdictions. Loans will be guaranteed by each province's share of federal tax co-participation. Additional sovereign guarantees are also possible - for which issuances from the fund would have a quasi-sovereign risk profile.

The first layer of public capital, of around AR\$60 billion (roughly US\$300 million), was secured in 2020-2021 from specifically-designed tax revenues sourced largely from high net worth individuals.

Envisaged as a 15 to 20-year effort, the PISU will need more than public funding to deliver solutions at scale. Private capital flowing to the fund will be instrumental and will bring in the right set of incentives and rigorous frameworks to monitor and deliver better social outcomes.

INVESTING FOR IMPACT

Around 40% of the settlement inhabitants are under the age of 15, and almost 70% are under the age of 29. Registered workers are only 15% of the total labour force. Further, most single-parent households are headed by women. Investing in the PISU fund, which is legally required to invest solely in these communities, is clearly an investment for social impact. The dedicated fund is an innovative, public-private impact vehicle in Latin America. To support its impact thesis, a strong set of measurable (and manageable) outcomes linked to the PISU needs to be defined and priced.

The need for better data

To fully understand, quantify, and put the problem of urban informality at the centre of the public agenda across countries and regions, more and better data is required.

Many countries do not keep official records of slums and informal settlements, which often simply appear as black, undetermined zones in local (municipal) cadastral registries. They rarely keep records of their inhabitants and their living conditions. There needs to be a recognition of the issue for governments to design consistent public policies³⁹, registers to build reliable baselines and consistent estimates to address the financing gaps in any given country.

For investments, good data is vital if we are to calculate the funding need(s) and keep track of the progress of slum upgrading programmes. Data is also essential for transparency and impact measurement – both of which (impact) investors will require.

³⁹Wilkinson, A. (2020). Local response in health emergencies: key considerations for addressing the COVID-19 pandemic in informal urban settlements. *Environment and Urbanization*, 0956247820922843.

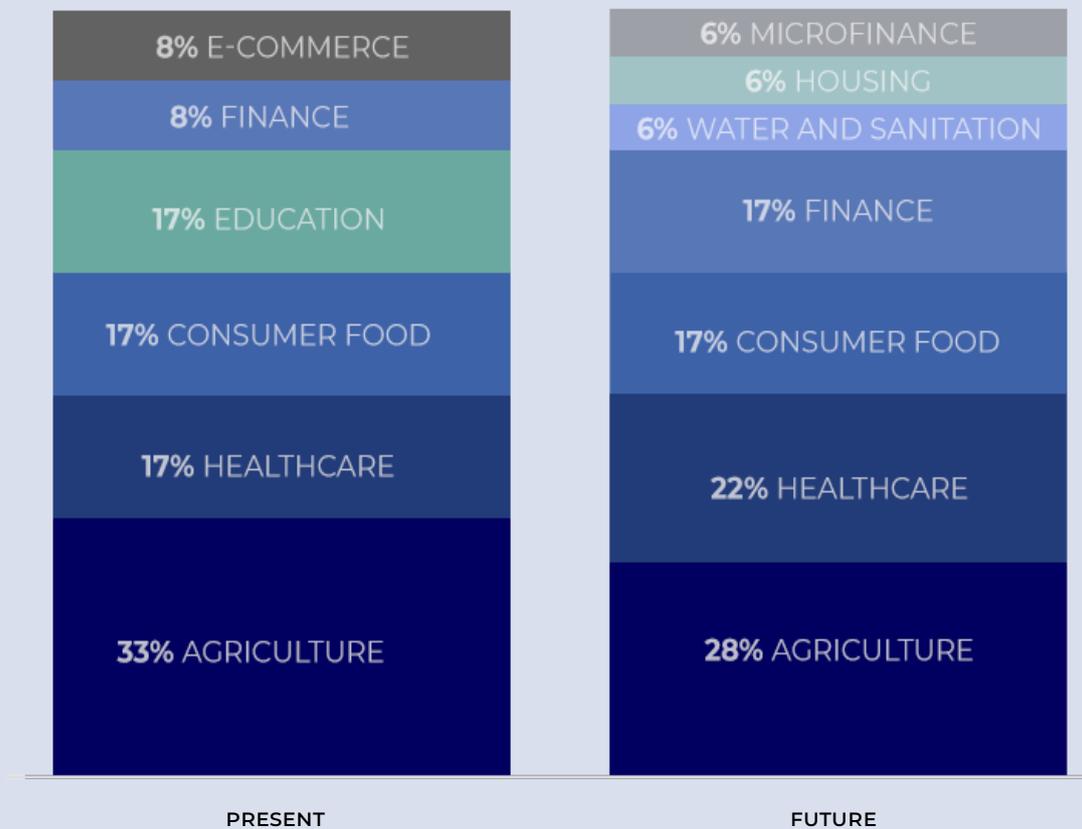
BOX 6 PRIORITY SECTORS FOR IMPACT INVESTMENT

The issue of urban informality has never been a priority for impact investors. This is perhaps because, despite its evident and widespread implications for development, as an “aggregate issue” it remains largely invisible. This is especially likely for investors and stakeholders in developed markets where the issue does not exist.

At present, traditional “impact” sectors, such as agriculture, health or education (which are more easily “relatable” and “visible”) continue to be key areas of interest. However, investment in infrastructure and facilities, including water and sanitation, is moving up the impact agenda.

For instance, a recent study by the GSG Bangladesh National Advisory Board (NAB), found that impact investors in the country see water and sanitation, along with housing, becoming a higher priority in the coming years, partly because of their direct link with the SDGs.

FIGURE 7. Priority sectors for Impact Investment



Source: Policy Landscape Analysis: Impact Investment Analysis in Bangladesh, 2020.

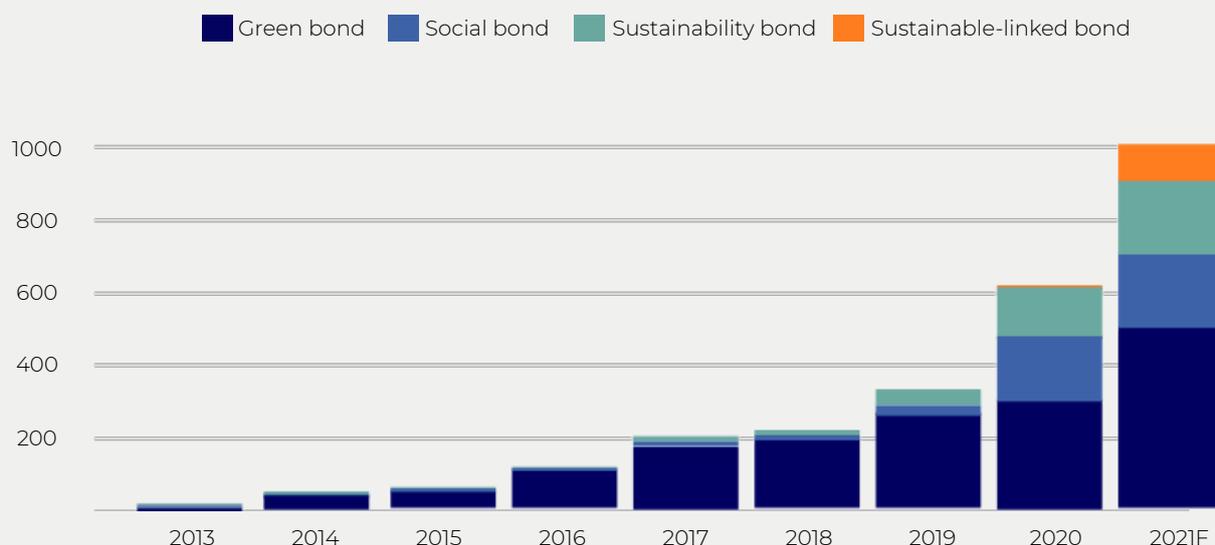
3 Design principles for an impact finance instrument

To help bridge the long-standing, considerable funding gap for slum-upgrading projects described in the previous section, we see a promising opportunity in the development of new, private-public and blended financial instruments capable of mobilising large sums of investment towards specific place-based programmes that target the most vulnerable urban territories.

Existing structures are a basis for innovation

Impact financing instruments have developed rapidly over the past decade as investors have shown an ever-more keen interest in deploying capital for positive outcomes. A market in thematic bonds has emerged, growing significantly since 2013. For example, an estimated US\$375 billion of green bonds were issued in 2021, a 39% increase over the 2020 value. Forecasts for social and sustainable bonds predict even higher growth, especially for the latter (Figure 5)⁴⁰. For 2022, Moody’s ESG Solutions forecasts issuance of green,

FIGURE 5. Global annual issuance of GSSS bonds (US\$ billions)



Source: Moody’s Sustainable Finance Outlook, “Sustainable bonds on course to top \$1 trillion annual issuance in 2021”, October 2021

⁴⁰Moody’s Sustainable Finance Outlook, “Sustainable bonds on course to top \$1 trillion annual issuance in 2021”, October 2021

social, sustainability and sustainability-linked (GSSS) bonds to reach US\$1.35 trillion.⁴¹

Despite the significant increase in thematic bond issuance in recent years, the market has ample room for further growth, given that the forecast sustainable bond issuance is still a tiny fraction of total bond issuances globally. The size of the sustainable investing universe, estimated at over US\$35 trillion in the latest report from the Global Sustainable Investment Alliance, is also indicative of further potential.⁴²

This rise of sustainable, ESG and impact finance instruments demonstrates a strong appetite among investors for vehicles with clear impact goals in mind - often using the SDGs as a framework. Investments in slum-upgrading projects are multidimensional (covering basic infrastructure but also other “soft” areas, such as education, job creation and health) and therefore linked to nearly every SDG, although particularly to SDG 11 - sustainable cities and communities. This means that appropriately structured instruments, with adequate levels of mission lock-in, transparency and integrity, could attract significant private capital. Critically, this would be additional to the limited public funding available.

However, it is important to stress that instruments specifically designed to invest in slums of a given country or region (See Box 7 on place-based investment) would need to take local context(s) into consideration, building in flexibility to account for the variability of regulations, institutional arrangements and forms of government. Programme and project design also need to be appropriate to the area for which it is intended, involving close partnerships and consultation with the local populations (See Box 8).

⁴¹<https://esg.moody's.io/sustainable-finance#:~:text=Sustainable%20finance%20is%20on%20the,reach%20%241.35%20trillion%20in%202022>.

⁴²Global Sustainable Investment Alliance, “Global Sustainable Investment Review 2020”, July 2021 <http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf>

BOX 7 PLACE-BASED INVESTMENT

Putting urban strategies at the centre of the impact agenda, with a focus on informality, is consistent with an emerging trend of place-based investment. This type of investment channels capital to specific territories that are defined as areas of interest, through strategies designed to serve the territories' identified needs.

Strictly speaking, place-based investments are made “with the intention to yield appropriate risk-adjusted financial returns as well as positive local impact, with a focus on addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development”.

The Impact Investing Institute together with The Good Economy and Pensions for Purpose, recently published a white paper [Scaling up institutional investment for place-based impact](#) which sets out the case for institutional investors to adopt a “place-based lens”. The research offers lessons and recommendations for the UK, a high-income country. However, the broad principles of delivering financial returns for investors, while also addressing place-based inequalities and supporting more inclusive and sustainable development, could be applicable to strategies focused on slum areas in the Global South.

An example of a successful place-based investment strategy is the launch by the government of Karachi, Pakistan, and the World Bank of the [Karachi Neighborhood Improvement Project](#) in 2017. This initiative included upgrading streets, parks, and open spaces in the historic and commercial downtown as well as in low-income areas. The disbursement of investments and the participatory planning process of the project garnered political support and inspired emerging local movements to refurbish more spaces for public use.



BOX 8 COLLABORATIVE APPROACHES IN URBAN-UPGRADING PROGRAMMES

Urban-upgrading programmes can only truly succeed when residents are actively involved in the process. Community-driven programmes, in which organised groups of residents play a leading role at various stages of the upgrade, are far more likely to provide solutions to the real needs of the urban poor than development imposed from the top down.

The Kampung Improvement Programme (KIP) of Jakarta is considered one of the best urban poverty relief programmes in the world.⁴³ Benefiting more than 30 million people, KIP owes its success not only to political will and good project management but also in large part to the engagement of local residents. Community-based organisations were crucial in preserving the identity of the housing in particular areas. And, while the government invested in affordable infrastructure, it also encouraged communities to upgrade their houses using mainly their own resources.

Another upgrading programme, this time in Dar-es-Salaam in 1990, was financed by the World Bank and is considered one of the most inclusive resettlement policies in Africa.⁴⁴ Here, slum-dwellers played a crucial role in the design and maintenance of the new facilities. The community helped identify priority areas for investment, contributed to the plans' development and was heavily consulted right through to the final project. Moreover, community engagement gave people a sense of belonging and an incentive to contribute financially to the cost.⁴⁵ This was possible partly because most urban households in Dar-es-Salaam enjoy relatively secure tenure.

The practice of involving and listening to people and “end users” brings the voices and lived experiences of the people to projects. This approach has been gaining traction in the social sector, but it is still not a common practice.⁴⁶ In 2014, the World Bank developed a [strategic framework](#) to encourage beneficiary engagement, offering the chance to provide feedback in the design and implementation of the bank's interventions.^{47 48}

^{43 / 44}Bahl, R. W., Linn, J. F., & Wetzel, D. L. (Eds.). (2013). Financing metropolitan governments in developing countries. Cambridge, MA: Lincoln Institute of Land Policy.

⁴⁵Stren, Richard. 2009. Community infrastructure upgrading program case study: The case of Dar es Salaam. Washington, DC: World Bank.

⁴⁶Helen Goulden & Sarah Faber (2020) Nothing About Us. Without Us. Lived Experience Insight & Social Investment. February 2020. https://bigsocietycapital.fra1.cdn.digitaloceanspaces.com/media/documents/Nothing_About_Us_-_Feb_Final.pdf

⁴⁷Manroth, Astrid; Hernandez, Zenaida; Masud, Harika; Zakhour, Jad; Rebolledo, Miguel; Mahmood, Syed A.; Seyedian, Aaron; Hamad, Qays; Peixoto, Tiago. 2014. Strategic framework for mainstreaming citizen engagement in World Bank Group operations :engaging with citizens for improved results (English). Washington, DC : World Bank Group. <http://documents.worldbank.org/curated/en/266371468124780089/Strategicframework-for-mainstreaming-citizen-engagement-in-World-Bank-Group-operationsengaging-with-citizens-for-improved-results>

⁴⁸For detailed information on how the impact investment ecosystem is bringing the lived experience of the people whose lives it seeks to improve, see [Nothing About Us Without Us: Lived Experience Insight & Social Investment by The Young Foundation and Big Society Capital.](#)

⁴⁹Murillo, F. (2013). La brújula de la Planificación urbana-habitacional. Manual de orientación de intervenciones barriales con un enfoque de derechos humanos. Buenos Aires, AG: Cuentahilos Ediciones.

Building on this idea, a group of urban researchers from The University of Buenos Aires developed *“La Brújula”* (The Compass), a participatory methodology that diagnoses the issues before design work starts on urban interventions.⁴⁹ It aims to equip both public servants and local settlers with an analysis of the problems that need to be addressed and to help them reflect together on a range of solutions. The central role it gives to the community’s participation in this diagnosis is captured in two of their four main dimensions: social organisation and the exercise of rights (access to basic services, for instance).

In a similar approach, the Housing Institute of the City of Buenos Aires carries out participatory workshops in each of the slum-upgrading programmes it leads in Argentina’s capital. The aim is to reach consensus on major design features of the interventions, and these have contributed to Argentina’s largest ever slum-upgrading project in Barrio Padre Mugica (Barrio 31), as well as to projects in Rodrigo Bueno, Villa 20 and Barrio Fraga. In Fraga, for instance, almost two-thirds of the residents had to be relocated to new housing units (built within the limits of the same *barrio*) to allow for minimum air and light requirements and to avoid environmental and anthropic risks. Decisions on which units were to be demolished and which families moved to the new apartments were taken in participatory workshops, ensuring buy-in from the community (see before and after in the images below). An identical approach was followed in [Barrio Mugica/31](#), where 1,254 new housing units were built to relocate families from the 40,000- strong population of the historic settlements (image below).



Barrio Fraga before the intervention: lack of inner roads, green spaces and inadequate ventilation and lighting in the informal housing units.



After: slum-dwellers co-design the urban plan, deciding on the street opening and other demolitions.

⁴⁹Murillo, F. (2013). *La brújula de la Planificación urbana-habitacional. Manual de orientación de intervenciones barriales con un enfoque de derechos humanos.* Buenos Aires, AG: Cuentahilos Ediciones.



Over 1.254 new units of housing were built to relocate families in Barrio Mugica / 31.

At the same time, programmes should go beyond the strict physical boundaries of the informal neighbourhoods to be improved, and adopt a “city-wide” approach (See Box 9). This leverages additional investment in surrounding areas and ensures consistency with existing and future urban plans.

BOX 9 CITY-WIDE SLUM-UPGRADING APPROACH

Slums are defined not only by their physical conditions, but also by whether they are on a downward path, where living conditions are deteriorating, or whether they are moving in a more positive direction, with improving conditions that provide better quality of life for their inhabitants over time.⁵⁰

The main aim of city-wide slum upgrading programmes is to reverse a negative spiral and replace it with an upward one. This approach builds on the idea that urbanisation is a natural human phenomenon that, if well managed, can trigger economic growth and improve services for all. This integrated approach looks to turn around downward trends that can be caused by legal (land tenure), physical (infrastructure), social (crime or education) or economic issues. At the same time, it arises from the idea that informal settlers have the same rights as people living in the formal parts of the city, with a fundamental right to live with dignity and in decent conditions.

[City Alliance](#) analyses the way in which slum upgrading benefits a city and concludes that it does so by:

1 Fostering inclusion by integrating marginalised populations with the rest of the city.

2 Promoting economic development by tapping resources, such as unused skills, that can foster productivity.

3 Addressing overall city issues by dealing with problems such as environmental degradation and violence and by promoting the responsible use of natural resources and attracting investment.

4 Improving quality of life, not only for marginalised populations but for the city as a whole.

5 Providing shelter for the poor by providing housing at scale and at the lowest possible cost.

The government and the local community sit at the core of these programmes. The government's role is to design, command and execute the plans that integrate slums into the rest of the city, while the community is actively involved and feels ownership of the project.

The *Favela Bairro* programme in Rio de Janeiro, Brazil, was among the first to adopt this pioneering, holistic approach for the integration of informal neighbourhoods into the urban matrix. To this day, it remains a leading reference for many developing countries. It connected informal neighbourhoods to the city by providing and improving services and upgrading infrastructure. In the city of Buenos Aires, Argentina, the local government follows a similar approach, with *Barrio 31* leading the way in connecting a major informal area with some of the wealthiest, most thriving neighbourhoods adjacent to this iconic slum. Infrastructure upgrades, combined with investment in culture, sports, education and economic activities link the *barrio* with the city as a whole.

⁵⁰Baskin, 2020. Slum Upgrading in Times of Crisis: A City-Wide Approach. City Alliance www.citiesalliance.org/news-room/news/cities-alliance-news/slum-upgrading-times-crisis-city-wide-approach

Social bonds

Among existing instruments, **social bonds** are a close match to what is needed to mobilise capital towards informal settlement improvement, given its clearly defined place-based nature.

Social bonds are those where, according to the International Capital Market Association (ICMA), “the proceeds, or an equivalent amount, will be exclusively applied to finance or refinance in part or in full new and/or existing eligible social projects and which are aligned with the four core components of the Social Bonds Principles (SBP)” – these are use of proceeds, process for project evaluation and selection, management of proceeds, and reporting⁵¹(see Box 10 for a detailed description of the core components).

BOX 10 SOCIAL BONDS: PRINCIPLES AND GUIDELINES

The social bond market aims to bring debt instruments to projects that address global social challenges. Social bonds are defined as bonds that raise money from a wide array of investors “for new and existing projects that address or mitigate a special social issue and/or seek to achieve positive social outcomes” (ICMA, 2020).

The International Capital Market Association has set out the Social Bond Principles (SBPs) with the aim of increasing capital allocation to social projects through a series of voluntary guidelines that promote transparency, disclosure and reporting. There are four core components to the SBPs:

Use of Proceeds: the proceeds must be exclusively used to finance new or existing eligible social projects

Process for Project Evaluation and Selection: issuers must communicate with investors clearly around social objectives, the process for determining how projects fit within social project categories and for how environmental and social risks will be managed

Management of proceeds: issuers are encouraged to use an auditor, or other third party, to verify internal tracking of funds and the allocation of funds from the social bond proceeds

Reporting: for transparency, issuers should make, and keep, readily available, up-to-date information on the use of proceeds on a timely basis⁵²

⁵¹<https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>

⁵²For more information on reporting criterias, check ICMA's Report “Working Towards a Harmonized Framework for Impact Reporting for Social Bonds” <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Framework-for-Social-Bond-Reporting-Final-06-2019-100619.pdf>

UNDP has also designed a framework, the SDG Impact Standards for Bonds. This aims to promote sustainable development and contribute to the SDGs and it provides guidance for bonds issued to finance assets, projects, programmes, activities and/or outcomes linked to achieving SDGs and/or other sustainable development outcomes (SDG Bond Programs).

The four standards are:

Standard 1 - Strategy: Embedding foundational elements into purpose and strategy

Standard 2 - Management Approach: Integrating foundational elements into operations and management approach

Standard 3 - Transparency: Disclosing how foundational elements are integrated into purpose, strategy, management approach and governance, and reporting on performance

Standard 4 - Governance: Reinforcing commitment to foundational elements through governance practises



UNDP, SDG IMPACT STANDARDS Bonds, November 2020 https://sdgimpact.undp.org/assets/SDG_Impact_Standards_for_Bonds-DRAFT_for_second_consultation.pdf

ICMA, Social Bond Principles, Voluntary Process Guidelines for Issuing Social Bonds, 2021 <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>

There are several social project categories that ICMA outlines as being eligible – and most fit squarely with what is needed to address the issues faced by people living in informal settlements. They include projects that promote affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security and sustainable food

systems, as well as socio-economic advancement and empowerment. In line with ICMA's guidance, we are seeing many capital market regulators issue country-specific regulations to stimulate investment in high social impact projects.

Social bonds can be issued privately or by governments and they have been gaining investor attention over recent years, in particular since the pandemic – issuance reached US\$141 billion in 2020, more than eight times the issuance seen in 2019 (US\$17 billion), according to Moody's.⁵³

Green bonds

Green bonds can also offer a valuable model, as a larger and more mature asset class than social bonds. The World Bank considered the issuance of the first green bond in 2008 an “event that fundamentally changed the way investors, development experts, policymakers and scientists work together”.⁵⁴ A key innovation was that the bond was the first ever dedicated to a specific kind of project – a precedent on which “thematic” instruments (targeting, for example, urban informality) could be built.

BOX 11 THE IMPACT TASKFORCE - SCALING INVESTMENT FOR A JUST TRANSITION

The G7 has long recognised the importance of unlocking private capital for public good and of the targeting of social and environmental impact alongside financial returns as a means to achieve greater positive outcomes for the people, communities and the planet. As acknowledged by G7 governments, for responsible, sustainable and impact investment to become mainstream, the public sector and investors must work together to deliver high-impact policy and financial solutions. In 2021, the UK Presidency of the G7 mandated the establishment of the Impact Taskforce (ITF), under the coordination of the GSG and the Impact Investing Institute, to gather leading impact investors and experts to put forward actionable recommendations to i) improve impact transparency, integrity and trust, and ii) propose specific instruments and policies to scale capital mobilisation to finance a just transition.

⁵³<https://www.environmental-finance.com/content/the-green-bond-hub/trends-in-sustainable-bonds-issuance-and-a-look-ahead-to-2021.html>

⁵⁴<https://www.worldbank.org/en/news/immersive-story/2019/03/18/10-years-of-green-bonds-creating-the-blue-print-for-sustainability-across-capital-markets>

The ITF recognised the inextricable link between the environmental and climate objectives of net zero with the social implications of the transition, putting forward a just transition framework based on three central elements:

Climate and Environmental Action
Socio-economic Distribution and Equity
Community Voice

Investment in informal settlements is necessarily aligned with the aspiration to achieve a just transition, including i) through the links between increasing urban informality and climate-driven migration, ii) the immense opportunity to deploy green, efficient infrastructure in slum-upgrading programmes (including “green pavement”, renewable energy facilities and energy-efficient buildings), and iii) the need to gradually replace highly polluting economic activities with cleaner ones (see box 12 below).

The community voice dimension is also critical, as discussed in Box 8 above.

Sustainable bonds

While historically, many green bonds have been raised to fund projects with strict environmental criteria, such as renewable energy developments, the increasing acknowledgement of the interdependence of green and social in the journey towards a just transition, has resulted in the creation of **sustainable bonds**. These have emerged as instruments in which the proceeds are applied to finance a combination of green and social projects. By incorporating a green component to tackle both social and environmental issues, slum-upgrading projects can gain access to a deep pool of investors.⁵⁵

One potential use for this kind of financing is in projects that leapfrog existing, more polluting technologies to deploy newer, greener ones. While this has clear environmental benefits, well designed investment vehicles can (and should) also yield considerable social improvements. Replacing inefficient (and typically informal) electricity or water infrastructures in slum-upgrading projects has a direct environmental impact through, for

⁵⁵<https://www.impactinvest.org.uk/publications/the-green-gilt-how-the-uk-could-issue-sovereign-bonds-that-deliver-climate-action-and-social-renewal/>

example, fewer losses in the systems. And where communities are further away from grids, replacing carbon-heavy energy generation with cleaner, cheaper solar energy results in environmental and social benefits. Likewise, investment in home “weatherisation”, including ventilation, insulation and moisture control can reduce overall energy consumption and improve health.⁵⁶

Slum-upgrading programmes should also focus on encouraging clean industries and fostering economic activity for the communities by replacing highly contaminating technologies for greener alternatives. For example, the production of bricks using traditional methods, a common source of employment across many peri-urban slums, is highly damaging to the environment and detrimental to the health of workers. By offering the right incentives, these methods could gradually be replaced with “eco bricks” made of recycled materials or through new, more efficient production lines that are friendlier to the environment and labourers (See case study from Bangladesh in Box 12).

Sustainability-linked bonds

In the last few years, new types of bonds, **sustainability-linked bonds** have gained attention in the market. The sustainability-linked bonds are defined as “any type of bond instrument for which the financial and/or structural characteristics (typically the interest coupon) can vary depending on whether the issuer achieves pre-defined sustainability/ESG objectives”.⁵⁷ Sustainability-linked bonds are a forward-looking, [result-based instrument](#). Unlike proceeds from green, social or sustainable bonds, proceeds from sustainability-linked bonds are intended for general purposes, hence they are not categorised according to specific use of proceeds but rather by sustainability performance targets. However, in some cases, issuers may choose to combine the green and social bonds approach with the performance-based feature of the sustainability-linked bonds. Their defining characteristic is that they are issued with specific sustainability performance targets, which if not achieved by the issuer, the bond interest increases (a coupon step-up).

⁵⁶<https://www.energy.gov/eere/wap/weatherization-assistance-program>

⁵⁷<https://www.pwc.lu/en/sustainable-finance/green-social-and-sustainability-linked-bonds.html>

BOX 12 SOCIAL AND ENVIRONMENTAL IMPACTS -BRICK MAKING IN BANGLADESH

An example of social and environmental impact is a project jointly funded by the World Bank and the Industrial and Infrastructure Development Company (a private non-banking financial institution) which brought new brick-making technology to Bangladesh. A major contributor to the Bangladeshi economy, the industry's traditional kilns emit around 10 million tons of CO₂ and other pollutants into the air each year and its employees often live in temporary accommodation with no access to basic infrastructure. The inefficiency of traditional kilns yet relatively low cost of bricks means that slave labour is widespread in the industry across Southeast Asia.

The two organisations funded nine new, clean and efficient brick kilns and provided technical assistance. The use of this greener technology, which reduces pollution by 50% through particle capture and recycling the heat generated by the kilns, has allowed the projects to register under the UN's Clean Development Mechanism and earn certified carbon credits that are sold to the World Bank Group's Community Development Carbon Fund and the Danish government. This revenue allows kiln owners to offer workers more secure paid employment, while funds are also earmarked for providing community benefits, such as doctor visits, toilet facilities and improved health and safety standards.

Financial vehicles to scale investment

Creating commercial markets for instruments that channel capital at scale to the most vulnerable urban territories to fund projects with clearly defined goals, and that can generate both measurable impact and financial returns for investors will require economic stability, an investment-friendly environment and adequate rule of law.

There are various ways to ensure “mission lock-in”, which is of equal importance to investors, policy makers and beneficiaries. This can be achieved by using, for example, trusts, escrow accounts, public/private companies or any other form of special purpose vehicle with designated and clear objectives.

Designing, setting up and running such vehicles requires close collaboration between public authorities in charge of the relevant areas (e.g. housing, habitat), regulators and investors (including banks, insurance companies, pension funds and other institutional investors) to create

adequate environments and governance structures for these instruments to achieve their objectives. Relevant precedents include the Network for Greening the Financial System, created in 2017 to bring together central banks to strengthen the global response required to meet the Paris Agreement goals and mobilise capital towards green and low-carbon investments.⁵⁸

Effective collaboration between different stakeholders is also necessary to create the right incentives to attract investors, meet market needs and appropriately address the issues faced by beneficiary communities.

We believe market-based solutions, including those with public-private approaches or blended finance structures, can be far more powerful than those exclusively reliant on subsidies – if we are to mobilise capital at scale, there has to be a financial incentive to invest in a way that generates positive impact outcomes. Creating a financial market leverages other capital to maximum effect.

Towards commercial viability

In principle, we see no reason why investors already attracted to SDG-related instruments would not be interested in thematic bonds or other financial assets targeting the improvement of living conditions in the poorest urban areas in the world. Appetite needs to be stimulated by i) raising awareness about the issue's social and environmental relevance, ii) putting forward adequately defined structures that offer investors sufficient comfort around mission-lock in, impact delivery, risk management and return profiles, and iii) regulation that incentivises and/or mandates investment from pension funds, insurance companies and capital markets in this thematic area. Regulatory bodies overseeing each of these have a core role to play.

In any given slum-upgrading project, the greatest share of funds would typically be applied to investment in “hard infrastructure”, including basic services (water, sanitation, electricity), green spaces, pavements, roads, and

⁵⁸<https://www.ngfs.net/en/about-us/governance/origin-and-purpose>

the generation of new plots for growth and the improvement of community buildings. However, other investment areas are equally important (though less capital-intensive) in promoting the socio-urban integration of slum communities with the wider city. These include education, health and early childhood development programmes, as well as financing, training and skills development for employment and other support for small companies operating from, and with, the slums. Finally, land titling reforms, which tend to be amongst the most bureaucratic and complex elements to deliver, can also be costly, depending on the cadastral and titling schemes of a given country, region, province or municipality.

The business case for instruments such as green bonds is clear – investors are typically repaid from revenue flows derived from the operation of specific commercial projects, such as electricity sales from a solar plant. However, investments in slum upgrading will need to articulate and develop a case for “less obvious” ways of generating financial returns. A logical first step would be to identify, measure, and monetise existing social and environmental benefits (both private and public).

As discussed above, investing in the rehabilitation of informal settlements has the potential to transform *urban liabilities* into *urban assets*. Understanding and communicating the powerful and deep implications behind this is a crucially important technical, societal and political enterprise. It brings value to the communities directly affected, to the city as a whole and, potentially, to an entire city, province and nation by generating new economic activity, avoiding current and future social costs (what is not invested in prevention today will be spent X times in the near future in the form of remediation and emergency response) and creating greater social cohesion. This might be evident to most urbanists, social scientists and development economists, but many investors, governments and the general public are far less aware of these implications.

There is a variety of public and private sources from which urbanisation projects can generate returns. For example:

- **Local and national governments** must take on commitments to repay the greatest chunk of project and financial costs. It is governments and society as a whole that will enjoy medium and long-term benefits from greater social

value creation (or lower social costs), including higher tax receipts from formalising the economy and connections to infrastructure, or from improved education, health and security outcomes in slum communities.

- **Contributions by private entities that benefit** (or can/will benefit) from the development of projects are another important source of revenue. Land value capture is one powerful, existing way through which authorities can make developers, private landowners or current and future businesses in the impacted areas contribute to repayment. *“Land value capture enables communities to recover and reinvest land value increases that result from public investment and other government action, such as re-zoning,”* the Lincoln Institute of Land Policy explains.⁵⁹ *“Also known as value sharing or value recovery, it is rooted in the notion that public action should generate public benefit.”* A project that, for example, brings running water and sanitation to informal settlements results in a rise in the value of the land. A land value capture scheme, such as that seen in Jardim Edite in Brazil (see Box 12 below) creates a system whereby development rights are sold based on the increase in land value, which in turn generates additional revenues for the government.

Despite being intuitive, these schemes are less widely adopted than they could (or should) be. The existence of limited grant funding from the federal/national government, or donor agencies, typically (and, probably, inadvertently) acts as an inhibiting factor because it creates the illusion amongst local authorities or civil society organisations that they will effectively receive the funding they so desperately need (*“why bother taxing my local constituents if I will get a grant from the central government?”*). However, they will not, at least not at the required scale, for the reasons explained in the previous section. Breaking this deadlock is essential.

- **Local communities** also have the capacity to pay, at least partly, for improvements in their own neighbourhoods. As a matter of fact, they are often already doing this when they gather funds to improve an access road, repair the informal and illegal connection to the electric grid, build a pavement or refurbish a community facility. But, as such investments are informal and unregistered, their economic value is lost. Building in a small

⁵⁹<https://www.lincolninst.edu/publications/articles/value-capture>

proportion of the revenue streams from informal settlement residents has the added benefit of creating a sense of responsibility, involvement and empowerment around projects in local communities at the same time as moving towards the recognition of slum-dwellers as economic actors in the formal credit markets.

BOX 13 LAND VALUE CAPTURE INSTRUMENTS: THE CASE OF JARDIM EDITE IN SÃO PAULO

City governments around the world are caught between tight budgets and increasing financial needs. As a result, some are looking for innovative financial tools to bridge the gap. One of these is land value capture instruments, which allow cities to fund public infrastructure and other urban improvements using the returns generated from land value increases.

Typically, city governments pay for public investment in infrastructure but the resulting gains from rising property values tend to flow to private owners. However, land value capture instruments are designed so that governments can reinvest the increase in land value that results from their actions, which might include changes to zoning and public investment, such as to improve roads or build public facilities. To deploy these instruments in a consistent manner, strong accountability and transparency in their design and in the use of their proceeds are paramount - conversely, a lack of integrity can turn these potentially virtuous schemes into major risks.

São Paulo is a city characterised by high levels of inequality, with affluent neighbourhoods located next to precarious settlements. Here, the government has raised money to build affordable housing, parks, public transit, and other amenities by “charging developers for the new development potential created by re-zoning and public investments in well-defined areas”.⁶⁰

One of these areas is Jardim Edite. Once a favela, it has been transformed into an urban design prize-winning public housing complex with health, education and day care facilities, plus good transport connections to the city centre. This was financed through CEPACs, or Certificates of Additional Construction Potential, which charge developers for the right to build taller structures or denser developments than are currently in place. CEPACs are particularly innovative in that, because developers buy them via electronic auction, they determine the price they are willing to pay based on what they believe the market will be able to absorb. This tool allows the government to raise billions of dollars. “This is essentially money that, if you didn’t have this instrument, would be going into the pockets of land-owners in areas that have benefited from public investment,” Smolka argues.⁶¹

⁶⁰Amigo, Ignacio. 2021 <https://www.lincolnst.edu/publications/articles/2021-01-building-value-in-brazil-land-value-capture-supports-community-needs>

⁶¹Smolka, Martim. 2013. Implementing Value Capture in Latin America: Policies and Tools for Urban Development. Policy focus report. Cambridge, MA: Lincoln Institute of Land Policy. https://www.lincolnst.edu/sites/default/files/pubfiles/implementing-value-capture-in-latin-americafull_1.pdf

This, as well as the experience of other cities around the world that are applying land value capture tools (such as Manizales in Colombia or San Francisco in the US), demonstrates the potential of well-designed and well-implemented land value capture initiatives. However, success requires effective management of complex factors and a wide range of stakeholders, a deep understanding of the local market, plus political will and co-ordination to implement it. Tailoring approaches to different institutional settings is a key to success, since land value capture schemes may have limited applicability in some contexts.



Credits: Daniela Schneider (picture left), Nelson Kon (right)

<https://danielaschneider.com.br/portfolio/jardim-edite/>
<http://www.nelsonkon.com.br/conjunto-habitacional-do-jardim-edite/>

The role of risk mitigation

However, returns are only part of the story. Commercial investors must ensure the risks of any commitment they make are appropriately managed. They will always look to optimise impact, risk, and return.

For many governments, it is possible to establish and inject capital into public-private financial vehicles, such as trusts, that then issue debt to which institutional investors subscribe. In these blended vehicles, governments can accept lower rates of return and use their contributions as the junior layer, leveraging X times more private capital by offering private investors the expected levels of financial returns for them to buy in. This can produce adequate risk-return-impact profiles adjusted to investor preferences.

At the same time, as developers (mainly sub-national governments, but also for-profit and non-profit organisations) borrow from the fund to implement capital-intensive projects, further guarantees and risk mitigation mechanisms

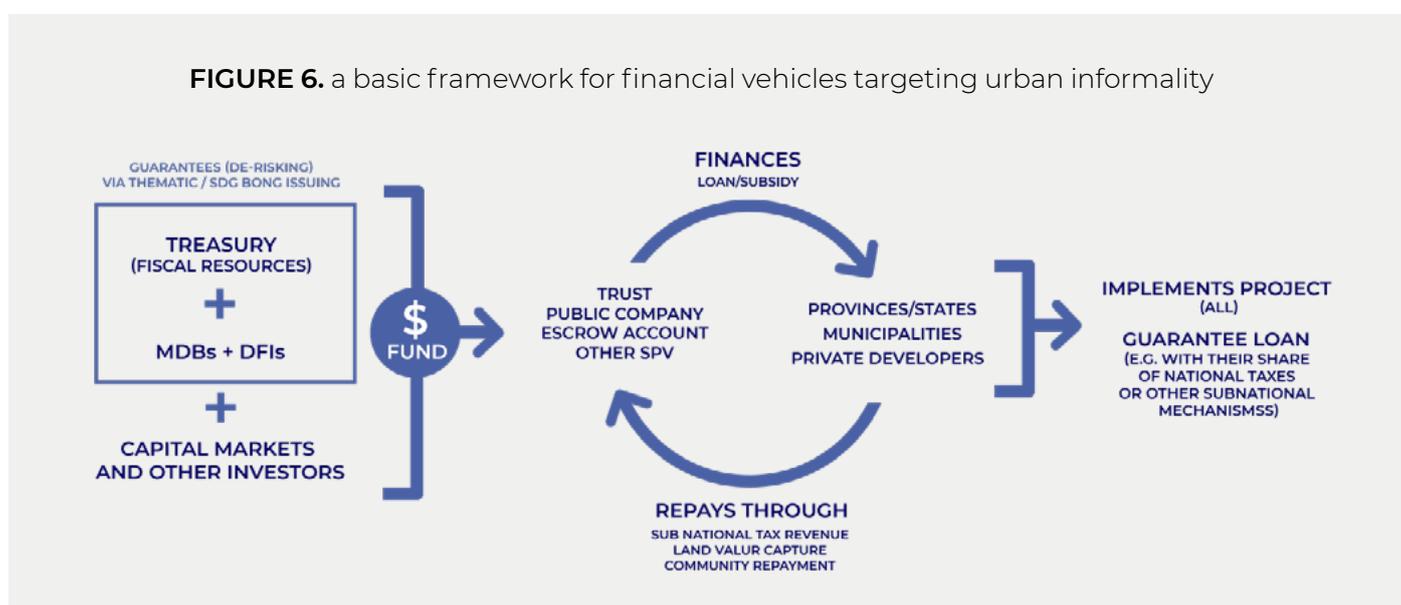
can be put in place. For instance, sub-national jurisdictions can offer their share of federal tax take as a guarantee. This brings the risk profile of a particular issuance to that of the particular jurisdiction.

For some governments (mainly federal), it may also be possible and desirable to back issuances with sovereign guarantees, effectively reducing the risk of any investment to sovereign risk, which is very familiar to institutional and other investors. This protects investors so that if, in the worst case scenario, a project is unable to deliver the anticipated returns, the investment is guaranteed by a government.

In cases where governments are unable to do this, multilateral development banks and development finance institutions have an important role to play. As part of their objective of catalysing private investment, they can help to mitigate real and perceived risk associated with investments with a positive development impact by offering guarantees or providing subordinated capital.

For instance, as private investors started to display reduced risk appetite during the 2008 global financial crisis, African Governors requested that the African Development Bank (AfDB) engage directly in trade finance. Multilateral development banks facilitated trade and provided affordable liquidity support as African financial institutions found themselves constrained by a lack of finance. In 2009, AfDB launched its Trade Finance Initiative, which supported Ghanaian SMEs and provided a model for other development finance institutions, ultimately mobilising US\$374 million.⁶²

FIGURE 6. a basic framework for financial vehicles targeting urban informality



⁶²<https://www.adb.org/sites/default/files/institutional-document/521281/mobilization-private-finance-mdbs-dfis-2017.pdf>

The need for impact transparency and integrity

Successful impact vehicles will also need to put forward robust outcome frameworks based on a coherent theory of change. Investments in rehabilitating slums and informal settlements will have an impact on the infrastructure and human development elements and these should be defined. So, for example, in basic infrastructure development there will be an input (capital invested in specific actions), an output (the project completed, ie, networks of running water and sanitation installed), an outcome (people access and make use of clean drinking water), plus distinct impacts across several social and/or environmental issues (e.g. lower prevalence of gastro-intestinal disease or other health issues amongst the beneficiary community).

To attract capital, issuers will need to consider what level of impact transparency and integrity investors will require. For ESG and impact investors, this is likely to be high.

If mission lock-in is appropriately structured and there is a clear definition of the vulnerable territories that should receive investment, this would likely guarantee a level of impact integrity that would be acceptable to many participants. However, issuers will also need to give due consideration to robust measurement. More sophisticated (impact) investors will likely demand appropriate and proportionate metrics for each element of a multi-dimensional investment programme, condensed in frameworks in which the outcomes (and ideally impacts) are defined, measured and tracked over time.

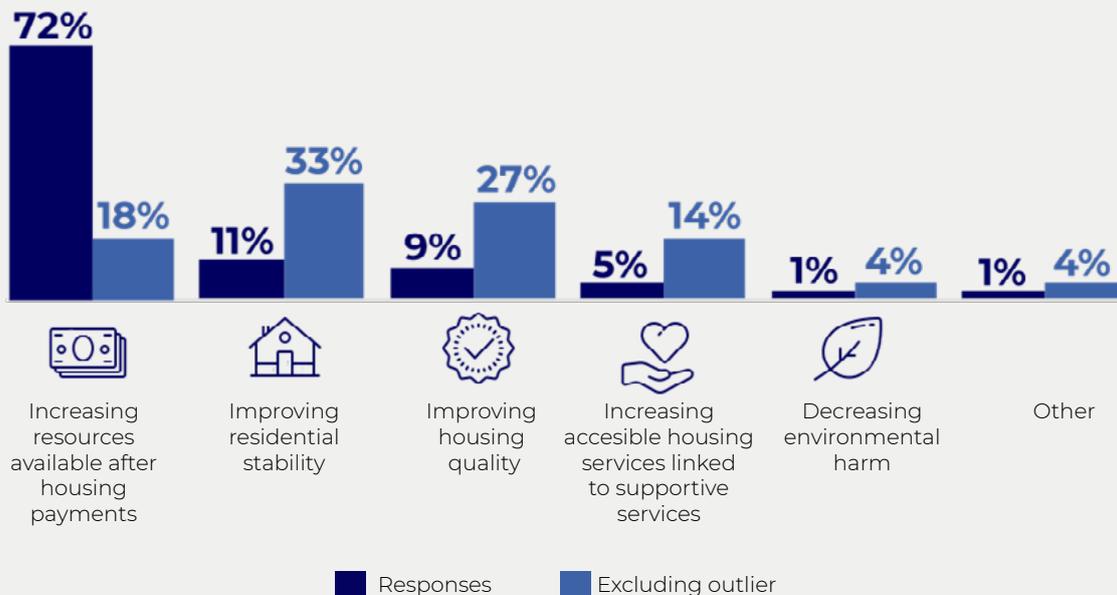
The ICMA's sample indicators⁶³ for outputs, outcomes and impact for issuers of social bonds focused on access to essential services include, for example: number of patients reached, number of new household or power connections, or share of barrier-free access. In affordable housing, the indicators include rental costs compared to the national/regional rent index and share of under-served tenants included. An evaluation of impact performance

⁶³<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Framework-for-Social-Bond-Reporting-Final-06-2019-100619.pdf>

of housing investments conducted by the Global Impact Investing Network (GIIN) shows that, for investors the primary target outcome is increasing available resources for residents after they have paid for housing, followed by increasing residential stability and improving housing quality (See Figure 7).⁶⁴

FIGURE 7. Target impact outcomes from housing investments.

n = 145 responses. n = 49 responses excluding one outlier. Respondents could select multiple target outcomes



BOX 14 THE NON-FINANCIAL RETURNS GENERATED BY IMPACT INVESTING IN HOUSING

Interest in impact funding for housing has been rising over the past few years (ImpactBase.org). Housing projects can produce both (“green and blue”) environmental and social returns when using strategies such as:

- Reducing water consumption
- Reducing greenhouse emissions
- Conserving biodiversity
- Improving energy efficiency
- Using low-impact materials
- Providing services, infrastructure and public equipment
- Building social housing
- Building affordable housing

⁶⁴https://thegiin.org/assets/Evaluating%20Impact%20Performance%20Housing_webfile.pdf

There are examples from the Global North that illustrate the way in which housing projects can achieve impact. These include The Fountain Avenue in New York and The Old Vinyl Factory in London, which incorporated green buildings strategies, such as carbon emission reduction, and provided affordable units, and these led to positive social and environmental outcomes.

Housing projects, in common with most human activities, clearly have social and environmental consequences, although there is still little consensus around how to measure that impact. Initiatives, such as UNEP or GIIN-IRIS, are leading the process by proposing metrics that measure housing impact. There are also green building rating systems, such as Leadership in Energy and Environmental Design (LEED) and Global Real Estate Sustainability Benchmark (GRESB). Together, these are moving us towards some agreement about how to measure impact performance, since they use metrics, such as water consumption per capita, quantity of rainwater reused, amount of greenhouse gases emitted, energy consumption per capita and the number of housing units included in the project.

Investment in habitat, including slum-upgrading programmes, is in several ways wider or more comprehensive than simply building housing. Certainly, the data and operating environments in regions and countries where urban informality prevails are quite different to those in the examples above. However, these, together with the extensive academic research available on the effects of increased access to water, sanitation, electricity and other basic services, provide a very strong foundation on which to build.

We do not aim to be too prescriptive about which specific metrics should be used for measuring the impact(s) of investments in informal settlements. Circumstances and needs will clearly differ across countries, regions, cities and even specific projects, and different programmes and projects will target distinct aspects. Nevertheless, there is a case for creating a basic, common set of metrics to ensure consistency and promote a common understanding around the levels of transparency for investors, policymakers, communities and other stakeholders

The metrics should go beyond traditional output measurements and should focus (primarily) on outcomes and (potentially) on impact(s). In urban development, there is little point in investing just in improving access to basic services if local populations do not make effective use of the new infrastructure because this would not lead to the achievement of the intended impact. This may be because, for example, households cannot fund connection costs. With strong outcomes frameworks in place, instruments could (and should) be designed in such a way that incentivises strong

outcome and impact delivery by offering benefits for the strongest performers, such as better repayment terms.

Increased capital supply does not create its own demand

We have so far introduced and discussed principles to boost the *supply* of capital to slum-upgrading programmes and other projects that promote the multi-dimensional development of informal urban areas. However, the *effective deployment* of capital, like in many other issue areas, requires sophisticated capabilities on the *demand side*.

The project design, comprising complex engineering, land use regulation and titling, community engagement, socio-economic programme creation and other features integral to holistic development, are as important as - and complementary to - increasing investor appetite in this subject.

At the project level (which we do not cover in this document) complex processes need to take place simultaneously and in a coordinated fashion, often under the leadership of a multi-dimensional, single entity with various capabilities and powers. In different contexts, this can range from special development corporations, which can be either public, private or mixed, to government departments responsible for the development of habitat in a country, province/state or city.

This is why urban planning, project design and pipeline building are included as eligible activities for financing packages. This avoids bottlenecks in mobilisation and allows for efficiency, integrity and trust across projects and processes. National and sub-national governments willing to tackle the issue of urban informality consistently often form special teams, divisions or units to lead urban rehabilitation programmes, and they often have the power to coordinate with a wide range of stakeholders, including other government departments, the private sector, civil society organisations and local communities.

The case of [Barrio 31](#) in the city of Buenos Aires, Argentina's largest ever slum-upgrading project, is a world-leading example of how a specially

created unit within the city government (*Secretaría de Integración Social y Urbana*) conducted a sophisticated programme that aimed to transform the habitat and lives of over 40,000 people living in one of the country's most iconic slums.

In Colombia, the [Santo Domingo Foundation](#) is leading two affordable housing “macro-projects”, targeting low and middle-income populations in the coastal cities of [Cartagena](#) and [Barranquilla](#). In these important urban centres, where informality has grown over the past decade and migration (including from displaced populations from Venezuela) is adding extra pressure to growth, the foundation acquired large extensions of land, benefiting from a national government scheme aimed at expanding the offer of urban land across the country. In Cartagena, the foundation is co-investing with private developers and the public sector to kick-start development in almost 400 hectares of land (which, once fully urbanised, will account for 20-25% of the total residential surface in the city). To date, over 54,000 housing units, home to 20,000 people, have been built - with a total investment of almost US\$48 million. Whilst Santo Domingo’s projects are not directly remediating urban deficits in informal areas, they are absolutely crucial to preventing the further expansion of slums in the city, by creating affordable housing alternatives for purchase or rent for low-income sectors. Partnerships with financial institutions, including some of the major Colombian banks, have created a robust mortgage market for families settling in, some of which are eligible to leverage government subsidies to cover part of the purchase cost.



“Ciudad de bicentenario”, Cartagena, Colombia. (Left)

Location of the macro-project “Ciudad de bicentenario”, northern Cartagena, Colombia. To date, nearly 15% of its total surface has been developed. The project has the potential to include 55,000 housing units. (Right)

4 From potential to practice - our core recommendations

Throughout this document, we have set out a compelling case for prioritising informal habitat as a core area for impact and development, including for the delivery of the SDGs. We have also highlighted the enormous gap that exists between the total investment needs and the amount of capital going to slum upgrading and related programmes each year. Finally, we have proposed a basic framework for the design of thematic investment vehicles that can help break the deadlock and reach scale.

Creating a market for these vehicles is essential if we are to bridge the divide between formal and informal areas in major cities in the Global South and to address the real threat to wider development, social cohesion and, ultimately, political stability in affected countries.

The positive news is that there is sufficient capital to drive this agenda forward and to deliver the SDGs.

However, substantive progress will require close collaboration between different stakeholders, all of which have an important part to play. Each party has a respective role in devising and implementing innovative solutions to an issue that has been invisible, considered too difficult or too expensive to address, or perceived as too risky for investors to consider.

To stimulate a global, action-oriented conversation that leads to scalable solutions, we are calling on a variety of parties to engage in distinct and complementary ways:

Impact, ESG and other investors

1. Look beyond “traditional” thematic investments, such as those made in education or healthcare, to support multi-dimensional strategies through place-based investing in poor urban communities. Investing at scale in vehicles and programmes targeting the rehabilitation and integral development of informal settlements in the Global South has the potential to create significant impact across nearly all of the SDGs, alongside financial returns.

2. Work with governments, regulators and multilaterals to find ways of overcoming current barriers to investment and of boosting capital flows towards slum-upgrading programmes.

Governments, regulators, multilaterals and development finance institutions (DFIs)

3. Make informal habitat a priority area for development, policy and political activity, being clear about the societal costs and risks that will emerge should the issue continue to grow. More importantly, support narratives that position investment in informal settlements as a significant driver of a region's or nation's economic and social development, communicating its benefits to society as a whole.

4. Work with all stakeholders, including the investor community, to propose appropriate policies, regulations and financial frameworks that encourage investment in informal settlements. These will vary according to different needs, regulatory, fiscal, macroeconomic and existing policy environments, but the aim should be to create the right conditions for private investors to gain comfort that their investment is adequately protected, delivers impact and has sufficient levels of transparency and integrity.

5. Find solutions to de-risk investments. In some cases, this may mean governments offering sovereign guarantees. Where this is not possible, multilaterals and DFIs can step in to provide guarantees or subordinated capital, or they could work with national and local governments to create combined solutions.⁶⁵

6. Consider establishing special-purpose vehicles with designated objectives to ensure adequate mission lock-in, with strong governance, integrity and transparency. These should allow for blended finance strategies that can offer appropriate financial returns for a wide range of investors, and that can scale up investment in urban development significantly across the poorest areas in the world.

7. Establish regulation to incentivise and/or mandate investment in this particular issue area, for example through regulations that govern capital markets, pension funds and insurance companies.

8. Work in coordination with different levels of government, from federal to municipal, and with civil society and the private sector, to generate a robust pipeline of slum-upgrading projects. These should be multi-dimensional, integrated urban programmes. Acknowledge this is an issue in which the supply of capital does not generate its own demand.

⁶⁵For further detail and examples see the reports of the Impact Taskforce: https://www.impact-taskforce.com/media/tqjhijab/workstream-b_summary_hyperlinked.pdf (Chapter 2)

Urban and habitat experts

9. Acknowledge that putting forward consistent financial strategies to encourage investment at scale is as important as the programmatic and technical aspects of any urban development strategy.

Urban planners, architects and other experts in the field of habitat need to better understand and recognise the role private capital has to play in supporting the projects they care about. Experience shows that public sector funding alone is far from sufficient. Financing models based solely on fiscal resources, allocated as grants for the development of specific projects, has led to investment rates that have fallen way behind the growth of informal settlements.

10. Combine expertise to help governments design policies to prevent the creation and expansion of informal settlements,

beyond remedial investment in existing informal areas. The costs of upgrading existing slums far outweigh those of preventing their emergence in the first place by making land accessible.

All stakeholders

11. Place communities at the centre of projects. Guarantee that local communities are adequately involved, from design to project delivery, to ensure their needs are met and they have a sense of ownership, which are critical to success and sustainability. Good impact investing practice should also recognise that slum-dwellers can (and are willing to) contribute financially to improving their local area.

We see this document as the beginning of an action-oriented conversation between a wide range of stakeholders that often operate in silos and rarely talk to each other.

At the GSG we would welcome the opportunity to convene and support such a dialogue between governments and regulators, urban experts, impact investors and communities.

Our network of National Advisory Boards, especially those in the middle-income and emerging economies where urban informality prevails, have an important role to play, leveraging their local influence and membership base of experts in investment, public policy, and social and environmental innovation.

We hope that this document can plant the seeds of an ambitious new movement that could bring the world closer to meeting the UN's SDGs.



Engage.

Reach out.

Let's work together.



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