Urban poverty, social exclusion and social housing finance

The case of PRODEL in Nicaragua

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Doctoral Thesis

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Academic thesis which, with due permission of the Faculty of Engineering at Lund University, will be publicly defended on Wednesday June 16, 2010 at 10.15 a.m.
in the Lecture Hall E:1406, at the E building, John Ericssons väg 2, Lund, for the degree of Doctor of Philosophy in Engineering.
Faculty Opponent: Professor Kosta Mathey, Darmstadt Technical University
**Title and subtitle**

**Urban poverty, social exclusion and social housing finance: the case of PRODEL in Nicaragua**

**Abstract:** The purpose of the thesis is to further understand key conceptual and operational challenges that international aid donors, and public and private institutions, face while designing and implementing alternative forms of social housing finance which aim to be inclusive for the urban poor. Based on an in-depth study of the work of the Foundation for the Promotion of Local Development (PRODEL) in three cities in Nicaragua during a period of 15 years, the thesis tries to answer three research questions: What are the constraints the urban poor face in financing the incremental way they build their individual housing and collective assets? Why does housing microfinance not always enhance inclusion of the urban poor? How does the tension between the goal of achieving financial sustainability and increasing financial inclusion affect the policy of international donors and governments, and the practice of local financial institutions?

To answer these questions, the thesis adopts a realist approach as well as a critical case study method as used in disciplines such as political science and history to explain the trends and complexities of the phenomena investigated, and formulates an argument in the form of a proposition: if financial exclusion occurs in PRODEL it might also occur elsewhere. Qualitative and quantitative research techniques helped to assess the perceptions of stakeholders that participated in PRODEL's small and repetitive housing improvement loans and in the co-financing mechanism for basic infrastructure components.

The thesis shows significant improvements in the living conditions of the urban poor as result of PRODEL's investments. Although income levels and external political and macroeconomic constraints are significant factors, understanding the different assets that the urban poor possess, has a critical effect on the ways individual households are included in micro-lending schemes. Interviewees considered that their poverty situation related more to the conditions prevailing in their neighbourhood and city than to their household income levels. Family breakdown; lack of education; insecurity; the lack of opportunities in the city; or a permanent sense of helplessness given the recurrent political and economic crises were more important than their monetary consumption levels. Increased self-esteem from being included in financial schemes that improved their homes and neighbourhood was equally important. Interviewees expressed that it was not the lack of income that pre-empted their participation in housing loan schemes, but the lack of reliable information; their fear of the unknown; and the lack of knowledge on how microfinance institutions operated. Additionally, the thesis shows that financial inclusion increases when accountable and transparent participatory methods of negotiation and co-financing mechanisms between urban poor communities and local governments to improve the provision of infrastructure and basic services are in place. Finally, the thesis offers new insights on how the concept of financial sustainability narrowed the approach and policy of international aid donors and governments, and the practice of financial institutions, when seeking financial inclusion. These findings shed light on the theoretical and practical limits of up-scaling housing improvement schemes as part of wider urban poverty reduction strategies in low-income countries such as Nicaragua.

**Key words:** Asset accumulation, Central America, Financial inclusion, Infrastructure, International donors, Microfinance, Nicaragua, Social exclusion, Social housing finance, Urban poverty

**Classification system and/or index terms (if any)**

**Supplementary bibliographical information**

**Language**

**English**

**ISSN and key title:** 1652-7666

**ISBN:** 91-87866-36-6

**Number of pages:** 260

**Price**

**Security classification**

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