

## Progress in housing finance development

A report by the chairman, Deepak Parekh, to IUBSSA's Housing Finance Development Committee

**T**HERE has been significant progress regarding housing finance development over the past year. International recognition of this sector has increased as has support for technical assistance and financing programmes in many countries. Of special note is the growing role of the regional development banks which are stepping up their activities in this field on behalf of their client members.

The World Bank's lending to housing finance institutions in the more populous countries continues to expand. During fiscal year 1987, the Bank undertook housing finance studies in India, Pakistan, Turkey, Botswana and Argentina. These studies reflect a greater understanding, within the Bank, of the potential contributions that housing investments can make to domestic resource mobilisation and financial development in general.

The new outlook is reflected in the Bank's recent housing finance projects — lending to South Korea (\$150 million) and Argentina as well as to India (\$250 million to HDFC). Under the general title of "Financial Development and Housing Finance" projects, the Bank's policy strategy seems to imply an expanded support for nationwide programmes designed to strengthen institutional development, especially of housing finance institutions, and to resolve regulatory constraints to the sector as a whole.

Although the United Nations declared International Year of Shelter



has come and gone, it has left behind a heightened awareness of the dimensions and complexity of the problems that remain. It also set in motion national housing policy and structural reforms in a number of places, as well as innovative demonstration projects and programmes. The respective roles of the governments and the private sector are being increasingly clarified, with international acceptance of the need for public-private sector partnerships.

This "new" thinking is quite directly spelled out in the United Nations report *Strategy for Shelter to the Year 2000*. This significant document was adopted by the Special Session of the UN Commission on Human Settlements held in New Delhi on 6-13 April 1988. It now goes before the UN General Assembly's current session in New York, with the

likelihood that there will be an agreed resolution on this subject by December. Developing countries in particular will therefore have available new guidelines for their policies and future action in this field.

The 12th Session of the UN Commission on Human Settlements will be held at Cartagena, Colombia, from 24 April to 3 May 1989. The main themes will be: roles and responsibilities of levels of government and private sector co-operation and partnerships; maintenance of buildings and infrastructure and its financing and cost recovery; sustainable development as related to human settlements.

The "Vienna Recommendations" which emerged from the Second International Shelter Conference, held at the same time as IUBSSA's Triennial Congress in 1986, have had a notable influence on the style and substance of the new UN policy paper. Preparatory work is well under way for a Third International Shelter Conference to be held in April 1990, and for which IUBSSA will continue as a partner and collaborator. The Conference will play an important role in highlighting case studies of public/private partnerships which are proving effective in promoting shelter programmes, especially in developing countries.

We can be increasingly optimistic that the panorama of current developments on the world scene is resulting in a lowering of tensions, a slowing of the arms race and increas-

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ing movement toward a more stabilised world order that will give the phrase "building for peace" new meaning. With the winds of change blowing strong, housing finance will play an essential role in the future decade of construction and reconstruction, at all levels. The institutions concerned should participate and be helpful partners in the emerging national coalitions for action in this field.

#### *Regional development banks*

Let me review briefly some of the highlights of the past year, starting with the regional development banks, mentioned earlier. In Africa, the African Development Bank (ADB) in Abidjan was instrumental in establishing the regional housing finance company known as Shelter Afrique, with headquarters in Nairobi. As reported in the November, 1987, issue of *Housing Finance International*, Shelter Afrique is undertaking operational projects in nine countries, and expects to expand the number to 20 over the current five year plan. Among other undertakings, it organised a symposium on housing finance for African countries earlier this year. The ADB's concessionary funding agency, the African Development Fund, is expected to be a source of soft loans for some of Shelter Afrique's projects.

The Inter-American Development Bank (IDB), is re-entering activity in the housing sector after a lapse of almost two decades. In 1987 it granted two loans for housing and sites and services, to Guatemala and to Ecuador. More operations are expected to be approved this year under the administration of Enrique Iglesias, IDB's new president.

The Caribbean Development Bank (CDB) also re-entered the field by making a new project loan to St. Vincent and the Grenadines, for mortgage finance of \$1.5 million. This is a four year project to be executed for the Government by the National Commercial Bank. The loan comes from CDB's Special Development

Fund, carrying an interest rate of 2% repayable over 25 years, with a five year grace period.

In the Caribbean, there have been other developments over the past year, including the establishment of the Barbados Housing Credit Fund, the continuing development (under difficult circumstances) of the private Haitian Housing Bank (Banque du Credit Immobilier), and the development of the Jamaican Private Sector and Basic Shelter Programs by the Caribbean Housing Finance Corporation, with the assistance of a USAID Housing Guaranty Loan.

The Central American Bank for Economic Integration (CABEI) in Tegucigalpa, Honduras, is now fully re-engaged in financing housing activity. A new five-year implementa-

### *'Essential role of housing finance'*

tion agreement with USAID will provide \$89 million for the regional programme to finance low cost housing and basic infrastructure for the urban poor. In 1987 \$25 million in new Housing Guaranty funds were authorised for this effort.

Significant housing finance activity has also been provided through individual country programmes in Central American countries such as Guatemala, Honduras and Costa Rica. A major success has been that of "Trabajo y Techo" or "Shelter and Jobs", a co-operative neighbourhood improvement and jobs programme, developed by the Co-operative Housing Foundation of Washington, DC, aided by a \$10 million four year grant from USAID.

The CHF programme is designed to benefit more than 100,000 people by providing credit to residents of squatter settlements and rural villages for house improvements, house con-

struction, and community services, and by creating jobs in small businesses related to construction. CHF provides local currency loans to credit union federations, co-operative housing federations, and other community groups, which in turn use these funds to provide credit to individual members through local credit unions or community co-operative groups. Repayment is required in full at market interest rates. These repayments then make up a revolving loan fund from which others may borrow subsequently.

The second year report of this programme shows highly successful results. To date CHF has made loans to 13 national level organisations and five community level organisations. The national organisations in turn have made loans to 61 community groups. In addition, 16 institutional support grants are helping to strengthen local private sector organisations. Thousands of people in the region have benefited.

One regional institution that has been facing up to problems related to the third world debt crisis is BIAPE, the Inter-American Bank for Savings and Loans, with headquarters in Caracas, Venezuela. According to the report presented to its board and members at Quito, Ecuador, in late June, BIAPE is still studying the possibilities for equity investment of its capital in several countries, but its current difficult operating environment remains basically unchanged.

New perspectives are emerging in the Asia and Pacific region in terms of assistance to developing countries for housing finance. The World Bank has undertaken review and exploratory missions to China with emphasis on assistance for its housing sector and urban development. The United Nations, through its regional Economic and Social Commission for Asia and the Pacific (ESCAP), has issued a special report *Innovative Approaches to Housing Finance in Asia and the Pacific*.

Also going ahead is another ESCAP project, on "Preparation of Guidelines for Innovative Housing Finance

and Credit Systems for Low Income Households". Participating countries in this project, financed by a French Government grant, are Bangladesh, China, India, Indonesia, Philippines, Republic of Korea, Sri Lanka, Thailand and Vietnam. Country monographs will be prepared and discussed at an expert group meeting to be held in 1989 where representatives of housing credit and finance and management institutions, savings and loan associations, and community-based housing finance groups will contribute their views.

In this regional context, undoubtedly a most promising development is the renewed interest of the Asian Development Bank (ASDB) in promoting the use of resources for housing finance. In 1982 the Bank organised a regional seminar on financing of low-income housing at which it was stressed that the Bank should provide support for housing finance institutions through technical assistance and the provision of seed capital. In late 1986, the Bank held a full-scale regional seminar on national urban policy issues. A consensus emerged from this seminar that greater private sector participation is needed in this sector.

## *'Provision of seed capital*

Since that time, the Bank has had growing involvement with several countries in the formulation of possible housing sector loan projects.

During the 10-year period 1976-1986 the Bank provided loan funds for 16 projects of \$584 million. Six of these projects were for Indonesia; three were for Malaysia; two each for Hong Kong, Korea and Thailand; and one for Pakistan. There were also 19 technical assistance projects for the urban development sectors.

It is apparent that the ASDB is now ready to broaden and deepen its prior activities in its field with special reference to doing more with respect to

housing finance and participation of the private sector. Currently, the Bank has fielded project preparation teams for housing finance lending in Bhutan and Pakistan.

As I noted in last year's report, a staff economist from my own company, HDFC, in India, participated in a UN Human Settlements project in Bhutan, leaving behind recommendations for action on housing finance. As part of the ASDB effort to appraise the situation and develop a loan agreement, IUBSSA's senior consultant has recently spent time in the mountain kingdom of Bhutan, and is optimistic that the basis has now been agreed for the establishment of a national housing finance system. IUBSSA can take satisfaction in this accomplishment.

As for Pakistan, the ASDB has sent a housing finance team there with the objectives of helping the government sharpen its focus and firm up implementation arrangements for housing finance, information and advisory assistance programmes. ASDB is exploring housing finance project possibilities in several other small and medium sized countries.

## *India*

Before departing from this "Asian" context, allow me to say a few words about the burgeoning housing finance scene in India. In July 1988, the National Housing Bank came into being by special notification under the National Housing Bank Act (1987). The Bank is a wholly-owned subsidiary of India's central bank, the Reserve Bank of India, with a capital of Rs1,000 million (US\$71 million). In the budget proposals for 1988-89, a further Rs1,000 million was committed to the Bank specifically to promote the development of rural housing. Financial allocations to the housing sector have also been enhanced through the commercial banks.

The initial activities of the National Housing Bank will be to promote the overall fiscal and legal environment

for the housing sector as a whole and the efficiency of the housing finance system in particular. The Bank has already begun examining the legal environment for housing finance institutions.

The various housing finance institutions co-promoted by HDFC last year have all commenced operations. These include the Housing Finance & Promotion Corp Ltd in Calcutta, Can Fin Homes Ltd in Bangalore, and the Gujarat Rural Housing Finance Corp (GRUH) in Ahmedabad.

GRUH is a relatively new experiment in rural housing finance; in its first six months of operations it has approved loans of Rs18.3 million for over 500 units with an average loan of

## *'Research work in India'*

Rs35,000 per unit (US\$2,500). It has not had any recovery problems so far. The successful implementation of rural housing finance, given the emphasis by the government on this sector, will be critical for future development of a housing finance system in India.

Substantial research work has begun in sector analysis in India. USAID is currently sponsoring research on housing finance in metropolitan areas designed to assess the institutional role in housing finance. HDFC has also endowed a chair on Housing and Urban Finance at the National Institute of Public Finance and Policy (NIPFP) in New Delhi. Work is currently under way on assessing the flow of funds to the housing sector, modelling a land price index, and various studies on housing finance mechanisms for the urban poor. These studies will help strengthen the analytical base with which to examine housing policy issues.

The Government has recently issued its housing policy statement which commits policy to broad guid-

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ing principles of a development strategy which recognises the role of public/private partnerships. More significantly, it recognises as vital the role of housing finance in an overall housing development programme of which the more important aspects are:

- A specialised housing finance system, as an integral part of the national finance system.
- Fiscal incentives would be rationalised to facilitate the channelling of savings into housing finance institutions.
- Promotion of housing finance institutions at the local and regional levels and (regulations) of their operations.
- Investment in housing would need to be increased by at least 30% to 35% over the present level.

With the policy framework recognising the role of housing finance and the gradual growth and development of the institutional structure for housing finance, it seems that the next few years will be exciting ones for housing development in India.

Among the other encouraging developments in Asia we can note the creation of the Housing & Urban Development Co-ordinating Council (HUDCC) in the Philippines. This Council is working hard to establish a more efficient national housing finance framework for the country. The World Bank has already made a loan of \$160 million to the National Home Mortgage Finance Corp, part of which will be channelled to the National Housing Authority.

### *The United Nations*

The United Nations Development Programme (UNDP) is the primary source of funding for international technical assistance to developing countries, and is part of a large and complex system for responding to the needs and requests of governments for expertise, equipment and other components. Virtually all developing countries have a designated UNDP resident representative

or regional representative who assists in preparing, co-ordinating and evaluating technical assistance that they require. In many cases the UNDP office is also a focal point for information about bi-lateral or multi-lateral aid, be it by technical assistance, loans or grants.

The UNDP is financed through voluntary pledges and contributions, which in 1987 achieved a record high of \$1.1 billion, a 7% increase in real terms over the previous year. It is the UNDP which provides the resources for funding developing countries' requests for expertise and consultants, though often this is provided in arrangement with the specialised agencies or centres of the UN, which serve as the "executing agencies" on

### *'Public/private partnerships'*

behalf of UNDP. One of these, of course, is the UN Centre for Human Settlements (Habitat) in Nairobi.

At the end of 1987 UNCHS was providing technical assistance for 160 projects in 83 countries, most of these funded by the UNDP. A growing number include components on financing, including housing finance. A recent analysis of 55 UNCHS assisted projects showed that 34 of them had "financing" components.

Financial sector assistance, particularly for housing finance, is thus increasingly included as an essential component of human settlements projects.

A small but important agency for actually providing modest capital resources for this sector is the UN Capital Development Fund. This functions under the UNDP, and is also dependent, separately, for its funds on voluntary contributions from governments. These are pledged annually, usually at the time of the UNDP pledging conference. The UNCDF is a project development and

finance institution which provides concessional capital for small investment projects first and foremost in the least developed countries. The projects are oriented towards meeting basic needs, income generation and strengthening economic infrastructure. They are small scale, averaging \$1.5 million.

In 1987, the UNCDF received voluntary contributions totalling \$32 million. The UNCDF sectoral breakdown of its programmes for 1987 showed 12.8% of its resources devoted to Shelter. In this sector, to the extent possible, a typical UNCDF approach will include increasing the viability of urban infrastructure (roads, sewerage, water); the construction of low-cost units and of some collective facilities; financing for the local production of building materials; and, finally, the establishment of a credit mechanism to allow low-income target beneficiaries to participate in the housing schemes. Thus the UNCDF resources are expected to satisfy basic needs as well as promote productive activities.

Decisions regarding UNCDF participation in country projects are made in New York, following independent project formulation missions, and the projects themselves are generally executed by local institutions. Therefore, UNCDF appears to be an instrument of growing utility which is finding its proper role in the establishment and financing of housing projects and programmes.

### *IUBSSA as a Non-Governmental Organisation (NGO)*

IUBSSA continues as a duly accepted NGO to the United Nations Economic & Social Council (Category II), which gives it observer status and the right to submit statements and make brief presentations to a number of United Nations bodies on matters in which it has special interest and competence. Such initiatives are normally taken after consultations with the president and secretary-general of the organisation. The UN discussion on the Strategy for Shelter to the Year 2000 is, perhaps, a case where

an intervention by IUBSSA could be helpful and supportive.

Meanwhile, there are other channels and opportunities for participation by IUBSSA to further national, regional and international programmes for housing and shelter. One is the UN-NGO Committee for Housing and IYSH (now renamed the UN-NGO Committee for Shelter and Community). This committee has organised a number of seminars and conferences dealing with housing and shelter issues for the benefit of representatives of international NGOs as well as the diplomatic community.

From one such meeting held at New York University during the past year, several recommendations were produced urging more attention to the needs for small-scale credit for housing improvement through UN

## 'Acceleration of lending'

programmes, such as those of the UN Capital Development Fund. IUBSSA's senior consultant participated in this project, which led to a useful and positive group meeting with the administrator of UNDP, Mr William Draper III, and indications that there would be follow-up action.

Another channel for IUBSSA's co-operation with other NGOs concerned with housing, shelter and human settlements is the Habitat International Coalition, based in The Hague, Netherlands. Over the past year the HIC has endeavoured to broaden its membership to include more community-based and activist organisations from developing countries. One result has been more concentration on such issues as the human right to housing, and research and action on forced evictions of tenants and residents taking place in various countries, regardless of means or possibilities for resettlement. At its 1987 session the UN General Assembly did adopt a special resolution affirming the "right to

housing" as referred to in the UN charter, and urging more specific actions by governments in this regard, including appropriate legal measures, definitions and procedures.

At another level, following the Hong Kong meeting last year, the president of IUBSSA, H. W. Sorensen, addressed a special letter to Barber Conable, president of the World Bank, expressing concern that with the Bank's reorganisation the housing and urban sectors might lose out in terms of status within the Bank as well as in programme priorities. The cordial letter received from the Bank gave assurances that the Bank's interests in these sectors remained intact, as indeed has been proven by the Bank's subsequent acceleration of lending particularly for housing finance programmes.

During 1987, 13 urban projects were approved for funding of a total amount of US\$1.3 billion, with a total project cost of \$4.6 billion. This constitutes a tripling of the Bank's urban lending since 1983/84 and amounts to 8% of its total lending programme. Housing finance lending is approaching nearly half of total annual urban lending, indicating its likely importance in future Bank strategy.

This report has given emphasis to the expanding activities of the regional development banks with regard to the housing sector and to housing finance. In closing, it is helpful to highlight a few activities of the regional developing country groupings.

UNIAPRAVI, the Inter-American Housing Union, based in Lima, Peru, is still very much in business despite the economic problems of some of its member countries. Several have succeeded in substantial new housing accomplishments, such as Ecuador, Colombia, Venezuela and Costa Rica, and others, such as Bolivia, have completely "privatised" their housing industry and are heading in new

directions for mobilising resources and meeting housing needs.

UNIAPRAVI has initiated a Strategic Planning Study of its own activities, leading to several major projects for implementation and further action. One of these is the creation of a Latin American Housing Statistics Centre; another is a project for an Inter-American Forum on Housing involving all sectoral organisations, public and private, to be held at periodic intervals.

As for CABSHFI, the Caribbean Association of Building Societies and Housing Finance Institutions, it has recorded continuing progress. One key factor is that many of its members are enjoying an improved economic climate and prospects, with several of the leading financial entities, such as

## 'African Union still expanding'

the Victoria Mutual in Jamaica, reporting growth rates of over 25%. CABSHFI has co-sponsored several seminars on housing finance aspects, such as the one earlier this year in Puerto Plata, which have achieved large attendance and participation.

CABSHFI is also continuing to enjoy the benefits of its sister institution exchange arrangement between its members and those of the New York Federal Home Loan Bank. This is creating new understandings and enhanced training opportunities and technical advisory services on a practical basis.

The African Union of Building Societies and Housing Finance Institutions also continues to expand its membership and programmes. The Union has organised and co-sponsored several seminars and training courses over the past year. ■

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