

Work on housing finance by UNCHS (Habitat)

The United Nations Centre for Human Settlements (Habitat), better known as UNCHS (Habitat), is one of the smaller agencies of the United Nations. It is also a relatively new organisation, having been established only in 1978. It had its origins in the 1976 United Nations Conference on Human Settlements held in Vancouver, Canada. The member states concluded that there was a need for a United Nations organisation to assist governments with their national programmes on human settlements development. UNCHS (Habitat) was created to meet that need under the control of a 58-member governing body, the Commission on Human Settlements.

UNCHS (Habitat) combines in one organisation activities that formerly were scattered among various departments and organisations within the United Nations system. It has its headquarters just outside Nairobi in Kenya. The Centre receives policy guidance from the Commission on Human Settlements which meets annually. The UNCHS (Habitat) secretariat is headed by an under-secretary-general of the United Nations, designated the executive director. The current executive director is Dr Arcot Ramachandran.

UNCHS (Habitat) was the organising and co-ordinating body for the International Year of Shelter in 1987 and subsequently has prepared the Global Strategy for Shelter to the Year 2000.

This article briefly reviews recent work of UNCHS (Habitat) with particular emphasis on housing finance.

International Year of Shelter for the Homeless

In 1982 the United Nations General

Assembly declared 1987 as the International Year of Shelter for the Homeless. Responsibility for organising and co-ordinating the activities for the year was entrusted to the Commission on Human Settlements at the inter-governmental level and UNCHS (Habitat) at the secretariat level. At the 11th session of the Commission on Human Settlements held in New Delhi, India, in April 1988 the executive director presented a report on activities and achievements of the International Year. The report lists the following achievements of the year—

(a) Improving the shelter in neighbourhoods of some of the poor and disadvantaged by 1987. IYSH related activities and specific projects benefited a large number of the poor, though it was small in comparison with the scale of the need.

(b) Demonstrating ways and means of improving shelter and neighbourhoods of the poor and disadvantaged by the year 2000. The long term objective of the year was to "demonstrate by the year 2000 ways and means of improving the shelter in neighbourhoods of the poor and disadvantaged". More than 600 demonstration projects and over 100 countries were designated as IYSH projects and a substantial body of practical and technical knowledge has been accumulated.

(c) Securing renewed political commitment by the international community. Governments have shown their new commitment to improving shelter conditions of the poor by adopting new revised shelter strategies.

(d) Consolidating and sharing all new and existing knowledge and relevant experience to provide a full range of tested and practical alternatives for

improvement of shelter and neighbourhoods. IYSH sub-regional meetings with participation of more than 100 member-states served as the most suitable for a sharing of experiences.

(e) Developing and demonstrating new approaches and methods in order to provide a basis for new national policies and strategies. Among the 130 countries having advanced programmes towards the achievement of the objectives of the year, 55 have established new strategies, 11 have started preparatory activities for new strategies, and the rest have made at least one significant policy change.

(f) Exchanging experience and providing support among countries to meet the objectives of the year. A high level of exchange of experience among countries was achieved in conferences, seminars and workshops. UNCHS (Habitat) published two books, more than 10 special topic publications, 15 monographs and 12 IYSH Bulletins.

The report concludes that in spite of severe economic conditions for the majority of developing countries, the reports of the activities of national governments show hopeful signs. After six years of experimentation there is now a clear focus on a number of issues which relate the improvement of shelter to the overall development efforts and efficient resource utilisation—

(a) The impact of national macro-economic policies on urbanisation, settlement patterns and shelter.

(b) The integration and co-ordination of public and private sector activities in the field of shelter and services.

(c) The recognition of the vast

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energies and resources of individuals and communities that can be tapped and reinforced to produce more and improve the conditions of shelter and services.

(d) The recognition of a wider range of public sector potentials for participation in improving the conditions of shelter and services by the adoption of a variety of enabling and facilitating measures.

It was on reviewing these emerging ideas and concepts that the Commission on Human Settlements, at its 1987 meeting, asked the executive director to prepare a Global Strategy for Shelter to the Year 2000.

The report includes a specific section on financing shelter for the poor. This is set out in full in the accompanying box.

Report of the executive director for 1986-87

The executive director of UNCHS (Habitat) presented a progress report to the Commission on Human Settlements at its meeting in New Delhi in April 1988. Among the eight sub-programmes described is sub-programme seven which is the mobilisation of financial resources for human settlements development. The overall objective of this is to provide support to the development of effective human settlement finance systems.

During 1987 work continued on the preparation of case studies on the integration of employment generating activities with housing projects and other human settlements development programmes. The studies will cover Chile, India, Nigeria, the Philippines, Sri Lanka and Zambia.

The findings will be published in the form of guidelines and recommendations to governments and local authorities on support systems, legal and institutional frameworks, advisory services, credit facilities, training assistance and other areas conducive to the development of opportunities for self employment and promotion of small enterprises. Research in housing finance sys-

Financing shelter for the poor

THE range of actions reported on improving the availability of finance to the poor including the setting up of housing finance institutions, mobilisation of new sources of funds, improving access of the poor to finance, and cost recovery.

(a) New financial institutions

In Lesotho, Nepal and Papua New Guinea feasibility studies have been undertaken for setting up a housing finance institution. Other countries considering setting up a national housing bank are Costa Rica and El Salvador. In the Comoros a national building society is envisaged with contributions amounting to CFAF 80 million and a grant of \$US600,000. In India plans are advanced for the setting up of a three-tier new housing finance system. At the apex level, a national housing bank will be set up, with regional institutions at the second tier and local grassroot institutions, mutual savings and thrift associations at the third tier. In Djibouti Credit Habitat has been set up, with 600 loans already issued for the improvement of the poorest dwellings. To ensure continuity of the programme an urban development fund has been created for recovery of costs, budgetary grants and external aid.

(b) Improving access of finance to the poor

Existing housing finance institutions are being strengthened to reach the poor in Cyprus, the Dominican Republic, Indonesia, Kenya and Thailand. In Argentina, the National Mortgage Bank has undertaken a new

scheme called "Plan Techno" geared towards providing funds to low-income families for the construction of roofs. In Barbados a wholesaling financing agency, the Housing Credit Fund, has been established to channel funds to low-income groups through mortgage companies, commercial banks and credit unions. In Cameroon, Credit Foncier has embarked on a set of new financial packages addressed to the poor. In Malaysia, the building societies have received new directives to reach low-income groups. In Sierra Leone and Togo savings and credit systems have been developed to assist the poor. In Zimbabwe the building societies have extended their lending to low-income people directly or through the employers. In Jamaica a system of gradual repayments has been instituted for increasing access to housing finance by the poor.

(c) Mobilisation of funds

In many countries, mobilisation of funds for housing has been undertaken as a matter of priority. In Turkey, the National Housing Fund was created in accordance with the National Housing Law of 1984. The sources of the Fund consist of a surtax of 10% on petroleum products, 5% on other liquid fuels, 30% on tobacco and other state monopoly products, varying surtaxes on imports, and a levy of \$US100 on trips abroad. The fund is available to housing co-operatives, individual buyers, and private contractors (to purchase construction machinery and installations) as well as to manufacturers producing construction materials and equipment.

tems is concentrated on the mobilisation of savings with a view to disseminating information on suitable instruments to increase the flow of funds to the housing finance sector.

Publications

The principal regular publication of UNCHS is *Habitat News* which is published quarterly. This contains

articles on UNCHS (Habitat) activities, technical co-operation, research and development, information initiatives, regional news and events.

NGO News is an insert to *Habitat News*. It is a forum for non-governmental organisations concerned with issues related to human settlements at the international and national level.

INTERNATIONAL AGENCIES

A second regular publication is the *UNCHS Shelter Bulletin*. The most recent issue, published in July 1988, reviews the Global Strategy for Shelter to the Year 2000, includes an article on housing finance, mechanisms and economic adjustment, and has country news and United Nations news.

Global Strategy for Shelter to the Year 2000

Before the International Year of Shelter for the Homeless came to a close, the General Assembly of the United Nations concluded that the year should be followed by a longer term implementation-orientated effort that could capitalise on the interest and momentum generated by the year, and decided to launch a Global Strategy for Shelter to the Year 2000.

The Commission on Human Settlements, at its meeting in New Delhi in April 1988, recommended the adoption of the Global Strategy as the framework for national and international action.

It is estimated that the inadequate shelter conditions of an estimated one billion people are a cause of grave concern to governments and the international community. If current trends hold, cities in developing countries, which will already have enormous slum and squatter settlement populations, will have to accommodate a further 750 million people by the turn of the century.

There are three important reasons why a global level strategy is warranted—

(a) No country can claim to have solved all of its shelter problems and therefore all countries should make a commitment to meeting shelter needs.

(b) All countries have successful experience to share with others, and global exchange of knowledge is essential to solving national shelter problems.

(c) The sheer scale of shelter demand calls for a global effort based on the support of all nations.

It is suggested that the right to adequate shelter requires governments to make basic changes to their existing policies on shelter.

The practicality of a national strategy should be ensured by the full participation of all actors involved in the shelter production process. The role of the state will vary. In some cases it should play a leading role without precluding private sector participation, while in others, the private sector will take the leading role with only broad policy making and institutional support from government.

Attention will have to be given to rental housing. In view of the importance of rental housing in the total housing stock, particularly to low income settlements, governments will have to come to some decision as to the promotion of rental housing as an effective way of expanding production options for shelter.

The unaided private market will not be able to solve the fundamental problems of squatters and other occupants of informal or illegal housing. Overcoming these problems is dependent on the introduction of new government procedures.

National shelter strategies will need to contain four complementary parts—

(a) Definition of clear and measurable objectives.

(b) Gradual mobilisation of the shelter sector.

(c) Mobilisation and distribution of financial resources in the sector.

(d) Equal emphasis on improving the management of land, expanding the supply of infrastructure, and increasing the capacity of the construction industry.

International action is crucial for the success of the strategy. The strategy can be re-inforced by technical co-operation between developing countries, and there will also be a need for external assistance to developing countries from developed countries.

UNCHS (Habitat) will act as the co-ordinating and monitoring agency for the implementation of the strategy. The Centre will also prepare a reporting format to facilitate monitoring of progress by the Commission on Human Settlements.

The strategy includes a section on financing for housing which makes the following five key points—

(a) Shelter finance reform will have to be seen as part of a broad effort to develop and reform the financial sector.

(b) Shelter development will require a steady flow of long term finance.

(c) Governmental physical and credit policy should be orientated to ensuring that the shelter sector is allowed to compete fairly for financing and that the costs of financial intermediation are minimised.

(d) Given the substantial and growing demand for rental housing, particularly in the rapidly growing urban settlements of developing countries, financing will have to be mobilised and made available for the production of shelter for rental purposes for all income groups.

(e) Lending for individual housing mortgages cannot be sustained without significant improvements in recovering loans and reducing loan default rates.

Main points of the section on financing of housing are shown below.

Financing for housing

Shelter-finance reform will have to be seen as part of a broad effort to develop and reform the financial sector

A key component of a shelter strategy is in the area of housing finance, where it is clear that governments have an obligation to ensure that an appropriate environment is created for the mobilisation of funds. The development or reform of institutions engaged in financing housing

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should be part of an overall effort to strengthen and develop the financial system of a country. The objectives of such an effort are to promote and mobilise savings, reduce the cost and improve the efficiency of financial intermediation, and promote the free movement of capital throughout the national economy.

Shelter development will require a steady flow of long-term finance

Strategies for financing investment in shelter have to address the central issue of mobilising a steady flow of long-term finance. Housing requires a longer term than some other types of investment, because housing costs are usually a large multiple of household incomes, making amortisation of loans over a long period necessary. Several sources of finance need to be considered, including not only savings by households in financial institutions but also funds from the sale of housing bonds (which may be backed by mortgages as security) and funds accumulated in compulsory savings schemes, such as provident or pension funds, life insurance and other social security systems.

Governmental fiscal and credit policies should be oriented to ensuring that the shelter sector is allowed to compete fairly for financing and that the costs of financial intermediation are minimised

Governmental policies regarding investment priorities and availability and pricing of credit can have a strong impact on the ability of any sector of the economy to compete for investment resources. In recent years, Governments have often made it difficult for the housing sector to compete for funds by establishing policies that have directed credit to sectors of the economy that were held to be more productive than housing or by establishing interest rate restrictions on deposits or lending rates of housing finance institutions that made such institutions financially unviable, unable to com-

pete for funds and unable to continue to make loans.

Shelter strategies need to examine closely the continuing rationale for such policies and, when it appears warranted, seek the elimination or restructuring of governmental credit-allocation procedures, the establishment of deposit rates at housing-finance institutions that will mobilise additional savings, the fixing of lending rates that will ensure financial viability and the approval of new types of mortgage instruments, such as adjustable or graduated payment mortgages, that will permit housing finance institutions to respond flexibly to changing macro-economic conditions.

Governments should avoid using housing finance institutions as vehicles for housing subsidies, since there are almost always more equitable and efficient subsidy mechanisms available which do not threaten the financial integrity of lending institutions. One objective in any country should be to reduce the cost of housing finance to the lowest possible level that is consistent with sound financial and economic principles.

Given the substantial and growing demand for rental housing, particularly in the rapidly growing urban settlements of developing countries, financing will have to be mobilised and made available for the production of shelter for rental purposes for all income groups

In all countries, rental housing contributes a substantial portion of the existing urban housing stock. In some centrally planned economies, the majority of the urban housing stock is built by State enterprises and rented at extremely low rates. In market economies, the growing demand for rental housing concerns all income groups and is determined by the modernisation processes taking place in those societies. Many households, regardless of their income

level, are not necessarily interested in buying a house. There are many reasons for this — expected mobility, reluctance to invest a disproportionate share of income or resources in a fixed asset or, simply, unaffordability. Low-income groups in developing countries are often interested in renting decent and affordable accommodation close to the location of their income-generation activities.

The production of new housing units for rental purposes is often hampered by the unintended results of social legislation designed to help the weak groups of society, e.g., rent controls over the urban housing stock, which, particularly in times of high inflation, often crystallise with time into unfair privileges for consolidated tenants and the exclusion of deserving households. A review of rent control legislation, in line with the general principles of the strategy on subsidy policy — compassion, equity, and efficiency — will have to be undertaken in all countries.

Lending for individual housing mortgages cannot be sustained without significant improvements in recovering loans and reducing loan-default rates

Many housing loan arrangements, by financial institutions, governmental agencies and community-based credit unions and co-operatives, suffer from high rates of default. Beneficiaries of such loans are one-time borrowers who may not be significantly threatened by reneging on their commitments. Evicting them from their houses for failing to pay is in direct contradiction with the effort to house them properly and, in many cases, difficult, if not impossible. The recovery of loans will need to be attended to at the community level, on a regular daily, weekly or bi-weekly basis, by people who remain close to the borrowers. There will be a need to devise collection systems that reduce the risk of lending to the poor and, possibly, to supplement them with special welfare funds to assist those unable to pay in times of dire need. ■