

Progress in housing finance development

As we approach the last decade of this century, it is clear that the world is undergoing a remarkable period of change and transition. Even in the past year there have been astounding political developments as well as much restructuring of national economies and consequent impacts on systems for housing finance. Overall, financial globalisation trends accelerate as the world economy becomes ever more integrated. But there are marked differences between the regions. Probably the major success stories in housing finance development efforts are in countries of Asia and the Pacific, such as Korea, India and Thailand.

In this region, however, there is no standardised institutional pattern for the housing finance systems that have developed. In the Caribbean the more traditional forms of building societies and housing finance institutions are generally doing very well, and in the Central American countries there has been a strong revival of housing finance activity. In the countries of Latin America there are major differences in their economic achievements and perspectives.

I understand that in some countries of Africa housing finance activity through building societies and other entities is becoming more substantial. As for developments on the European scene, there are many.

Generally speaking, in some countries specialised institutions for mobilising savings and providing finance for housing continue to do well, and in developing countries there is no doubt that they meet a real need. In the industrialised countries there are more questions about the value and necessity of a specialised housing finance system.

The traditional institutions have

AT THE meeting of the Housing Finance Development Committee of the International Union of Housing Finance Institutions, held in Washington DC on 16 September 1989, the chairman of the committee, Luiz Eduardo Pinto Lima of Brazil, gave a report on international development in housing finance. An edited version of the report is set out below.

sought to expand their powers and expand their range of financial services, and many have opted to become banks. In several places, they have proved vulnerable to competition and a variety of forces, and there have been bankruptcies, takeovers and mergers, voluntary or otherwise.

Such is the sad and surprising story of the thrift industry in the United States. The problems of the industry became so serious that their resolution became the Government's highest priority. In response, legislation has now been enacted, known as the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) or, more commonly, the "Thrift Bailout Plan". The legislation will cost an estimated \$166 billion through to 1999 to close or merge failing institutions.

Over 30 years, including interest, the cost is estimated at nearly \$300 billion, with taxpayers paying about \$225 billion and the healthy portion of the industry paying the rest. Already 223 savings and loans have been closed, and it is estimated that 600 institutions will be dealt with by the new Resolution Trust Corporation (RTC).

The RTC may also wind up with up to \$400 to \$500 billion in real estate and other assets owned by bankrupt

savings and loans. A new Office of Thrift Supervision in the Treasury Department replaces the Federal Home Loan Bank as regulator of the thrift system. The office recently reported that 2,934 institutions had total losses of \$3.7 billion in the second quarter of 1989, and that losses of this magnitude were likely to continue in the near future. The losses, of course, are not spread evenly; most of them have occurred in a handful of States, including Texas. At least one third or more of the industry continues to do well, with satisfactory profits.

It will take some time for the effects of the FIRREA to be determined on the many pressing problems to be resolved, including asset disposition as well as new enforcement and regulatory measures.

United Nations

Turning to the international scene, the United Nations has adopted a Global Strategy for Shelter to the Year 2000. This is a follow-up to the International Year of Shelter for the Homeless (1987). This year has come and gone with little improvement for the millions more added to the ranks of the homeless and displaced.

The 12th session of the UN Commission of Human Settlements met in Cartagena, Colombia, with the participation of 350 delegates from 82 countries, from April 24 to May 3, 1989. The Commission adopted 24 modest resolutions, for final action by the UN General Assembly, but spent most of its time on questions of implementation and monitoring of the new Global Strategy.

However, little effective support was demonstrated for the Strategy, and it is evident that the international donor community is reluctant to step up its contributions for this purpose.

In Cartagena, only \$1.5 million was pledged for the Strategy exercise, to the UN Habitat and Human Settlements Foundation.

The main features of the Strategy draw upon the Vienna Recommendation of the Second International Shelter Conference held in Vienna in 1986, at the time of the International Union's Triennial Congress. Governments are expected to serve as enablers of action by the private sector, including interaction with non-governmental and community-based organisations. Governments are urged to put into place national finance systems for addressing shelter development on a sustainable basis and at the required scale. National coalitions for shelter are to be encouraged.

The Commission meeting itself, which cost millions of dollars to convoke from both national and international resources, demonstrated the realities and the difficulties which remain. Apart from a few interested governments, the Commission's constituency for a major international shelter programme is virtually non-existent, especially from those with a real stake in the "building business". There were no representatives present from the construction industry, labour unions, co-operatives, credit unions, architects, urban planners, engineers, church organisations or other housing and professional groupings.

The International Union was represented by its senior consultant, who submitted a statement to the session which, *inter alia*, endorsed study and action regarding debt-equity conversions and other arrangements to facilitate capital flows to developing countries through the housing, building and construction sector. The statement suggested that a special task force or working party be established, and that there should now be a review of the need for a new financial services entity to assist countries in mobilising resources and financing for shelter and housing development. There were several favourable comments on the state-

ment, but no formal response to the proposal.

The International Union continues as a member of the Habitat International Coalition (HIC), a federation of over 200 organisations now based in Mexico City, which presented statements to the Commission regarding the necessary involvement of NGOs and Community Based Organisations (CBOs) as partners in housing and shelter development. The HIC is promoting an international convention on housing rights, is taking actions against forced evictions in various countries, and working towards greater recognition of the role of women in housing development and management.

But serious questions remain about the effectiveness of the United Nations in dealing with problems of housing, shelter, the homeless and displaced peoples generally. The sector has low priority, and receives only about 2% of aid assistance across the board. Though it continues to carry on technical co-operation activities financed by the UN Development Programme, the UN Center for Human Settlements (Habitat) is handicapped by the financial and budgetary constraints affecting the UN system as a whole.

The International Union continues to support and co-sponsor the International Shelter Conference project, the third of which is convoked for Washington, DC, from April 25 to May 1, 1990. The conference will be held on an invitational basis for 300 participants from both public and private sectors selected on a worldwide basis. The conference will devote special attention to a number of specially commissioned case studies from different countries, focusing on the policies and techniques for public/private sector co-operation for action for housing and shelter. The International Union is represented on the Advisory Committee for the Conference through Mark Boléat and Eric Carlson.

As I have indicated that the United Nations efforts to develop a Global Strategy and Action for Shelter seem becalmed, if not adrift, it is evident that there must be a concerted effort, through considerable networking, for greater achievement in this field. The Third International Shelter Conference is a major step in this direction. There will also be a need for direct prodding and lobbying of governments lagging in financing for this sector. Investment groups as well as NGOs and CBOs must become involved.

World Habitat Day, the first Monday in October, is suggested as a time for reporting on progress with housing and shelter programmes. The next meeting of the UN Commission on Human Settlements will be held in Harare, Zimbabwe, in 1991.

The World Bank

The World Bank is the leading actor among the multilateral agencies concerned with housing and urban sector improvement in the developing countries. The October 1988 Annual Urban Sector Review prepared by the Infrastructure and Urban Development Department of the Bank contradicted the fear that with its reorganisation the Bank would diminish its lending for the urban lending. Fiscal year 1988 was characterised by a continual increase in urban lending.

Nineteen loans and credits were approved, amounting to \$2,016 million or 10.3% of Bank lending. The average loan size per project went up to \$106 million. There were 11 IBRD loans for a total of \$1,408 million and eight IDA credits for \$60 million. One billion dollars of this lending was for housing and \$680 million of that amount was in housing finance projects. Although it is only six years since the Bank's first housing finance loan, this activity now accounts for 34% of total urban lending, or about \$1.5 billion in total over that time span.

The expansion of the Bank's activities in the urban sector has been

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accompanied by a shift in focus, the emergence of new lending instruments, and an increasing reliance on financial intermediaries. The Bank is moving away from its former sporadic interventions, such as promotion of sites and services schemes. The trends of Bank lending in this field now give special attention to: urban administration and municipal finance through the devolution of resource mobilisation and investment planning to local authorities; land management and regulatory environments to stimulate private initiatives and investment especially in housing, land developments and urban transport; and housing, not only as a basic human need but also as a potential contributor to domestic resource mobilisation and financial development.

United States Agency for International Development

The United States Agency for International Development (AID) Office of Housing and Urban Programmes continues as the major bi-lateral source of funding and technical assistance for housing finance programmes. In the past 25 years, through its Housing Guaranty loans and related grants and through its technical support, the Office has worked in over 50 countries, and provided guaranties for over 200 loans totalling \$2 billion. Although the Office is based in Washington DC, it operates largely through seven decentralised regional offices, located in Ecuador, Honduras, Jamaica, Ivory Coast, Kenya, Tunisia and Thailand.

In November 1988 the Office convened an important Washington Policy Conference on Shelter and Urban Development, which brought together at ministerial and executive level some 65 prominent leaders, mainly from developing countries. The Conference focused on the requirements for meeting the challenges of shelter and urbanisation in the coming decades.

In 1988 the Office authorised Hous-

ing Guaranty Loan programmes totalling \$125 million for the following countries: Ecuador, India, Indonesia, Jamaica, Jordan and Sri Lanka, and for the Central American Bank for Economic Integration (CABEI). For Fiscal Year 1989 the Office has authorised three sectoral programmes, for Jamaica, Indonesia and Jordan, amounting to \$200 million for the life of the project.

In the past the AID programme provided support for the development of savings and loan systems and institutions, many of them in Latin America. Although some have disappeared, in 1988 there were active systems in seven countries, serving an estimated 77 million investors, with total savings deposits of \$32 billion. Some 2.5 million homes were financed by these institutions over the past 25 years.

The Office now supports a variety of initiatives to help solve urban problems, including training on financial and technical management skills for municipal staffs; urban neighbourhood infrastructure; municipal facilities; and sites and services and core housing.

Regional development banks

In the chairman's report for the committee's meeting in Cannes, optimism was expressed that the regional development banks were beginning to show more interest in the basic aspects of housing finance, savings mobilisation, and support for the housing sector generally. To date, this optimism has not been warranted, as evidenced in the low priority for shelter programmes of the Asian Development Bank, the African Development Bank and the Inter-American Development Bank.

The Asian Development Bank includes "urban development and housing" as part of its social infrastructure sector, which also includes water supply and sanitation, education, and health and population. The ADB 1988 Annual Report shows that

lending for this sector rose to \$445 million from \$135 million in 1987.

However, a look at the projects approved shows that just three loans accounted for the bulk of lending: the Second Medan Urban Development project in Indonesia for \$220 million, the Second Health and Population project for \$49 million also in Indonesia, and the Fifth Sewerage Treatment project in Korea, for £133 million. Total loan approvals by the Bank in 1988 for all sectors amounted to \$6 billion.

Three other countries did benefit from pre-project preparatory or technical assistance grants: Bhutan, for Low Income Housing Finance, (\$96,000); Fiji, for the Housing Authority, (\$96,000); and Pakistan, for Low Income Housing (\$100,000), and for the House Building Finance Corporation (\$318,000). The total grant-financed technical assistance programme of the Bank for 1988 amounted to \$50 million.

The Inter-American Development Bank expects to increase its overall lending activities as a result of the increase of \$26.5 million in the Bank's authorised capital resources to help meet Latin America's needs during 1990-93. In 1989 the Bank, under new President Enrique V. Iglesias, was undergoing staff reorganisation and reduction, and it was not certain to what extent lending for urban development would be expanded beyond the typical level of 4% average in the past.

In 1987 the Bank made four loans for urban development, two to Jamaica for Township Services, and one each for Sites and Services programmes in Guatemala and Ecuador. There is a shift towards a more integrated approach of lending for municipal improvement and management of resources, and Colombia has benefited from the Bank's emerging activity in this field. However, in 1988 the Bank made only one urban sector loan as such, for \$12.6 million to carry out urban development projects in 86 medium-sized cities in Honduras, ranging in size from approximately 10,000 to

80,000 inhabitants.

Although present interest and action is meagre, it is useful to recall the prior cumulative lending of the Bank in this field. In all, the Bank has made 96 loans amounting to \$1,596 million to finance urban development projects whose total cost is \$3,179 million. These loans have helped to build 408,416 housing units along with urban and community facilities. In addition, 36,544 sites and services in 139 communities have been provided for home construction.

As for the smaller, sub-regional development banks, the Caribbean Development Bank has done little recently in this field, with the exception of a loan for housing finance to St Vincent. The Central American Bank for Economic Integration (CABEI) is doing more, but largely with funding from AID.

The Inter-American Bank for Savings and Loans (BIAPE) is endeavouring to provide credit and services to its member institutions, especially for reform and restructuring. In addition to its headquarters office in Caracas, it now has also established an office at Rockefeller Center, New York City, to facilitate relationships with the financial institutions and capital markets in that area. Shelter Afrique, the Company for Housing in Africa, with headquarters in Nairobi, has helped to activate with modest investments a number of small scale projects in various countries for community upgrading, sites and services, and low cost housing.

Regional associations

UNIAPRAVI, the Inter-American Housing Union, based in Lima, is especially active. It has established a new Inter-American Center for Housing Statistics, taken part in the formation of a Latin-American shelter network, and is endeavouring to devise new policies to confront the severe problems of debt and inflation in countries of the region. The 27th Inter-American Housing Conference in May 1989 in Guatemala City was a resounding success. The Inter-

national Union provided two plenary session speakers, Norman Strunk, who spoke on the US savings and loan crisis, and Eric Carlson, who presented a report on Housing Development Trends in Asia and the Pacific. Alvaro Barreto of Sao Paulo, who was elected President, is committed to helping to develop new policies for financing of housing and shelter.

Within the region, there are tremendous differences. While Central American countries are enjoying a significant renewal of housing finance activity, economic difficulties impede progress in countries like Argentina, Brazil and Peru. Bolivia, however, is in the lead in following up the Vienna recommendations for housing sector reform, privatisation and coalition building. Chile, Colombia and Ecuador continue with strong programmes.

The Caribbean Association of Building Societies and Housing Finance Institutions (CABSHFI) approaches its fifth anniversary with 50 members from most of the island states and a notable record in the areas of training and professional advancement. The housing finance institutions are mostly doing very well. A major reconstruction effort after the hurricane in Jamaica has been successfully completed; the Dominican Republic has been engaged in a boom of building and urban renewal activity; and interesting housing finance reforms have been implemented in St Lucia. The high quality of CABSHFI's discussions is evident in the report of the Housing Finance Seminar held in Port of Spain, Trinidad, in November 1988, on Financing Low Income Housing in Small Economies.

In the Asia-Pacific region there are also momentous developments. India, Thailand and Korea are in the vanguard of the housing finance development scene, with major innovative programmes. China is also intent on developing its internal

housing finance system, and is now represented in the International Union through the China Bank for Industry and Commerce. Japan's actual and potential role as a provider of finance for housing, warrants special attention with the release of new information that the 12 largest banks in the world, ranked by deposits on December 31, 1988, are now all Japanese. Japan is now also the largest provider of international aid.

Conclusion

The Union still has considerable work before it, as well as opportunities for constructive world service, even in the light of the budgetary constraints under which it operates. Priority should continue to be given to attracting new memberships. As the regional groupings are the foundation stones for the International Union's programme and services, perhaps the Union has opportunities to expand its scope, particularly in two directions.

One is to develop new linkages with housing finance institutions in the USSR and other countries of Eastern Europe, especially as some are already undertaking to open up their economies to increase privatisation. The International Union should promote information and initiate discussions regarding proposed new memberships from the socialist countries. Similarly, there may be possibilities for membership and a potential new regional grouping centred around the Arab States. These should be encouraged through direct action and dialogue by the Union. With the addition of both China and Japan to membership in the Union a new universality is becoming possible. This, in turn, should facilitate more interest from other organisations concerned with housing guidance, such as mortgage banks, commercial banks and institutional investors.

Only with an increased and growing membership will the Union be able to derive adequate resources for financing a core programme of service and action. ■