Third International Shelter Conference

By Mark Boléat

Over 300 of the world’s leading housing experts gathered in Washington, DC, from 24-30 April, 1990, for the Third International Shelter Conference. This conference continued the series which began in Washington, DC, in 1984, and developed through the second conference held in Vienna, Austria, in 1986, which led to the widely praised Vienna Recommendations on Shelter and Urban Development. The leading sponsor of the conference, which was also responsible for the organisation, was the United States National Association of Realtors. The three co-sponsors were the Canadian Real Estate Association, the International Real Estate Federation and the International Union of Housing Finance Institutions. The UK Building Societies Association was one of the supporting sponsors.

The aim of the conference was to examine and debate major economic papers arguing the thesis that housing and real estate investment trigger important economic effects on GNP, and to examine and debate experience in an important cross-section of countries, in the context of the United Nations 1988 resolution, adopting a Global Strategy for Shelter to the Year 2000.

Opening formalities

The conference began with an opening dinner on 24 April, in the Hall of States at the Organisation of American States. After introductory remarks by the sponsoring organisations, Jack Kemp, United States Secretary for Housing and Urban Development, gave the keynote address, “An Agenda for the 1990s: Housing Low Income Americans”.

Mr Kemp outlined current American government policy towards housing.

Global strategy for shelter

Dr Arvot Ramachandran, executive director, United Nations Centre for Human Settlements (HABITAT), gave an address on the title “A Global Strategy for Shelter: Dream or Reality?” He noted that the Vienna Recommendations had identified a major policy shortcoming as: “The over-reliance on public sector initiatives which exceeded limited capacities; the disregard for the need to mobilise financial resources; the assumption of public initiated project by project approaches rather than development processes; and the failure to harness the potential of the private sector as a positive contributor to national objectives.”

The Vienna Recommendations had, he said, influenced the approach to the Global Strategy for Shelter to the Year 2000.

Dr Ramachandran said that housing was not only indispensable to the people it shelters, but also it was relied on to pull the economy out of recession. The construction of even one house had a broad ripple effect on interconnected businesses. Housing was a highly labour-intensive enterprise which, in developing economies, more often than not, involved firms belonging to the informal sector. By stimulating and accelerating housing construction and improvement, not only was a basic human need satisfied, but also economic activity was stimulated on a broad front.

Dr Ramachandran noted that the core of the Global Strategy was the enabling concept. This meant that governments, and only governments, could do this, must provide a new legal, institutional and economic framework, which allows the private economic agents which make up the housing sector to maximise their shelter construction output. Adopting the enabling function constituted a formidable challenge to governments. Assuring success meant creating more efficient land and housing markets, regulatory reforms, the freeing of financial markets, providing incentives for housing and construction, tolerance, even encouragement, of the informal sector, and receptiveness to the views of the private sector and low income communities and their representatives.

Housing policy and macro-economic reform

Wilfried Thalwitz, senior vice-president, Policy Research and External Affairs, The World Bank, gave a
paper on housing policy and macro-economic reform. He began by noting that the Bank had supported housing and urban development projects in over 80 countries.

Mr Thalwitz said that over the past decade World Bank support had focused on assisting countries to adjust their economies to meet heavy external obligations, and to establish the foundations for sustainable economic growth. The lessons learnt in this process involved structural change for the housing sector itself. Given the shortage of resources for public investment in housing, the Bank believed it was essential to recognise that government spending programmes in this sector were less important than governments’ role in defining regulatory frameworks, pricing policies and policies affecting the financial sector.

He emphasised that the relationship between the housing sector and the economy was reciprocal. The costs of neglecting this insight were striking. In Eastern European countries, government policies of restricting property rights, discouraging private production and ownership of housing, and relying on the state to provide funding had not only failed to meet housing needs, but also had disrupted economies.

Mr Thalwitz said that many of the policy failures and lack of real progress to deal with the housing sector were the result of the governments’ attempts to solve directly the shelter problems of their populations. Often the private sector had been treated by governments as the enemy. He outlined three key elements of an enabling strategy:

(a) The need to recognise the shelter sector, and to put in place supportive legal and regulatory frameworks.

(b) The need to mobilise and allocate resources for the sector and to rationalise subsidies.

(c) The need to ensure that key inputs to the housing production process are adequately supplied.

In low income countries, said Mr Thalwitz, the key need was to accommodate urban growth by ensuring that adequate supplies of land, infrastructure and building materials were available. Evidence from many countries showed that when land, secure tenure and basic infrastructure were made available, low income households were able to mobilise surprising amounts of resources for housing construction.

In heavily indebted middle income countries the housing sector could play an important role in the adjustment process. Often housing subsidies and finance had aggravated fiscal imbalances, weakened domestic financial systems and discouraged domestic resource mobilisation. Where housing finance had been put on a firm footing, as in Chile, financial institutions were able to mobilise new funds for mortgages, and the housing sector rapidly expanded output.

In middle income countries, especially those experiencing rapid economic growth, the problem of inappropriate regulations loomed as the major impediment to the supply of affordable housing. Malaysia had been characterised by a particularly rigid supply, and the late 1970s saw house prices increasing three times as fast as the general price level. By 1982 the least expensive, commonly available new house cost about seven times the annual income of Malaysian families. In Thailand, by contrast, the regulatory system for land development and building had been extremely flexible, and the prices of new housing units in Bangkok had fallen.

Centrally planned economies showed the risks that nations took when they intervened in pervasive and inappropriate ways in the shelter sector. Many of the East European countries have begun to undertake major reforms to liberalise their housing sectors.

Specifically, the enabling strategy means five things:

(a) Housing policy is too important to be the sole responsibility of housing ministries. It must be developed in co-ordination with ministries of finance and economic development.

(b) For housing policy to be effective the public sector needed to support and complement the efforts of the private sector. It needed to move towards positive inflation-adjusted interest rates to mobilise resources for this sector, to more carefully targeted and transparent subsidies, and to a regulatory and legal environment that was supportive of private initiative.

(c) Public resources should be invested in infrastructure permitting private investment to be devoted to housing.

(d) Governments needed to understand the impacts of their regulatory frameworks, and needed to balance the costs and benefits of regulations.

(e) Housing sector institutions must shift their jobs from cutting red ribbons to cutting red tape.

Mr Thalwitz concluded by saying that the World Bank had learned to take a new view of its own involvement in the housing market. It had devoted resources to researching and documenting the linkages between the housing sector and the economy, had emphasised the need for new institutions and had expanded support for housing finance institutions. However, World Bank lending, and resources available to governments themselves, were only a modest fraction of the spending required to bring about the goal of "housing for all".

Housing and the national economy
Professor Lauchlin Currie, from the Universidad de Los Andes, Bogota, Colombia, has been one of the out-
standing economists of the 20th century and a leader in the fields of analysis of the role of housing in the national economy and the adoption of financial structures to accommodate a high level of inflation.

Professor Currie delivered a paper on residential building as a leading sector in the economy. He explained that housing was extremely important in national economies. In the United States it accounted for nearly half of private wealth, and that proportion had remained remarkably constant over 25 years. Housing expenditure gave rise to expenditure on public services, shops and community buildings as well as home furnishings.

A relatively small increase in the effective demand for housing could give rise to a large percentage rise in the volume of spending on new housing, and such movements in spending could, in turn, be large in relation to changes in total business capital expenditure.

Professor Currie analysed changes in nominal and real interest mortgage rates, together with residential expenditure. While there was some relation, this was not as consistent or as close as might be expected. Professor Currie concluded that building activity had frequently acted as an independent variable capable of moving contrary to the general trend of activity.

Professor Currie analysed how housing demand could be stimulated. On the demand side, anything that reduced current financing costs in relation to rents on comparable dwellings would tend to shift and enlarge the demand for new housing. A reduction in monthly servicing charges could be brought about by a fall in the rate of interest on mortgages, a lengthening of maturities and, in countries with inflation, the adoption of an index-saving/mortgage system. In many industrialised countries there was comparatively little scope to stimulate demand as this had already been done over many years. However, stimulating demand remained an attractive possibility for lesser developed countries.

Professor Currie’s conclusion was that under certain circumstances the volume of expenditures on new residential construction could be influenced by conscious policy, either to increase or decrease, and that this applied particularly to lesser developed countries.

Dr. John Tuccillo and Sean Burns, from the National Association of Realtors, presented a paper, “The Contribution of Housing to National Economic Development.” The paper dealt with the impact that the construction and maintenance of housing could have on the state of the general economy, based on the experience of the USA. Housing had considerable multiplier effects. For the entire residential sector, $1 of activity generated nearly $4 of GNP. The annual value of housing construction was between 4% and 5% of annual GNP and the servicing of housing contributed another 7% of GNP. Housing services comprised 39% of a typical consumer’s total purchases. Residential housing stock accounted for 38% of the combined value of net residential and non-residential capital and of consumer durable goods, and home equity constituted 28% of the net worth of a typical household.

In developing countries, the housing sector could be very important to growth-orientated macro-economic policies and continued economic adjustments. The annual flows attributable to housing typically accounted for 3-8% of GNP, and 15-25% of gross capital formation. Where data was available housing usually represented a major share of national wealth composition, for example 23% of total wealth in Korea and 31% of reproducible assets in Mexico.

The paper argued that the degree of housing’s impact on the economy depended on several factors, the most important of which were interest rates and general economic conditions, the structure of mortgage markets, the tax treatment of housing and demographic trends. In the long run, the level of housing activity depended crucially on demographic trends. In the short run, financial impacts were more important. Since 1953, housing construction cycles in the USA had occurred on average every three and a half years, with an average peak to trough decline in housing starts of 45%. The impact of financial fluctuations depended on whether financial markets were controlled or not. In a free market case the disruptions were likely to be less costly.

For the housing sector to contribute in a significant way to national development, several preconditions must be present:

(a) The establishment of a system of clear title. No investment in real property will be undertaken if there is the potential for arbitrary confiscation. The idea of secure tenure is taken for granted in most Western industrialised countries, but is anything but commonplace in developing countries. An estimated 20-40% of all urban households in developing countries are living on land to which neither they nor their landlords have legal title.

(b) An effective system of resource allocation. Any voluntary savings’ mobilisation must ensure positive real interest rates to be effective. Often, the provision of positive real interest rates is difficult in the face of high rates of inflation, as is the case in many developing countries. In some places this had led to the adoption of indexation schemes. While this has worked in several countries, there are serious shortcomings and consequences to indexation.

(c) The government must make a commitment through its regulatory environment to foster the housing sector, and use it
as a tool of national development.

The paper concluded that the US experience was that the housing sector was a powerful contributor to the national economy. The interrelationship between housing and the economy had occurred because of the fiscal, financial and regulatory systems created in the post-war period. Government regulation had created a housing finance system that mobilised resources and set the stage for increased financial sophistication. The tax system had encouraged investment in housing and reaped the benefits of increased incomes and wealth, and thus tax receipts. Housing could be an important vehicle for economic growth. However, it was not the only one, as the Japanese case illustrated.

Cast study reports
Most of the conference was concerned with consideration of case study reports. After the Vienna conference an informal advisory committee had met to select countries which illustrated different aspects and approaches to public/private partnership in shelter delivery. Seven guidelines were established:
(a) The case study should be national in scope.
(b) Each country selected should represent a specific central experience which would be of interest to an international audience.
(c) Countries selected should represent a broad spectrum of public/private partnerships.
(d) Case studies should represent both developed and developing countries.
(e) Each case study should address the special problems of low income housing within the national housing sector context.
(f) Case studies should be prepared by country teams working on a voluntary basis and not as official representatives of their governments.

(g) Each case study team should be prepared to discuss its presentation at the conference with informed discussants.

The case study teams were supported with an adviser who was responsible for informing the country team of the objectives and assisting them when requested. The overall product of the 13 country case studies represents over 500 pages of text. Following is a summary of the national case studies, in particular the aspects dealing with housing finance.

The United States could count the following accomplishments:
(a) Since the Second World War 70 million housing units had been produced, enabling 60 million American families to own their homes.
(b) The housing stock exceeded 105 million units, and 64% of American families were home owners.
(c) There had been a steady improvement in the average quality of the housing stock. In 1940, 45.4% of the owner-occupied stock and 51.1% of the rental stock were substandard. By 1980, these figures had fallen to 4.8% and 8.9%.
(d) Standards have steadily been raised. In 1940, overcrowding was defined as more than two people per room, whereas now the norm is 1.5 persons per room.

More recently, however, there has been an almost doubling in the proportion of inadequate units in the rental sector. Eight million households live in deficient housing, and 3.2 million live in overcrowded units. There has been a sharp increase in the proportion of households in unsubsidised units, and home ownership rates have continued to decline as land use controls, transfer taxes and local building codes have pushed up the cost of buying. In 1981, the President's Commission on Housing found that regulation had had a serious adverse effect on the housing market, and concluded that government should cut back its regulation of housing to give freer play to the market place.

Regulation had played an important part on the financial side of the housing sector. The major elements of federal regulation of the banking and thrift systems were set by legislation in the 1930s. The system was based on household deposits being insured by the Federal Government, which enforced insurance through a system of examination and regulation. The Government also encouraged mortgage lending by insuring mortgages that met a standardised form. This structure served the nation well for some 30 years. However, beginning in the mid-1960s, growing inflation encouraged competition from unregulated sources for household savings. Congress dismantled most of the product and price controls that were the centrepiece of the regulatory system, but with the deposit insurance system still in place, the new unregulated thrifts could compete with other

<table>
<thead>
<tr>
<th>Year</th>
<th>Home ownership rate %</th>
<th>Percentage of substandard units</th>
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<tbody>
<tr>
<td>1940</td>
<td>55.1</td>
<td>48.6</td>
</tr>
<tr>
<td>1950</td>
<td>61.9</td>
<td>35.4</td>
</tr>
<tr>
<td>1960</td>
<td>62.9</td>
<td>16.0</td>
</tr>
<tr>
<td>1970</td>
<td>64.6</td>
<td>8.4</td>
</tr>
<tr>
<td>1975</td>
<td>65.6</td>
<td>6.9</td>
</tr>
<tr>
<td>1980</td>
<td>65.6</td>
<td>6.2</td>
</tr>
<tr>
<td>1985</td>
<td>63.9</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>63.9</td>
<td></td>
</tr>
</tbody>
</table>
financial firms by making risky investments in real estate and non-real estate investments. This behaviour eventually caused approximately half of the industry to become insolvent.

The financial sector reacted to the growing weakness of the depository sector by creating other avenues for financing housing. Mortgage brokers, accessing the funds of pension funds, life insurance companies, and even private individuals through a federally supported secondary market, provided market rate financing for houses. Homes were financed at a record rate during the 1980s because technology, competition and deregulation allowed the creation of a system that could take the place of beleaguered thrifts.

The secondary market has played an important part in the overall mortgage market. It has transformed a rather illiquid debt instrument into a very liquid security, has thereby resulted in a more stable and dependable flow of credit to the housing markets, has increased competition in the primary mortgage market, and has enhanced the stability of the flow of credit to housing markets.

The experience of the US housing sector teaches several lessons about using regulation in an enabling strategy for housing:

(a) Get the incentive structure right. The legal system of property rights worked in such a way as to identify ownership clearly, but the maintenance of interest rate controls caused the collapse of the depository system.
(b) Use regulatory controls to organise markets.
(c) Enforce reasonable standards.
(d) Regulate for safety and soundness.
(e) Allow organised markets to work.

In West Germany there has been a remarkable improvement in housing conditions since 1950, when there were 10 million housing units available for 17 million households. Housing policy was grounded in adoption of a socially orientated market economy, and an understanding that private sector investment had to be encouraged by special government support. Initially, national housing policy provided broad and deep capital subsidies for construction in return for which investors accepted strict rent controls. Land use and development legislation guaranteed the right of ownership, purchase and sale of property, but established strict controls over use and development rights.

Average housing unit production reached a peak in the 1960s, but since the mid-1970s production has fallen from some 700,000 units a year to little more than 200,000.

While the land use and development control system has remained in place, the construction subsidy system has been adjusted considerably. Between 1949 and 1952, some 31% of housing construction was financed privately, with 69% financed by government support. In the 1980-87 period the balance changed to 75% private and 25% government supported.

The framework for land planning and development was first codified in the National Building Act of 1960, which was updated in 1986. The Second Housing Act of 1956, which continues in force today, recognised the special support for housing production to serve a broad range of the population. In all 30% of households are still entitled to subsidies. The Act distributed responsibility for housing support programmes among the three levels of government. There are two subsidy formats: a capital subsidy in the form of low or zero interest long term lending for construction, and an expense subsidy granted to builders of residential units to offset costs and thereby reduce rents. The Act was amended in 1989 to allow for more flexible contracting between state and local governments and home builders.

Individual households and builders account for between 50% and 70% of housing construction. Non-profit building co-operatives and companies accounted for the second largest percentage of multi-unit construction up to the 1970s, but with the reduction in government financing of production their share has fallen from around 28% to around 9%. They remain the most important landlord for low and moderate income housing. The component organisations own 3.4 million rental units, 23% of the total.

Housing finance is provided by a competitive banking system composed of both public and private sector institutions. Among the institutions with a special interest in housing finance are commercial banks that rely on mortgage bonds to provide funds for real estate financing, savings banks owned by state and local governments, a group of federal or state banks called Landesbanken, which are public sector controlled, co-operative banks and credit unions, private mortgage banks which use mortgage bonds, building and loan associations (Bausparkassen), which can be either public or private sector, and insurance companies. At the end of 1988 savings banks had the largest percentage of construction lending (23%), followed by the Bausparkassen, private mortgage banks and credit unions.

In the middle-1980s the housing market in Germany began to show signs of over-supply, and it no longer seemed necessary to provide broad-scale government support. In rental markets, however, it became clear that the number of available low rent units was declining. Rent controls and subsidies applying to some units had expired, and in many cases households whose incomes had grown beyond the limits that war-
ranted subsidy remained in the controlled units, keeping them off the market. In the second stage of construction subsidy, beginning in 1973, subsidy programmes had provided rent adjustment. Over time these units became more expensive, and with the adequate supply of units in general, some were left unrented when tenants moved up to better conditions or to ownership. The generally satisfactory condition of the market had caused policymakers to shift their priorities to other sectors.

Towards the end of 1987 market conditions changed dramatically. The change was the result of higher expectations in line with higher incomes, demographic changes leading to higher mobility and an increase in the student population, and a new influx of refugees, at first from the German populations that have lived for many years in Eastern Europe, and then, in 1989, as a result of the opening of the East German boundaries. In a short time housing planners found themselves faced with population numbers one million higher than projected. Policy makers have responded by encouraging new construction, and by supporting remodelling of existing units to bring them back to the rental market. Subsidy allocations have been raised to six times the previous level. Mechanisms designed to encourage new construction activity include:

(a) Tax incentives in the form of increased allowance for depreciation.
(b) A contract between investors in municipal governments allowing for rent control and local government occupancy for a pre-determined period of time after which the units are returned to the free market.
(c) Reductions in interest rates on bridging finance from the Bausparkassen.

For the Soviet Union the case study, albeit very brief, provided probably the most comprehensive analysis of the current housing problems of that country. There are 83.6 million units in the Soviet Union, and 81.8 million families live in flats or houses that are either owned or rented. Over five million families have neither a house nor a flat. The average living area per person is 15.4 square metres, which compares with about 26 square metres in Czechoslovakia and East Germany. There are 13.3 million families with housing of less than 10 square metres per person. There is a major regional disparity in housing provision which is the cause of national tensions.

Taking account of demographic trends, it is estimated that there will be a need for 100 million houses and flats by the year 2000. Allowing for units becoming unusable, an additional 25 million flats or houses are needed to solve the housing problem. About a third of the housing will be built by individual owners.

In the period 1917 to 1955, the main principles of housing policy were that the state provided housing only for individuals who worked, confiscated housing from those who did not work, all people had an equal right to be provided with housing, and communal housing was the solution to the housing problem and was the right perspective. However, the idea of centralised distribution remained unfilled. The only principle which was fully enforced was the confiscation of housing belonging to "non-workers", that is land owners, factory owners, etc.

From 1955 a new policy was developed according to which the state provided all citizens with housing, and that housing was free but remained state property. Mass production of prefabs for construction was initiated. By the mid-1960s the first prefabs showed their faults.

A new programme has now been devised to cover the period up to 2000. Given limited resources and the extent of the problem, the orientation of the new programme is low standard housing. The policy includes private resources, and thus a house or flat will become a commodity which can be bought or rented. The concentration of financial and technical resources in state owned building had reduced the participation of individuals in housing construction from 53% in 1960 to 21% in 1987. This had created a new problem, the growth of government spending on maintaining the existing housing stock. The requirements for higher quality housing are also leading to the growth of construction and maintenance costs.

In the future, help from the central Government should be given only to regions with deficient housing. Local authorities will choose their methods of helping individuals. They can make loans or give grants, or abolish taxation on private construction of housing. The government will stimulate the creation of housing markets by reducing government contracts with the construction industry, reducing the taxation for new building companies dealing with housing for private customers, and concentrating the government investments on producing building materials.

Social surveys show a preference

<table>
<thead>
<tr>
<th>Period</th>
<th>No of units</th>
<th>Privately financed</th>
<th>Social housing</th>
</tr>
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<tbody>
<tr>
<td>1949-52</td>
<td>370,000</td>
<td>31%</td>
<td>69%</td>
</tr>
<tr>
<td>1952-59</td>
<td>563,000</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>1960-69</td>
<td>670,000</td>
<td>61%</td>
<td>39%</td>
</tr>
<tr>
<td>1970-79</td>
<td>498,000</td>
<td>73%</td>
<td>27%</td>
</tr>
<tr>
<td>1980-87</td>
<td>340,000</td>
<td>78%</td>
<td>22%</td>
</tr>
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invigorate the rental market, to make some institutional reforms such as rental legislation, and to reinforce the promotion of housing of a social nature and development of an efficient policy of repairing existing dwellings. Loans for housing are available through a number of systems. The general credit system applies for second homes and houses to rent. Loans are at market rates, between 20% and 21% at present, and are granted over 25 years for as much as 80% of the estimated value of the house.

The system of bonus credit applies to families who guarantee that loans are destined for the purchase, construction, repair, improvement or enlargement of permanent housing. The amount loaned may not exceed 90% of the value of the house, the maximum loan period is 25 years and the rate of interest is the normal rate (but at present it is 19% or 19.5%). Borrowers may benefit from a special reduction in the state of interest which takes into account the income of the household and the estimated value of the house. There is a system of bonus credit for young couples whose total ages do not exceed 55 years.

Finance for housing is provided by a public organisation, the INH (for social production), and by three special credit institutions, the Caixa Geral de Depositos, the Credito Predial Portugues and the Caixa Economica do Montepio Geral. From 1986 the banks were authorised to grant medium to long term loans for the financing of housing, but their position in this area of credit has been relatively unimportant.

For Colombia the case study concentrated on financing housing under inflation. The Colombian "UPAC" system, the core of the nation's housing finance process, was established in 1972 following a decade of debate about the importance of housing production and the difficulties of dealing with steady, relatively high inflation. The government of the time was convinced that the housing sector could serve as the leading sector for national economic development. The UPAC process was designed to stimulate savings and investment in housing by assuring savers that the value of their assets would be maintained, while, at the same time, maintaining the value of the investments made by lending institutions. The policy was chosen over the variable interest rate mechanism because of greater simplicity for the borrower, and because it would be easier to ensure that monthly payments remained at a relatively constant percentage of income.

UPAC indexation has been applied only to the housing sector, and is operated by 10 housing corporations, similar in operation to building societies. Indexation is automatic, and applied to both sides of the corporations' balance sheets. The adjustment process is on a daily basis. UPAC adjustments have lagged behind salary increases, confirming the expectations of the system's planners who argued that it would not fuel inflation.

The system has been successful in Portugal. Housing Credit by Specialised Banks, 1989

<table>
<thead>
<tr>
<th></th>
<th>Escudos</th>
<th>%</th>
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<tr>
<td>Caixa Geral de Dep.</td>
<td>103,675</td>
<td>77</td>
</tr>
<tr>
<td>Credito Predial</td>
<td>18,752</td>
<td>14</td>
</tr>
<tr>
<td>Montepio Geral</td>
<td>12,439</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>134,970</td>
<td>100</td>
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mobilising savings. The 10 corporations are privately owned, with commercial banks having an important share of the capital. The government owns a share of the corporation operated by the Central Mortgage Bank. The 10 corporations have five million accounts, with deposits of $3 billion. The UPAC system has accounted for 70% of housing finance.

The case study for Bolivia concentrated on whether the private sector would respond to the re-orientation of housing policy. The housing stock in Bolivia in 1988 totalled 1.3 million units, of which 0.6 million were urban. Bolivia had a quantitative deficit of almost 300,000 dwellings, mainly in the urban areas, and a qualitative deficit close to 800,000 units, mainly in the rural sector. Average annual housing production has been about 30,000 units a year. Of these, the public and the savings and loan systems have contributed only 2% of total production.

In 1985, a crisis situation had been reached with inflation reaching 24,000% a year. A package of reforms was applied to the whole of the Bolivian economy, including the elimination of all subsidies, the elimination of all price control measures, rationalisation of the tax structure, strict control of public expenditure, incentives to save in foreign currency, and the removal of interest rate restrictions. Subsequently, public sector housing production has increased from 1,300 to 5,000 a year. The co-operatives have increased their membership, reaching 350,000 members, and the savings and loan system has placed 57,000 individual loans. However, problems remain, including very high interest rates, stiff guarantee and collateral requirements, limited access of the lower income and subsistence strata of the population to formal credit channels, inadequate housing production through the informal sector, and limited access of the lower income strata to social and basic infrastructure programmes.

Bolivia Housing Sector, 1988

<table>
<thead>
<tr>
<th></th>
<th>National</th>
<th>Urban</th>
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<tbody>
<tr>
<td>Housing availability</td>
<td>1,318,800</td>
<td>662,800</td>
</tr>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Owners</td>
<td>69</td>
<td>63</td>
</tr>
<tr>
<td>Non-owners</td>
<td>31</td>
<td>47</td>
</tr>
<tr>
<td>Housing conditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good</td>
<td>69</td>
<td>55</td>
</tr>
<tr>
<td>Fair</td>
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<tr>
<td>Bad</td>
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<tr>
<td>Households without</td>
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<tr>
<td>Water</td>
<td>40</td>
<td>11</td>
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<tr>
<td>Toilet</td>
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<tr>
<td>Electricity</td>
<td>41</td>
<td>8</td>
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<tr>
<td>Kitchen</td>
<td>24</td>
<td>30</td>
</tr>
<tr>
<td>Shower/bath</td>
<td>77</td>
<td>59</td>
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<tr>
<td>Housing size</td>
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<td></td>
</tr>
<tr>
<td>One room</td>
<td>26</td>
<td>32</td>
</tr>
<tr>
<td>Two rooms</td>
<td>31</td>
<td>24</td>
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<tr>
<td>Three or more</td>
<td>43</td>
<td>43</td>
</tr>
</tbody>
</table>

A strategy has been proposed which involves a production target of 50,000 housing units a year, of which 25% will be covered by international assistance. The housing demands of the formally employed population, as well as of the lower-income groups, will be covered by FONVI, a government agency. The requirements of medium and medium-higher income groups will be covered by the strengthened housing financial market and mortgage programmes.

The Chile case study concentrated on the housing finance system and the participants in the housing market. Chilean economic policy has been based on the concept of market-driven performance. Policy for the housing sector has reflected this. Housing production in general is the responsibility of land developers, builders and financial institutions. The government support programme is organised around three main types of intervention:

(a) Direct production and sale of units for the lowest income families.

(b) Subsidisation of the home purchase process by subsidising the amounts saved by a family.

(c) Guarantees for investors in mortgage loans.

Those who wish to benefit from the government savings subsidy system must open a savings account and then earn points calculated by considering both the amount saved and the length of time during which the account has been maintained. By March 1989 there were 416,000 housing-related savings accounts representing $145 million. The savings supplement subsidy brings housing within the reach of nearly 90% of the Chilean production, but actual production levels do not allow for the elimination of existing deficits.

It is estimated that an overall production level of 85,000 unit a year is necessary to keep the existing housing deficit from expanding. This level of production was reached in 1989, but that was considered an excep-
tional year. Chilean housing sector institutions have had to set up a mechanism to draw potential savers into the process to support planned production levels. The national association of construction companies created the Housing Corporation to provide a vehicle for distributing information about the government support programmes. The Corporation also helps potential beneficiaries deal with the paperwork of opening savings accounts, competing for available subsidies, finding a suitable home, and negotiating the home purchase loan. Housing cooperatives also carry out this type of assistance for their individual members.

Mortgage lending by retail financial institutions is supported by a structure that begins with indexation. The structure also includes a novel mechanism for drawing funds from long-term investors. These programmes are reinforced by two programmes of government guarantee. An instrument called a letter of credit, in reality a marketable debt instrument, allows retail banking institutions, whose resources are mostly short-term savings deposits, to fund house purchase loans with resources provided by long-term investors such as pension funds. The letters of credit are packaged based on the demand for home purchase loans at a bank, and then sold through the stock market. Letters of credit are not mortgage backed bonds but, rather, debt obligations of the issuing bank.

To stimulate the attraction of long term resources the government supports the home purchase process in two ways. It guarantees that the originating lender will recover at least 75% of the value of the mortgage, in the event of sale following default by the borrower, and it guarantees the original lender that if a letter of credit must be sold at below par to raise funds, the government will make up the difference.

Pension funds have accounted for 53% of the resources raised by letter of credit emissions. Life insurance companies, banks and mutual funds account for the rest in a market that at the end of September 1989 accounted for investment of some $1.4 billion.

The Sou-Sou land concept was the theme of the case study for Trinidad and Tobago. In the 1970s, there was a massive expansion of the construction sector, and general overheating of the economy, which showed itself in cost escalations, time overruns and massive inflation in real estate. The cost of a house increased thirteenfold between 1972 and 1981. The demand for state-provided housing far exceeded supply, squatting increased, and lower income persons found housing beyond their reach. By the time the oil market collapsed in 1986 it was clear that mass-produced public housing could not solve the country’s problem.

In 1983, a non-profit private organisation, Sou-Sou Land Ltd, emerged with an alternative approach based on indigenous folk methods of financial mobilisation, and a shift to the provision of sites and services rather than a complete housing unit.

Sou-Sou means “penny by penny”. Traditionally, villagers would contribute equal sums of money to a fund. Each period one member of the group would receive the funds, using it to effect some capital purchase. When applied to land acquisition the fund is used to purchase attractive land on behalf of the contributors.

Between 1983 and 1986 Sou-Sou Land Ltd acquired 3,000 acres, spread over 13 projects. There were 10,000 participants and 1,500 individual land parcels were distributed. The land that has been acquired has been zoned for agricultural development rather than for housing, and the concept has been an attempt to force the authorities to provide services. In some of the sites the necessary authorisations have not been received, and occupants do not have title. Proponents of the strategy argue that standards and regulations were largely irrelevant given the prevailing economic and social problems confronting large sectors of the population. By 1986 there was a major conflict between national regulatory agencies and Sou-Sou Land Ltd.

In December 1986 the new national government formally adopted the Sou-Sou land concept as the basis for its settlement programme. The authority identified 100 state owned sites that would yield some 15,000 plots. Thinking and attitudes within the government did not adjust as rapidly as hoped. State and local regulatory agencies were not very flexible, and procedures and standards that were well entrenched in the bureaucracy did not give way to the idealism of the new political leaders. The same problems that had plagued Sou-Sou Land persisted in the government’s own approach.

Generally, the important question is why the Sou-Sou land concept has not retained the momentum of the original thrust, particularly when it was strongly supported by the political leaders in the country.

The Thailand case study dealt with a very broad issue, the land, finance and development aspects of large scale private sector housing. Thailand has been enormously successful in creating affordable housing on a large scale through a private sector based delivery system, operating within a favourable public sector policy environment.

Thailand has enjoyed a favourable national context for housing. It has been relatively stable, with dramatic economic growth. Urbanisation is comparatively low, although Bangkok dominates the urban settlement system. More specifically in the housing sector, rural housing has not been a priority, urban housing has been viewed as a market commodity, and there have been substantial improvements in the macro-indicators of housing. Between 1970 and 1980 urban owner-occupants increased from...
47% to 60% and urban houses of permanent materials increased from 66% to 80%. In Bangkok between 1974 and 1984 the housing stock expanded at 7% a year, while new household formations grew between 3% and 4% a year. The share of slum housing stock declined during the same period from 23% to 16%. The ratio of house prices to incomes is also favourable.

In Bangkok there is an active housing market, with various public, private, formal and informal suppliers producing housing of various types for their own use for rent and for sale. Developer-built housing has shown a particularly marked increase, and now offers products down to the twentieth percentile of household income groups.

A major factor explaining the success of the Thai private housing industry is the market driven broad based housing finance system. The key was the vigorous leadership of the Government Housing Bank starting in 1984. This process included lowering its costs and increasing its operational efficiency, which allowed the Bank to offer higher rates of interest on savings accounts. It also substantially improved its lending efficiency, thereby offering loans at interest rates below the competitive market. This led to a response from the commercial banks. Housing finance is an integral part of the whole financial system without "special channels" or subsidies.

A second critical lesson is the importance of placing housing policy in the hands of a formal body, linked to national development planning, which involves not only the public sector housing groups but also private institutions and individual non-governmental experts. In 1983 the government set up such a group.

The third priority is being focused on supporting the regulatory environment which facilitates market forces and does not obstruct them. One innovation has been to facilitate numerous dialogues between regulators and private developers.

Problems which now need to be addressed include rapidly inflating land prices, adverse changes in the regulatory framework, inadequate investment in trunk infrastructure orientated to housing development, and the need to increase the support for slum house upgrading and land sharing projects.

The evolving structure of housing finance was the theme of the India case study. The Housing Development Finance Corporation has developed into a very successful private institution which is now viewed as an international model for private/public partnership in housing finance. However, India is a massive country, and one institution cannot begin to meet the total needs for housing finance. Recently India has begun to address the issue of broadening the base for housing finance. A public sector National Housing Bank has been created to act as an apex institution, and other housing finance intermediaries have been created. In the process many new policy issues have been created.

It is estimated that the housing deficit in India is 29 million units, and is growing at 500,000 a year. Of the urban housing stock 64% is made up of permanent materials, 23% semi-permanent materials and 13% non-permanent materials. These percentages have not changed over 20 years. The share of housing investment in GDP has fallen from 5% in the 1960s to 3% in the 1980s. About 11% of total private sector investment has been supported through housing finance institutions.

HDFC was formed in 1978. Its initial statement of principles is important as a model for other institutions. They include:
(a) There was a major need for housing finance targeted at the household level.
(b) Performance of loan recoveries was a direct function of the quality of the credit origination process.
(c) Resource mobilisation was critical and required public confidence. To establish confidence HDFC sought international partners (IFC) and lenders of wholesale funds (World Bank and USAID).
(d) Initially, HDFC had to be a mortgage-bank-type institution mobilising wholesale resources. Over time the goal has been to develop into a savings and loan form of institution.
(e) HDFC needed to be a national rather than regional institution.
(f) Management efficiency was critical.
(g) Success depended on minimising transaction costs per loan.
(h) HDFC is market orientated.
(i) HDFC brings the public and private sectors together in a partnership.

HDFC was, in part, successful because it could penetrate the regulatory framework. Recently, the National Housing Bank has introduced new guidelines for housing finance that take into account the needs of HDFC.
finance intermediaries which limit many of the earlier successful policies of HDFC.

HDFC has been innovative in overcoming the traditional problems of lending to lower income groups. It has stressed the importance of lending to households which have specific deficits in their housing such as water supply or sanitation, rather than an absolute definition of low income. It has stressed the importance of careful appraisal of creditworthiness, so as to minimise the legal constraints on the use of foreclosure laws, it has provided individual housing to prospective borrowers with progress payments to facilitate construction, it has innovated various mortgage instruments to assist borrowers in meeting the initial costs of the house, and it has avoided cross subsidy concepts.

A new national housing policy was introduced in 1988, but it has not developed a coherent strategy on how to achieve the objective of developing an efficient and accessible system for the delivery of inputs to maximise housing efforts. The National Housing Bank was established in July 1988, with its main objective being to ensure the development of a viable and accessible institutional system for the provision of housing finance.

The future of housing finance in India hinges on the extent to which it will be integrated into the financial system in both its retail and wholesale form, and the place of specialised financial institutions within this system. In the present system the flow of credit is carefully controlled through a complex and multi-tiered system of borrowing terms, re-finance rules and tax incentives. The banking system is the main instrument of the directed credit system. The emerging role of the National Housing Bank within this financial context will be critical to the future of the sector.

The China case study dealt with reforms in the highly centralised housing development process. The reforms are predicated on the conclusion that the government cannot supply every household with a decent house, and that the solution to housing problems requires direct contributions by enterprises and individuals. A unique feature of the reform policy is to control the maximum construction area to about 50 square metres per dwelling unit. Since the reform effort began in 1979 there has been a massive increase in housing production equal to 72% of the total existing housing stock. The government projects a construction target of between 3.6 and 4 million units a year, of which perhaps one-third will be developed by cooperatives and private households.

In the rural areas the total housing investment is made by farm households. In urban areas 70% of investment is from government sources. Rural housing is mostly single storey/simple structures, whereas urban housing tends to be in apartment buildings of four to six storeys. In 1978 the living floor area of urban residents averaged 3.6 square metres; that is, 6% of all urban households suffered from severe housing problems.

The key measure in urban housing reform taken since 1979 is the re-adjustment of housing investment. Instead of the single government source, savings are now mobilised from regional governments, enterprises and individuals as well as the state. State investment as a percentage of total investment has declined from 90% to 18%. Enterprises may sell new housing to their own staff at a favourable price, which is generally lower than construction costs. The market price is usually more than twice the favourable price. Even so, the favourable price may be between six and seven years' income for the worker.

In 1979 urban housing built by households was 2% of the total; by 1989 it had risen to 18%. Another innovation is co-operative housing, which has been encouraged through tax reduction or exemption, priority in land allocation and low interest loans. The state is also initiating schemes to sell new and old public housing stock to existing tenants. After having purchased their units, the occupants have often made improvements and additions. One complication to the strategy is the extremely low rents. The monthly rent a family pays for its dwelling unit is the price of two bottles of Coca-Cola.

The banks are now beginning to participate in supporting urban housing development. Their role is to provide loans for housing development and housing management corporations, to collect personal savings and provide loans to individuals, and to undertake the role of housing accountancy for the government and to establish funds for housing development in pilot cities of housing system reform.

In Indonesia, housing and housing policy have been a major concern since the mid-1970s. The primary motive has been to increase the output of houses for the low and middle income groups.

The Indonesian Government has used five-year development plans called Repelita. The plan concluding in 1988 had considerable success in achieving housing objectives. Over 320,000 low and middle income housing units were developed. The informal housing delivery system produced approximately 250,000 units a year in urban and rural areas, representing 80% of the total supply. The Indonesian Government has allowed the informal sector housing delivery system considerable flexibility. Urban infrastructure was also greatly improved.

The formal housing finance system in Indonesia consists of two institutions. Bank Tabungan Negara (BTN) was, during the 1970s, converted from a small state savings bank into a large mortgage bank. It generated 59,000 loans in 1987. Lending has increased rapidly over the past five years. The main bene-
The development of low-cost housing projects, and the Housing and Guarantee Fund, which supports a programme of home acquisition lending and conversion of government-managed rental housing to tenant ownership.

Data generated in 1986 suggested that the housing deficit would reach two million units by the year 2000, implying the need for an annual production of 180,000 units.

In 1986 the government allowed the three building societies, the primary source of housing finance, to offer tax-free savings accounts, paying a rate of interest of 9%. By mid-1989 balances in the new account totalled $125 million. Some 25% of the balances have to be channelled through central government funds to local governments for investment in residential property infrastructure. The remaining funds must be invested in home or site acquisition mortgage loans. The increase in available resources and targeting of lower income families, combined with the extension of the loan guarantee programme to reach such families, has resulted in a substantial increase in loans for the lower income groups.

The government has also encouraged production of partial housing units for gradual completion by home owners.

International Housing Markets Survey

There is no adequate international database on housing. To try to deal with this problem the Advisory Committee for the conference decided to construct and test a survey designed to measure shelter situations against the characteristics of the “enabling framework” and to collect fundamental data on Shelter. This survey was sent to and completed by 31 countries. The results indicated weakness in the data and the need for further improvements in survey design. The results of the survey have been published separately — “Measuring the Housing Sector: Results from the International Housing Markets Survey”. The report is in two parts, an introduction and presentation of the data collected, and a tabular summary of selected survey responses.

The survey dealt with the perceived regulatory environment of the housing sector. The responses were heavily influenced by the background of respondents. Regulations which might entail an acceptable degree of government intrusion in one country might well be viewed as restrictive in another nation. There were sharp differences among even industrialised countries, and among developing countries differences in the enforcement of regulations may be as important as the regulations themselves.

Respondents were asked about types of housing finance restrictions (restrictions on commercial banks making housing loans, controls on deposit interest rates, controls on private sector mortgage rates, lack of availability of loans for self-help shelter construction and upgrading, and foreclosure procedures being a problem). India had four of the five restrictions, and Guinea, the Soviet Union, Morocco, Jordan and Senegal had three of the five restrictions. Zimbabwe, Norway, Bolivia, the USA, Sweden, the UK and Canada reported none of the restrictions. Among industrialised countries Finland appeared to have the most restrictive environment.

Questions were also asked about regulatory impediments, such as titling procedures, building codes and minimum housing standards. Of the six impediments listed, four were present in Kenya, Jamaica, Finland, Zimbabwe and Trinidad. Six countries, the Soviet Union, Norway, Thailand, Sweden, Panama and Malawi, reported no restrictions.

As a general conclusion, there is an interesting divergence between industrialised and developing countries. Industrialised countries are
more likely to have a liberal financial environment. Developing countries are three times as likely to have controls on private sector mortgage rates, twice as likely to have controls on deposit interest rates and nearly twice as likely to restrict the housing lending activity of commercial banks. On the other hand, differences between the two groups of countries are less clear cut in the extent to which housing development and market operations are regulated. Where housing development requires a regulatory system in order to proceed, transfer and titling procedures, for example, developing countries generally have less developed or smoothly functioning systems. The higher frequency of complaints about building controls and land use controls in industrialised countries point to the potential for over-regulation. Private rents and house sale prices are more likely to be controlled in industrialised countries.

Although the data needs to be interpreted with caution, it seems that the greater the number of restrictions on the financial sector and mortgage lending, the higher the share of urban housing in the informal sector and the lower the square metres of floor space per capita. In other words, undue restrictions on the banking industry lowers the quality of housing, probably because there is less financial intermediation in general, as interest rate controls and controls on branching make saving and borrowing more difficult.

In addition to yielding much information for immediate use the survey has also been the source of lessons for cross-country housing data collection efforts. It is recognised that responding to a questionnaire is a very large effort. For questionnaires requiring quantitative responses there is a very wide range in the ability of countries to give the answers. An example of data not tabulated in a useful way are housing expense data from income and expenditure surveys, which are often not tabulated separately for tenure

<table>
<thead>
<tr>
<th>INTERNATIONAL HOUSING MARKET SURVEY</th>
<th>High Income Countries</th>
<th>Developing Countries</th>
<th>Socialist Countries</th>
<th>All Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation 1984-88 (%/year)</td>
<td>4.4</td>
<td>13.8</td>
<td>8.7</td>
<td>11</td>
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<tr>
<td>Urban housing, % owner-occupied, 1988</td>
<td>57.4</td>
<td>58.2</td>
<td>94.3</td>
<td>57.8</td>
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<tr>
<td>Percentage of urban housing units that are informal</td>
<td>0</td>
<td>19.7</td>
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<td>14.1</td>
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<td>Percentage of urban households moving each year</td>
<td>13.3</td>
<td>10.7</td>
<td></td>
<td>11.7</td>
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<td>Median size of urban housing units (m²)</td>
<td>100</td>
<td>68</td>
<td>54</td>
<td>73</td>
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<td>Rent/income ratio in urban areas</td>
<td>0.17</td>
<td>0.2</td>
<td>0.11</td>
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<td>Median price, new owner-occupied housing unit, US$</td>
<td>114,000</td>
<td>23,000</td>
<td>7,000</td>
<td>35,000</td>
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<td>Housing investment as a % of GDP</td>
<td>4.8</td>
<td>4.2</td>
<td>5.7</td>
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<td>Commercial banks restricted in making mortgage loans (% yes)</td>
<td>25</td>
<td>40</td>
<td>50</td>
<td>37</td>
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<td>1988 housing loan terms (average)</td>
<td>11.6</td>
<td>16.1</td>
<td>6.1</td>
<td>14.6</td>
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<td>Interest rate (%)</td>
<td>2.3</td>
<td>12.1</td>
<td></td>
<td>10.1</td>
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<tr>
<td>Default rate (%)</td>
<td>46.7</td>
<td>59.6</td>
<td></td>
<td>55.9</td>
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<tr>
<td>Percentage of mortgages that are fixed rate</td>
<td>14.3</td>
<td>47.1</td>
<td></td>
<td>37.5</td>
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<tr>
<td>Controls on private sector mortgage rates (% yes)</td>
<td>100</td>
<td>67.9</td>
<td>20.5</td>
<td>76.6</td>
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<tr>
<td>Percentage of new urban units on land with clear title</td>
<td>12.5</td>
<td>76.2</td>
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<td>Property titling and transfer procedures (% yes)</td>
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<td>38.1</td>
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<td>Major impediments to housing</td>
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<td>65</td>
<td>0</td>
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<td>Major improvements in past five years</td>
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<td>Major improvements anticipated</td>
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<td>65</td>
<td>0</td>
<td>44.8</td>
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<tr>
<td>Percentage of new urban housing built to government standards</td>
<td>98.7</td>
<td>58.6</td>
<td>80</td>
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<td>Building code and land use control major impediment to housing (% yes)</td>
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<td>52.3</td>
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<td>Minimum housing standards too high (% yes)</td>
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<td>35</td>
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<td>Rent control in large markets (% yes)</td>
<td>100</td>
<td>47.4</td>
<td>100</td>
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<tr>
<td>Is foreclosure major problem for lenders (% yes)</td>
<td>28.6</td>
<td>62.5</td>
<td></td>
<td>52.2</td>
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<tr>
<td>Government programmes to subsidise rental housing (% yes)</td>
<td>100</td>
<td>26.3</td>
<td>100</td>
<td>50</td>
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</table>

The accompanying table summarizes selected indicators for high income countries, developing countries and socialist countries.
A global strategy for shelter – dream or reality?

By Arcot Ramachandran

The significance of these International Shelter Conferences has been twofold: they have provided for contacts and exchange of views among shelter professionals from both developed and developing countries; and, more importantly, they have become a forum for the consideration of the role of the private sector in the solution of global housing problems. This open acknowledgement of the positive and central contribution of the private sector, large or small, formal or informal, not only to the construction and improvement of housing, but to any other sector of economic activity, has been one of the fundamental breakthroughs in the realm of policy in recent years.

Whatever the reasons for the previous reluctance to recognise the role of the private sector, it does indeed seem curious that so much of the past body of literature on social and economic development, as well as the content of policy papers on these matters, concentrated on the role of government and its interactions with an undifferentiated population, as if in this relationship lay the surest, if not the exclusive, path to progress.

The image that all of this conveyed, rightly or wrongly, was that the march to economic and social progress is akin to a footrace in which enlightened government officials lead an amorphous mass in the rush towards development, whereas in reality social and economic development is a consequence and outcome of a complex set of economic processes involving constant interaction between the public and the private sectors, but one in which the private sector, in the economies of most nations, plays a critical, if not decisive role.

It stands to reason, therefore, that if the lives of the poor around the world, and in particular in the developing countries, are to be improved, if their material existence is to be bettered, ways and means must be found to harness the energy and resources of the private sector while at the same time removing from its path those obstacles which still prevent it from attaining its fullest catalytic potential in so many countries. Taking into account the world as it really is, not how it might have been, there can be no doubt that this is by far the most realistic approach available for meeting the development challenges that confront us as we enter the last decade of the twentieth century. It is certainly a fundamental premise of the Global Strategy for Shelter to the Year 2000.

I have not so much been asked to address the Strategy as been handed what many would surely recognise as a loaded question about it, namely "The Global Strategy for Shelter – Dream or Reality?" Now, if I detect a note of scepticism here, I can well understand why. After all, over the past decades international strategies and plans of action have come and gone, but levels of underdevelopment and poverty have remained the same, if not actually worsened.

I do not wish to disparage any of
these past initiatives, but what it does point out is the simple truth that declarations of intent and purpose, even if they carry the signature of the international community, do not of themselves change the world. What will change the world is the actions which we take and are willing to take in pursuance of our declarations. Appealing to political will alone can often amount to an oversimplification to the extent that it conveys the impression that the resolution of complex economic and social matters is solely dependent on the personal willpower of a few individuals.

Complex and difficult problems of development and social inequities cannot be wished or willed away, neither can they be resolved simply by the injection of a panacea, such as the massive transfer of financial resources, whether it be from one group of countries to another, or internally, from one region to the other. They generally require decades of hard work and persistent effort if they are to be overcome.

This message of hard work, perseverance and self-help is implicit in the philosophy of the Global Strategy for Shelter. It says, for example, to the developing countries that while such factors as increased financial flows from the North, debt relief and more favourable terms of trade will undoubtedly enhance their ability to meet the shelter needs of their people, as most informed observers would agree, it is unrealistic and imprudent to sit and wait for these supportive measures to materialise or indeed to assume that this is the only problem.

For one thing, the prospects of a massive North-to-South flow of resources appear rather dimmer today than they used to be, for a variety of reasons, not least of which are the financial difficulties of the North itself and, of course, the West's current pre-occupation with the East and the East’s current pre-occupation with itself. Secondly, we cannot overlook the fact that even when commodity prices were high and levels of developing country debt insignificant in comparison with what they are today, shelter did not necessarily receive the attention that it deserves.

Is the Global Strategy for Shelter a dream or reality? Without intending a paradox, I say that it is both. It is a dream if by this we mean that it sets forth an ideal, the ideal of adequate shelter for all; but it is also definitely a reality because it sets forth an ideal which I truly believe to be realisable. Doubtless many will be impressed by the ambitiousness of the goal of adequate shelter for all, doubtless some will be impressed by the myriad obstacles in the way of achieving our goal, and it will not be an easy goal to reach, but it is up to us to make it real and to make it realisable. Fortunately, the Global Strategy for Shelter does, in fact, incorporate in its enunciation of goals a comprehensive outline of means, which, though innovative, are also practical and, though demanding, are realistic and attainable. Conscientious adherence to these means, I believe, should bring us, if not to our goal, then very close to it.

‘Ripple effect of housing’

This, therefore, suggests that it is really up to all of us to make the Global Strategy for Shelter the success that it should be. Certainly, the need which the Strategy addresses could not be any more real, which, in fact, may be the real answer to the question that has been posed. With more than one billion men, women and children around the globe lacking adequate shelter and associated basic services, and with urbanisation and population trends in developing countries pointing to a dramatic worsening of this situation in the coming decades unless new ways are found to address the shelter crisis, it is not a question of whether the Global Strategy is a dream or a reality. It is a necessity. To those of us fortunate enough to live in a house that affords us the basic creature comforts, it is very easy to forget what such a house signifies in our lives. I believe that the late Barbara Ward expressed it best when she noted, in regard to the centrality of adequate shelter to human existence, that:

...the environment in human settlements is determined by a variety of factors - social, functional and spatial - but the most immediate inescapable and profound influences are social influences exercised in the first instance in the home. Here the family survives as a biological unit, with the hope of adequate incomes, diet, shelter and privacy in accordance with the world’s vast variety of climates and cultures. Here citizens receive their first educational formation. Here they learn - or do not learn - love, security and the sense of how to live with other human beings. The home is the core, the central place, the starting point of all life in human settlements - in short, human life itself.

But housing is not only indispensable to the people it shelters, it is commonly relied upon to pull the economy out of recession, for the construction of even one new house has a broad ripple effect on a variety of interconnected businesses. It is a highly labour-intensive enterprise involving a constellation of small firms, which, in developing countries, more often than not belong to the informal sector, a sector of the national economy in which those on low incomes predominate. It is also in many ways a sector of the economy by and for the poor, which in many developing countries is also the largest group. By stimulating and
accelerating housing construction and improvement, we therefore not only provide for the satisfaction of a basic human need, but also stimulate economic activity on a broad front and directly address the challenges of poverty. The recognition of this dual role of shelter development lies at the heart of the Global Strategy for Shelter and is further proof of its realism and pragmatic orientation.

For this reason, I see no particular need to join in the familiar debate over whether housing is a consumption or an investment good. The fact is that for so many migrants to the cities of developing countries, their rudimentary dwelling serves as a base for small-scale businesses, just like some more well-to-do in the industrialised nations conduct professional work in their residences. Extra rooms provide rental income, which in turn is used to consolidate the family's economy base in the city. The home, therefore, is not just a place to live and sleep, but also a guarantor of economic freedom for those for whom the path to prosperity lies in what they can produce with their own hands.

Environmental considerations provide further evidence of the centrality of the objectives of the Global Strategy for Shelter to current development thinking, since it is clear that the improvement of housing conditions will do much to abate some of the significant environmental problems of the developing countries, thereby improving the quality of life of their people.

In the developing countries, the environmental crisis, so much now the focus of global attention, focuses on people with an immediacy that is both poignant and tragic. Unsafe housing, the temporary shacks and makeshift dwellings that often characterise the landscape of many Third World cities, go hand-in-hand with polluted drinking water and very poor sanitation and waste disposal facilities. If the threat of environmental deterioration is first and foremost a threat to human health and existence, it is surely most graphically illustrated here. For this reason alone, the Global Strategy for Shelter and its goal of adequate housing for all cannot be considered a peripheral concern. It addresses one of the principal challenges that face human society as we approach the dawn of the twenty-first century: how to find an environmentally sustainable path to development that will assure human survival on this planet.

As I noted earlier, if the pressing issues of economic and social development that the Global Strategy for Shelter seeks to address are to become realities, its core recommendations will not only have to be adhered to but also conscientiously implemented.

'More efficient markets’

These recommendations are subsumed under the enabling concept that is the Strategy’s core. What this means, simply put, is that governments — and only governments can do this — must provide a new legal, institutional and economic framework which will allow all those private economic agents which make up the housing sector, whether they be small or large firms, financial institutions, co-operatives, community groups or individual builders, to maximise their shelter construction output. Since the housing sector is not a self-contained island cut off from the economy as a whole, such reforms could not but have a salutary impact on the whole range of activities which constitute the national economy, for the enabling concept calls for less obstructive regulation and greater emphasis on efficiency.

These are principles which governments of all political persuasions, and not just in developing countries, have made their own, and should they also seriously adhere to it, then we have every reason to expect the Global Strategy to be perceived as a welcome and compatible addition to the package of policy instruments which constitute the drive towards economic reform and structural economic adjustment in so many countries at the present time.

But reforms are never easy to accomplish. In the case of housing, if governments can no longer provide, and their attempts to control often amount to obstruction, their new role of “enabler” constitutes a formidable challenge. For ensuring success here means creating more efficient land and housing markets; regulatory reforms; the freeing of financial markets; providing incentives for housing construction; tolerance, even encouragement, of the informal sector and receptiveness to the views of the private sector and low income communities and their representatives.

This will require a whole new set of attitudes among government officials on how they view their role within the context of economic and social development. It also means bridging the gulf of scepticism and antagonism that now separates governments and civil society, for we must admit that in the last decades bureaucracy has lost social standing.

Citizens have resigned themselves to the fact that they cannot expect to receive their due from public officials without discrimination, harassment, favouritism, and sometimes outright corruption. The traditional centralism of so many societies has proved clearly incapable of satisfying the manifold needs of countries in transition. The inefficiency of the legal system has given rise to a growing disenchantment with, and loss of confidence in, law-enforcement mechanisms. This, in turn, has led to increasing dissatisfaction with the status quo.

Overcoming these barriers will not
be easy. It requires, in the case of housing, that the new thinking incorporated in the Global Strategy not just be accepted by a handful of top policymakers, but that its spirit also permeates all of officialdom, down to the lowest level. Only then will there be a possibility of true partnership between the public and private sector and the door open to the creative participation of the community as a whole. In other words, and in a more general sense, what is being required of government is to provide that which is now so painfully lacking in many places: good governance and management.

But the Global Strategy is not only a challenge to government, it also challenges the private sector. In a very real sense, and to use the popular expression, the ball is now in its court. Will it be up to the task? I say this because we must in all honesty admit that elements of the private sector have grown quite comfortable with the old system and have made substantial profit out of existing subsidies, monopolies and market distortions. Will the private sector now rise to the challenge and grasp the opportunities provided by the Global Strategy? These are questions that will have to be answered.

It is now up to the private sector to take the initiative and this requires not just a new partnership with government, but also the forging of new relationships among the various components of the private housing sector, between financial institutions and construction firms, for instance, between the formal and the informal sectors, and between institutionalised lenders and those on low incomes as well as small-scale builders and community groups who, up to now, have found themselves excluded from formal financial markets.

All of this involves new risks, but then risk-taking is what a market economy is all about. Public impatience with the lack of satisfaction of basic needs is growing. There are some who refer to the 1980s as a "lost decade" for economic and social development, but from the point of view of political development, it has not been lost at all. Civilian interest in public matters has increased. Such issues as inflation, devaluation and other policies which affect the quality of everyday life are no longer mysteries to which certain members of a political elite hold the key, but have become topics of discussion on which everyone has something to say. Governments must now submit their actions to public opinion and public acceptance or rejection has become a political force which can affect their survival, a fact so dramatically confirmed by recent events around the world.

All of this brings me, incidentally, to a small and final observation that I would like to make on the question we began with, namely the Global Strategy for Shelter as dream or reality. Although the Strategy is yet to achieve its ultimate objective of adequate shelter for all, it must already be credited with a measure of success. This is because the twin ideas of public/private sector partnership and the enabling approach which are the core of the Strategy have already achieved near-universal acceptance and have been extended to virtually every other field of development activity of the United Nations system and beyond. While it may be going too far to point to the Global Strategy for Shelter as the inspiration for this development, it is nevertheless significant to note that the Global Strategy for Shelter was probably the first major United Nations sectoral activity to systematically incorporate these ideas and make them a core part of its programme philosophy.

As is now generally recognised, these two interrelated ideas hold the best promise for achieving development goals under current economic and political conditions and, if systematically applied, would in effect revolutionise the economic, legal and institutional milieu in which development activities are carried out. Whatever happens, therefore, the Global Strategy for Shelter will have contributed to the creation of this new reality.

The lead agency for the implementation of the Global Strategy, the United Nations Centre for Human Settlements (Habitat), in cooperation with its partners within the United Nations system, the international assistance community and the private sector, has fully committed itself to the programme of the Strategy. Beyond policy seminars on the Global Strategy, which bring together representatives of the public and private sectors and non-governmental organisations, the Centre has focused much of its efforts on assisting governments in preparing and implementing national shelter strategies compatible with the goal and philosophy of the Global Strategy.

These efforts will continue and intensify in the years ahead. But given the magnitude of the task that faces us, it must go without saying that we heartily welcome the cooperation and support of everyone involved. Indeed, not only is such support welcome, it is positively crucial for achievement of our common purpose, which is to make shelter for all truly a reality.

I should like to make one final observation. As we enter into the last decade of this century and gaze upon the world around us, we find mankind looking for the new directions which can assure political freedom while satisfying basic material needs. In a sense we have arrived at the zero hour between the past and the future. Let us seize the time. Let our ideal also become our vocation!

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Housing policy and macro-economic reform

By Wilfried Thalwitz

THE World Bank has a long history of involvement in the housing and urban sector in developing countries, beginning with an $8 million loan in 1972 to Senegal for a sites and services project. Since that time, we have supported housing and urban development projects in over 60 countries, and in recent years have substantially expanded the level of urban lending and changed the composition of our assistance.

In this paper I would like first to briefly establish the broader economic context facing the developing countries. Secondly, I will place the housing sector within the reform efforts being undertaken by many governments. Specifically, I will highlight the interdependency of successful housing sector reform and broader economic adjustment. I will suggest that the stakes of housing sector reform go beyond the housing sector, and are, indeed, in many countries at the heart of the process of structural adjustment and growth. I will then discuss some of the examples of housing policy which we at the World Bank feel best exemplify sustainable directions for reform.

Finally, I will suggest some of the actions that must be taken if the developing countries are to move closer to the goal of housing for all — the theme of the Third International Shelter Conference, and a goal that we all endorse.

The economic context
This is a time of continuing crisis in the economies of the developing countries, one characterised by high debt burdens, stagnating or negative growth, declining investment rates, high and volatile inflation, and reduced international capital flows. Inflation rates, which averaged about 17% annually in developing countries between 1965 and 1980, rose dramatically to an annual average of 44% for the years between 1980 and 1987. The aspirations of countries and their peoples — in Africa and in Latin America — have been frustrated by the consequences of failed economic management in the past and the need to make adjustments now to permit progress in the future.

Over the past decade, World Bank support to our member countries has focused on assisting them to adjust their economies to meet their heavy external obligations and to establish the foundations for sustainable economic growth. We have learnt several important lessons in this process:
First, countries cannot avoid adjusting their economies. Structural reforms are urgently needed to restore macro-economic balances. These reforms involve increasing domestic resource mobilisation, investment, and savings and restoring growth by establishing incentives for the productive use of these resources. Secondly, the risks of not adjusting — reduced availability of external resources and domestic inflation — affect the whole economy. We know that inflation destroys economies. It also destroys housing. Thirdly, investment is inevitably compressed during the adjustment process. Yet investment is urgently needed to restore growth.

What does this mean for the private sector and for housing? In order to create an environment for private investment, evidence from many developing countries indicates that there must be some stability in the policies of governments. During the adjustment period, it is essential that sufficient public investment occurs to encourage private investment, indeed to make it possible. In the housing sector, this means public investment in infrastructure to create the environment for private housing investment.

Most importantly, it also means structural change in the housing sector itself. Given the shortage of resources for public investment in housing, we believe that it is essential to recognise that government spending programmes in the sector are less important than government’s role in defining regulatory frameworks, pricing policies, and policies affecting the financial sector. These policies comprise the major instruments for influencing the performance of the housing sector and the way in which its performance in turn influences the macro-economy.

In an important sense, what governments do “off the books” is far more important than what they do on the books with regard to housing policy.

Let me be more specific about the nature of these linkages and about
the high stakes of formulating good housing policies.

The role of the housing sector in the economy/the stakes of good policy

If there is one fundamental insight that must be understood concerning the relationship of the housing sector and the broader economy it is that the relationships between the housing sector and the economy are reciprocal.

The costs of neglecting this insight can be striking. This is nowhere more evident than in the centrally planned economies. In countries, such as Hungary, the story is compelling: government policies have been legally and morally restricted property rights, discouraged private production and ownership of housing, and relied overwhelmingly on the state to provide housing. In 1990, we see that they have not only failed to meet the housing needs of their citizens, but have disrupted their economy in important ways.

Research in Poland has suggested, for example, that the endemic housing shortages have drastically reduced labour mobility, causing labour shortages and wage distortions. These in turn have affected the productivity of industry and the general level of prices. Past policies have done clear damage to the housing sector and to the broader economy. This experience demonstrates the dangers of trying to substitute the role of the state for that of its citizens in the provision of shelter.

We have learned that the aggregate economic costs imposed by inappropriate housing policies are comparable in magnitude with other commonly discussed economic policy distortions, and that this is no time, given the urgency of reform, for such unnecessary costs to be incurred. On the contrary, it is time to recognise both the high costs of policy failures in this area and the interdependence of sectoral and macro-economic policies.

The newly learnt lessons of Eastern Europe reinforce what the experience of other countries has taught: it is time for a new approach — “an enabling approach”.

The necessity of an enabling approach

As we formulate this new enabling approach, we start from the central conclusion of our assessment of past housing sector experience. Many of the overt policy failures and the lack of real progress in many countries to deal with the housing sector are the result of governments’ attempts to directly solve the shelter problems of their populations. Indeed, often the private sector has been treated by governments as the enemy, with the result that the private sector is discouraged or crowded out of the field of housing provision.

In response to this assessment, we believe that there are three key elements of an enabling strategy, as outlined in the “Global Shelter Strategy to the Year 2000”.

First there is a need to reorganise the shelter sector, particularly with regard to establishing new mechanisms to co-ordinate macro-economic and sectoral policy, and to put in place more supportive legal and regulatory frameworks; second, there is a need to mobilise and allocate resources for the sector, and to rationalise subsidies; and third, there is a need to ensure that key inputs to the housing production process are adequately supplied, particularly supplies of land, infrastructure, and building materials.

Not surprisingly, experience has shown that the most important areas for reform differ from one type of country to another. For simplicity, we may think of four types of countries for which there are different priorities for policy reform. These are low income countries, highly indebted middle income countries, other middle income countries, and centrally planned economies. Let me suggest how these priorities vary according to this classification of countries, and give some successful examples of housing policies in each type.

In low income countries, such as those of sub-Saharan Africa, the key need is to accommodate urban growth by ensuring that adequate supplies of land, infrastructure, and building materials are made available. Urban population growth rates from 4% to 6% per year are common in these countries, and create acute demands for an expanding supply of housing and residential infrastructure. Evidence from many countries, at all levels of income, has indicated that when land, secure tenure, and basic infrastructure are made available, low income households are able to mobilise surprising amounts of resources for house construction.

For example, carefully targeted public investments in infrastructure induced even more private investments. In Ghana it was found that each dollar of public funds invested in infrastructure and land development was associated with as much as $9 of additional private expenditure. The complementarity of public investments in infrastructure and private investments in superstructure is clearly very important. Government investments in heavily subsidised completed public housing have often been observed to crowd out corresponding amounts of private housing. In contrast, infrastructure projects in Ghana can "crowd in" private investment by creating incentives for complementary investments.

In the second type of countries — the heavily indebted middle income...
countries which are faced with severe problems of structural economic adjustment, such as those in Latin America — the housing sector can play an important role in the adjustment process. This is particularly true in the area of resource mobilisation. Often, the system of housing subsidies and finance in these countries has aggravated fiscal imbalances, weakened domestic financial systems, and discouraged domestic resource mobilisation. As you know, in many cases, specialised housing finance institutions operating on unsound financial principles have become insolvent and have been forced to close. But where housing finance has been put on a firm footing, as in the case of Chile, financial institutions were able to mobilise new funds for mortgages, and the housing sector dramatically expanded output.

In the third type, other middle income countries, particularly those experiencing rapid economic growth, as in East Asia, the problem of inappropriate regulations looms as a major impediment to the supply of affordable housing. Regulatory constraints such as land use and building controls can inhibit land development and housing construction, with the result that increases in unfulfilled demand are translated more into rapidly escalating housing prices rather than into increases in housing production. In Malaysia, for example, which is characterised by a particularly rigid supply system, the late 1970s saw price increases for owner-occupied housing that averaged 19% per year — nearly three times the rise in the general price level. The result was that by 1982 the least expensive commonly available new house cost about seven times the annual income of Malaysian families. Such unnecessarily inflated housing prices represent the single greatest problem in providing adequate housing for all in such countries.

In Thailand, by way of contrast, the regulatory system for land development and building is extremely flexible, thereby permitting land and housing markets to be very responsive to shifts in demand. During the same period that saw housing prices more than double in real terms in neighbouring Malaysia, housing prices of typical new units in Bangkok actually fell.

In both Thailand and Malaysia, putting in place “enabling strategies” has meant creating a favourable climate with regard to the legal framework for housing as collateral, interest rate policies that have enabled banks to pay competitive rates to depositors and earn competitive returns on mortgage loans, avoiding the creation of subsidised competitors to commercial institutions, and avoiding directed credit policies for housing.

Finally, centrally planned economies illustrate the intimate connections between policies in the housing sector and the performance of the broad economy, and the deep risks that nations take when they intervene in pervasive and inappropriate ways in the shelter sector. In addition to producing severe housing shortages in, for example, Poland, which has waiting times of 15-20 years for flats, there is practically no area of a country’s economic life that is not adversely influenced by deep housing shortages. As I noted earlier, labour mobility, wage rates, inflation rates, industrial productivity, savings rates, and consumption patterns are all affected by housing policies in these economies. The pervasiveness and importance of the distortions caused of inappropriate housing policies calls special attention to the need to reorganise the sector. Fundamental changes are called for in the institutions, regulations, and administrative practices concerning the housing sector in such countries.
Many of the countries of Eastern Europe, as well as other centrally planned economies such as Algeria and Ethiopia, have begun to undertake major reforms to liberalise their housing sectors. These efforts are to be applauded and, by whatever means, encouraged — both for the good of the country’s housing conditions and for the performance of their economies.

What remains to be done?

There is an emerging international consensus on the need for governments to pursue enabling strategies toward the housing sector. In specific terms:

1. Let us all recognise that housing policy is too important to be the sole responsibility of housing ministries. Given its interaction with macro-economic performance, there is an urgent need for housing policy to be developed in co-ordination with ministries of finance and economic development.

2. For housing policy to be effective, the public sector needs to support and complement the efforts of the private sector. It needs to move towards positive inflation-adjusted rates to mobilise resources for this sector, to more carefully targeted and transparent subsidies, and to a regulatory and legal environment that is supportive of private initiative.

3. Public resources should be invested in infrastructure, permitting private investment to be devoted to housing. Even in many of the successful slum upgrading projects which the World Bank assisted, as in Indonesia and elsewhere, the objective of reducing the poor was achieved by public investment in infrastructure, leaving housing investment to the varying capacities and needs of households.

4. Governments need to understand the impacts of their regulatory frameworks. They need to balance the costs and benefits of regulations. Many of the most pressing areas for policy reform in developing countries concern issues of regulation — property rights, tenure security, land use, building control, and price or rent control. In almost all cases the intent behind such regulations was well motivated, and addressed to an area of genuine public concern. But this must be weighed against their overall effect on the housing sector and the macro-economy at large. The World Bank is willing to help governments in this assessment.

5. At issue is the difficult task of reforming housing sector institutions who see their responsibilities in terms of directly producing housing. They must shift their jobs from cutting red ribbons to one of cutting red tape.

Conclusion

In conclusion, I would like to reiterate that the stakes of choosing the right set of housing policies, and the right set of complementary macro-economic policies, is critical for countries in the developing world. It is critical for the performance of their housing sectors, and critical for the performance of their economies. The costs of policy failures are high, but the potential contributions of getting the policy framework right are enormous.

The concept of “enabling strategies” for the housing sector is essential for nations wishing to reform their approaches toward housing. The idea of an enabling strategy is one that requires a partnership between governments and private institutions and citizens, one in which heavy emphasis is placed on creating and maintaining the right incentives for the private sector to devote its vast energies toward the solution of the housing problems.

We in the World Bank have learnt in recent years to take a new view of our own involvement in the housing sector. We have devoted considerable resources to researching and documenting the strong links between the housing sector and the economy, we have emphasised the need for new institutions capable of formulating and implementing coherent and sustainable housing policy, and we have expanded our support for housing finance institutions capable of mobilising resources for housing in a way that supports not only the housing sector but also the processing of financial development. The housing sector has begun to figure in a number of bank loans for structural adjustment, a recognition of the integral role played by the sector in contributing to broader economic objectives. Indeed, the overwhelming majority of countries that have received housing finance loans from the bank are also the most intensively adjusting countries.

Despite our increased lending in these areas, we have no illusions about our ability to solve directly the problems of the housing sector in developing countries. Our lending, and the resources available to governments themselves, are only a modest fraction of the spending required to bring about the goal of “housing for all”. But we can, indeed we all must, support efforts to put in place new approaches to housing policy, approaches that enable and facilitate the constructive efforts of ordinary citizens and the institutions that they comprise. As I said before, it is necessary, and it is right.

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