

## Housing Finance Coalitions in Asia

By Dr. Arcot Ramachandran

It is indeed both an honour and a pleasure for me to address this meeting on behalf of Dr. Arcot Ramachandran, who was very much hoping to be present, but is unable to do so because of his previous commitment to be in Tokyo today. He has requested me to convey to this august group his profound regrets at his inability to be present. He has also requested me to convey his good wishes for the success of this meeting of the Asian Pacific Federation of Housing Finance institutions.

Shelter is recognized as a basic human need. In order to address the need of inadequate shelter conditions of an estimated 1 billion people world-wide, and its social and socio-economic consequences, the United Nations General Assembly endorsed the proposal of the Commission on Human Settlements to launch a Global Strategy for Shelter to facilitate adequate Shelter for all by the Year 2000. Shelter for all means affordable housing, which meets basic requirements of tenurial security, structural stability, natural lighting and ventilation and infrastructural support and which provides convenient access to employment and community services and facilities.

The main principles on which the Global Shelter Strategy is formulated are:

Firstly, that enabling policies are envisaged whereby, the full potential and resources of all governmental and non-governmental actors in the field of human settlements are utilized: the public sector,

rather than attempting to shoulder the entire burden of shelter production and distribution, should play the role of enabler and facilitator of shelter.

Secondly, shelter and development are mutually supportive and interdependent, and policies must be developed in full recognition of the important links between shelter and economic development.

Thirdly, the concept of sustainable development implies that shelter provision and urban development must be reconcilable with environment and sustainable management and the use of the natural resource base.

Fourthly, women as income earners, home-makers and heads of households, have a crucial role as contributors to the solution of human settlements problems, which should be fully recognized and reflected in equal participation of women in the elaboration of housing policies, programmes and projects.

The operational focus of the Global Strategy for Shelter is on the creation of new national shelter strategies, or the reformulation of existing shelter policies, in order to create a suitable regulatory, legislative and institutional framework, which can facilitate rapid expansion of housing construction and improvement by the private sector, both formal and informal, community groups, NGOs and individual builders.

A key component of a shelter strategy is

housing finance, as it is clear that governments have an obligation to ensure that an appropriate environment is created for the mobilization of funds. The development or reform of institutions engaged in financing housing should be part of an overall effort to strengthen and develop the financial system of a country. The objectives of such an effort are to promote and mobilize savings, reduce the cost and improve the efficiency of financial intermediation, and promote the free movement of capital throughout the national economy.

Shelter development will require a steady flow of long term finance. Since amortization of housing loan is over long periods, several sources of finance need to be considered, including not only savings by households in financial institutions, but also funds from the sale of housing bonds, funds accumulated in compulsory savings schemes, such as provident or pension funds, life insurance and other social security systems.

Many housing loan arrangements suffer from high rates of default, since beneficiaries of such loans are one time borrowers who may not be significantly threatened by reneging on their commitments, and evicting them from their houses for failing to pay, as this is in direct contradiction with the effort to house them properly. In many cases eviction is also difficult, if not, impossible. The recovery of loans will need to be organized at the community level, on a regular daily, weekly or bi-weekly basis by people who remain

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close to the borrowers. There is the need to devise collection systems that reduce the risk of lending to the poor; also, shelter financing for low income groups will be improved by measures to facilitate the security of titling of land and the security of tenure.

Housing Finance in the South Asia and Pacific region, has, over the past decade, become a major concern of National governments. Significant studies have been made in several countries in the region. Some countries are in the process of establishing new institutions and others are in the process of revitalizing their existing systems. Financial institution development has often been undertaken without sufficient attention being paid to the priority needs and absorptive capacity of the sector. While, financial evolution has been mainly in the formal sector, forging sustainable links between formal sector institutions and informal activities remains uncharted territory in terms of both credit dissemination as well as savings mobilization. A major effort in this field would contribute substantially to future shelter finance activities and their ability to address the needs of the lowest income groups.

Here one cannot over-emphasize the vital role played by non-governmental organizations (NGO's). There is tremendous potential in new partnerships between governments and local community groups, which could be regarded as privatisation in another form.

Four institutions have emerged in the region as "Success Stories" in their respective approaches to Shelter finance - namely, The Housing Development Finance Corporation (HDFC) in India, The Government Housing Bank in Thailand, (GHB), the Korean Research Institute for Human Settlements (KRIHS) and the Grameen Bank in Bangladesh. Each of these institutions is unique in its own way and each have different perspectives on the Shelter Sector in their respective

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countries. HDFC is involved in the development of housing finance as a sector as well as being an example of successful institution building in the private sector in the Asian context; GHB exemplifies the transformation of a publicly owned institution into a vibrant and innovative financial institution whilst maintaining its innovative credit dissemination techniques among the rural poor largely for economic activities but more recently expanded to housing with equal success; and the Korean Research Institute for Human Settlements for its intellectual capacity to study informal sector credit mechanisms and to integrate housing sector activities with broader urban sector and macro-economic issues.

At present each of these institutions is operating its own domain largely oblivious of the activities of other institutions in the region. At the same time, many other countries in the region are taking steps to establish housing finance institutions. It is hoped to create a coalition of these four aforementioned public and private sector (formal and informal) institutions, as a UNCHS-UNDP assisted project. This coalition will share information, experience, knowledge, tools and technologies, and perhaps most importantly, methodologies for implementation of housing finance programmes and strategy. The coalition will create a Resource Base for the region in the sector. Using its knowledge base, the coalition will also examine key constraints for the future development of the sector and research the macro economic impacts of shelter activities in developing economies in Asia and the Pacific. This information will be vital to place shelter strategies currently being formulated, within the context of development planning and financial reform in general. The varied experience of the members of the coalition in establishing successful formal and informal shelter finance mechanisms will help fine tune

domestic policies to remove existing constraints and to mobilize greater financial as well as managerial resources for the sector.

Housing finance is a major emerging development sector in the Asia-Pacific region which lends itself ideally to the building of coalitions. Many housing finance institutions are fairly new. Some have proven excellence in the field that they have innovated, ownership patterns differ between them, and yet there is a unifying agenda which they all face. Coalitions of this type have a vital role to play in that they could explore two essentially critical ingredients for a comprehensive Shelter Strategy which has not hitherto been resolved: namely, the link between financial savings and housing and methods of formalizing the accessibility of housing finance to low income households.

It is hoped that this coalition model will be replicated elsewhere, which can only happen if there are other success stories of financial institutions in the region. It also presupposes the existence of a national Shelter Strategy in every country which will define targets for shelter outputs and resources to meet these targets, and which will set out the responsibilities and time frame for the implementation of necessary measures.

Finally, the Global Strategy for Shelter is a commitment for the world community to mount a concerted effort towards the goal of "Shelter for all" by the turn of the century. This is not easy to attain. As governments progressively acknowledge shelter as an engine of economic growth and as a lead sector of the economy, if they require technical support in this endeavour, it is hoped that they will be able to formulate a technical cooperation project for funding from country programme funds of the United Nations Development Programme or from other multilateral or bilateral donor contributions. The UNCHS will also be ready to assist.

→ 34

→ 16

Mr. Chairman, distinguished participants, Ladies and Gentlemen:

Once again, on behalf of Dr. Arcot Ramachandran, I wish this Seminar a successful outcome and share your hope that its deliberations will take this region a step further towards the stated objectives of the Global Strategy for Shelter to the Year 2000 as laid out by the United Nations. ■

*This paper is adapted from a paper entitled "Housing Finance and the Global Strategy to the Year 2000" delivered by Mr. George S. Joseph at the Asia Pacific Federation of Housing Finance Institutions Conference in Bangkok in September.*

→ 32

The paper concludes that the favourable tax treatment of housing assets is common to many OECD countries. While many housing tax expenditures have emerged as tax systems have evolved, rather than being specifically designed to encourage housing consumption or production, they have accorded favourable treatment to housing asset owners. In recent years, there has been growing concern about the impact of housing tax expenditures. While many of the adverse impacts of housing tax expenditures have created pressures for reform, governments have demonstrated an unwillingness to reform tax subsidy mechanisms fundamentally. In reviewing recent reform measures, there appear to be four objectives guiding reform -

- (a) Efforts to curb the cost of tax subsidies and reduce their progressivity
- (b) A willingness to use tax subsidies to encourage the maintenance and improvement of private housing.

(c) A wish to eliminate negative gearing in the private rental sector.

(d) The removal of tax privileges favouring specialist housing finance institutions.

It is concluded that such reforms will suppress but not eradicate the major adverse consequences of housing tax expenditures. ■

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→ 23

and towns has proceeded in different ways, which is classified into the following three categories:

- (1) Starting with the "increase-rent with the subsidy, the housing funds have been established, which promotes citizens to buy their houses and build up their houses. This way of housing reform is found in the cities of Yantai, Bengbu, Tangshan, Chengdu, etc.
- (2) Starting with the preferential price for those occupied public houses, the housing funds have been established, which promotes the increase of the rent and encourages individuals investing for the housing construction. This way of housing reform is found in some small cities and towns such as Haicheng, Jinxian and Liaozhong in Liaoning Province, Dalad Banner in inner Mongolia Autonomous Region, and Runan in Henan province.
- (3) Starting with the newly completed residential houses to sell to individuals with the "new house and new rent", this housing distribution has given an impetus to the reform on the occupied residential houses. This way of the

housing reform is found in the big cities such as Beijing, Zhengzhou, etc.

The patterns and concrete methods of the housing reform are different from one city to another in China, but the aim of this housing reform within these cities and towns is the same: that is, to find the best solution to the housing shortage problem facing citizens, to reform the old housing system, and establish an appropriate new one.

This new housing system will further reflect "one guiding principle and two policies" as follows; one guiding principle is to rely upon the efforts and initiatives made from the central government, local government, enterprise and individuals to further promote housing construction.

Two policies are that the housing distribution without payment should be transformed into the paid-housing distribution by way of the rent-increase, and encouragement of individuals possessing their own houses will be made by way of organizing and promoting residents to invest in housing construction and purchase their own houses.

We firmly believe that the new housing system will be soon established in the cities and towns of China through our unremitting, firm and unshakable efforts, which realize our target that each family in every city and town will have its own inexpensive but substantial suite of the living space by the year 2000 in China. ■

*This paper is reproduced from Mr. Gu Yunchang's presentation at the Fifth International Housing & Home Warranty Conference held in September 1990 in Dublin, Ireland.*