

1990: A Report on Housing Finance, Worldwide

AT the last meeting of this committee last year in Washington D.C., I pointed out that the world is undergoing a remarkable period of change and transition, linked to astounding political developments and the imperatives of national economic restructuring, and these have their consequent impacts on systems for housing finance. We have all been witness to the transformations of the past year, including those in the Soviet Union and the countries of Eastern Europe. Everywhere, outworn ideologies are being discarded and there is a turning to free market systems to meet the people's basic needs:

Housing Finance in the Socialist States

Housing finance systems are often in the spotlight of the transitions taking place. Typically, in the Socialist states, housing has been provided at heavily subsidized costs both for capital construction and for continuing maintenance and management. This has imposed a heavy burden and steady drain on these countries, especially when resources are badly needed for modernization of agriculture, industry and infrastructure generally.

Such factors were discussed in the Conference on Central and East European Housing Finance, held in Budapest, Hungary in June which was co-sponsored by the International Union. The World Bank and other international agencies are endeavoring to respond to requests from practically all these countries for assistance in modernizing their housing finance systems. In September, in Moscow, for example, a team of housing finance ex-

perts from the World Bank surveyed the requirements for reform in this field and provided advisory services. They were there to meet a priority request from the Houston summit. The Moscow City Council had earlier voted to dispose of its existing housing stock by one means or another rather than to carry on its heavily subsidized and costly expenditures in this field.

As we have learned at prior meetings of this International Union, the continuing program of housing reforms in China has already set an example for direction with regard to such situations, including the promotion of home ownership and other efforts towards rationalizing rents and housing allowances and increasing privatization of activities in the sector. Virtually everywhere the desire for home ownership and security are seen as strong motivational forces for social stability as well as for the promotion of household savings and investment in the housing sector. These are among the basic means for the stimulation or regeneration of national economies.

The Third Shelter Conference

The emphasis on public-private sector partnerships for action in this field was much reinforced and amplified at the productive and successful Third International Shelter Conference, co-sponsored by the International Union, and held in Washington, D.C. in April this year. The conference was highlighted by the presentation of thirteen carefully prepared case studies from a diversity of countries, large and small, North and South, East and West. The report of this landmark event will soon

be available to members of the Union.¹

The Global Strategy

At the international level, The United Nations approved the Global Strategy for Shelter to the Year 2000 which provides useful guidelines for National Housing Policy formulation with special emphasis on the specific roles of the public and private sectors in National economies. Kenya and India, for example, have both taken steps to enact new national housing policies. In the United States, both houses of Congress have approved new housing legislation which is expected to come into force before the year's end.

Progress towards the Global Strategy will be reviewed at the next session of the UN Commission on Human Settlements, to be held in Harare, Zimbabwe in May 1991. The mobilization and provision of resources and financing for housing and shelter remains a critical issue for the success of the Strategy at all levels.

Housing the Poor

There has been no decrease over the past year in the number of people who are homeless or poorly housed throughout the world. To the 15 million or more people already classified as refugees are now being added millions more as a result of the dislocations caused by the Middle East-Gulf crisis. What is disturbing is that in most surveys of human problems and statistics of the major international agencies, such as the World Bank, Regional Banks, UNDP, (United Nations Development Programme) and the Regional

Commissions, housing and shelter are rarely mentioned or touched upon at all. Social indicators are mostly limited to health, education and nutrition, and regional reports on "Social Progress" omit housing and shelter entirely. In the many measures discussed in the 1990 World Development Report on Poverty, produced by a large Bank staff, only a box on one page deals with the Bank's experience with urban poverty projects, which mentions the Bank's prior shelter strategy for "housing the poor." Reviews and discussions of economic development factors also rarely touch upon housing or the construction sector. But then, if housing and shelter are not considered either as social or economic development factors, surely they must be part of "environmental" considerations and included in human settlements planning where man-made and natural environments intersect and create many problems, including those implicit in the phrase, "poverty is pollution".

Housing as a "Human Right"

In some circles housing is becoming increasingly recognized legally and administratively as a "human right", in accordance with the United Nations charter. The Habitat International Coalition, of which the International Union is a member, continues to promote this concept in various countries, together with its continuing campaigns against forced evictions. But now a corollary theme is also being stressed - the human right to access to credit if much broad-scale progress is to be achieved among the millions below the accepted poverty line of \$370 per capita a year. In 1985 this meant that more than one billion people, or almost one-third of the population of the developing world, were living on less than this amount.

The importance of organization and small scale credit lending for shelter and household improvement is being established by a number of new institutions and organizations. One of these is the Grameen Bank of Bangladesh which gives

priorities to loans to the poorest of the poor, especially women head of households, and has had significantly successful payback results. In the Central American countries there has also been institutionalized a program for small scale lending for work and shelter improvement organized by the Cooperative Housing Foundation with support of a US AID grant. The program operates through loans to credit unions and housing associations, implemented and administered for individual households at local levels.

In the past at these committee meetings we have usually highlighted the problems and progress of the so-called developing countries where there were more perceived needs as well as opportunities for initiative and growth. The reports from the regional groupings are further expected to nourish this report from all parts of the world, and comments will be included in the final version to be published by the International Union. But before proceeding I believe it worthwhile to provide a brief follow-up to my comments last year about the situation of the Savings and Loan or "Thrift" industry of the United States.

The US Thrift Industry

The "Thrift Bail-out Plan" authorized last year by the Financial Institutions, Reform, Recovery and Enforcement Act (FIRREA) is having ever widening impacts on the future of the industry itself as a specialized financing sector. There are repercussions throughout the entire economy and its financial markets, and ever-increasing cost estimates to be borne by the individual taxpayer.

The cost of the bail-out is now estimated to be about \$150 billion, but adding the interest charges for financing these costs may bring the total amount to over \$500 billion to be paid in future years. As of September 1st there were only 2,453 savings asso-

ciations that had not been taken over by the government, and by mid-month 65 more of these were due for transfer to the Resolution Trust Corporation (RTC). The Office of Thrift Institutions, which took over functions of the Federal Home Loan Bank Board, has classified in its Group I only 1,175 institutions as being well-capitalized and profitable.

The situation as yet is by no means resolved. Major changes are pending to limit the Federal insurance of deposits, with pressures growing for the privatization of deposit insurance. The Federal Deposit Insurance system for the banks is also in danger with inadequate capital to absorb anticipated bank failures in the near future. Increasing questions are being raised as to whether the thrift industry as such can survive at all and whether it will need to be absorbed by the commercial banking sector to reduce the enormous burden the thrift bailout will have on the federal budget. On the other hand it is increasingly evident that the surviving profitable top thrift institutions are generally those that most closely followed the original objectives of the thrift industry—to accept deposits and to invest these in mortgages for family homes.

Brazil's Housing Finance Situation

Brazil is in a situation of major economic reform and restructuring which thus far has not brought about major changes for improvement of the difficulties faced by the housing finance sector over the past five years. Mr. Fernando Collor de Mello was elected President of Brazil at the end of 1989 and took office in March this year. His first step was to decree a new Economic Stabilization Plan with ambitious objectives, the first of which was to contain inflation which had reached a level of almost 100 percent monthly. This is being achieved, although current inflation is still about 11 percent monthly.

Drastic methods were used in these efforts, including a monetary reform reducing by

80 percent the circulation of currency and financial assets, a price freeze for 80 days, and an extra assessment on the movements of financial markets and capital. Economic deregulation and dis-indexation are considered fundamental to the Plan's success. The government has begun a liberalization of controlled prices and intends to implement a free salary negotiation regime including the possibility of employee participation in profits earned. A floating exchange market has been created, and restrictions on imports are being gradually eliminated. The objective is to establish a market economy, more open and integrated to world market conditions.

Although unprecedented State intervention was required for implementation of the Plan, the measures taken will reduce the State intervention in the economy, with many activities being transferred to the private sector. Only if the State's finances are in a healthy condition will it be possible to assist with the urgent social needs of the country in such areas as health, education, and low-cost housing. Administrative reform programs are being implemented, as well as privatization of government companies, with major reductions in subsidies and fiscal incentives.

The credibility of the financial markets has been seriously upset and the public is distrustful after the Central Bank froze deposits and financial instruments, including the popular savings accounts which are today practically the only instrument for mobilization of resources for housing finance. Deposit balances which were approximately US \$ 30 billion before the Plan dropped to US \$ 15 billion by the end of June even though the Central Bank liberalized withdrawals by retired people, charitable institutions, the elderly, and for emergency medical treatment.

At present, savings accounts are in a recovery phase because of direct incentives such as tax exemption and free

insurance for accidents, and indirect benefits from new taxes levied on very short term deposits. The volume of housing finance has been seriously affected by this resource instability, as well as by the reduction in the value of repayments caused by prior subsidy policies.

The housing finance sector is also receiving attention by the Government. The President formed 15 working committees to formulate proposals for various economic sectors. I had the privilege of serving as co-ordinator of the housing committee, whose work has broadly resulted in the following policy recommendations:

The State should be responsible for assisting the low income populations, through providing budgetary resources at low cost, and compulsory savings of salaried workers. The private sector is to be responsible for the other income groups, without subsidies, and their activities will be less regulated but in compliance with market forces.

It is essential to diversify the resources available for long term finance and an active secondary market for securities is recognized as necessary to reduce vulnerability to oscillations of the economy.

The proposed new directions will be extended to all real estate market areas, and the work of many teams is being co-ordinated for proposals of additional instruments to mobilize housing finance. The following are being studied:

- Real Estate Consortia, the formation of groups to acquire credit letters of variable value in order to buy real estate.
- Real Estate Debentures, to be issued with the aim of providing resources directly for real estate production, giving

their owners a fixed income and/or profit participation.

- Real Estate Funds, placement of bonds with traditional investors in real estate and institutional investors. Resources will be applied directly to real estate production or to related assets. The value of the bonds will be linked to a specific index of the real estate market, with guarantee of fixed interest and participation in the profits of the Funds.
- Real Estate Production Bills, issued by financial institutions linked to specific real estate undertakings, guaranteeing to the bond holder monetary correction based on an index that reflects real estate valuation, with fixed interest and participation in results or performance premiums and broad insurance.
- Capitalization Securities, to attract resources from the general public to real estate finance through a pre-established remuneration and participation in lotteries and premiums.
- External Resources, negotiation of external loans and making feasible projects of conversion of external debt into real estate investments.

The possibilities are exciting for the reformulation of the Housing Finance and Real Estate system, because it will include housing, commercial (shops, hotels, shopping centers) and industrial (extension of factories, warehouses) undertakings. There are many obstacles to be faced, mainly due to the present recessionary effects and inflationary pressures, although the latter has already been lowered to a range of 10 to 15 per cent per month. However, the prospects and perspectives of economic recovery and the first steps taken to turn our country into a real market economy provide us with a strong belief that there is a great future for housing finance and for the country as a whole.

Latin American Housing Finance

Elsewhere in Latin America, housing finance progress is still notable in countries such as Bolivia, Chile and Colombia, whose case studies were presented at the International Shelter Conference. In Venezuela, the Savings and Loan system has been boosted by new housing legislation. In Mexico, there is much action on the housing front through such agencies as FONHAPO, the National Foundation for Low-Cost Housing, FONAVI and INFONAVIT.

New repayment systems have been implemented to help make housing affordable in inflationary situations. Mexico in past years has benefitted from US\$1 billion in housing sector loans from the World Bank. In Argentina, the National Mortgage Bank was closed down during the year because of insolvency problems. The future of housing finance in that country, still in the midst of economic restructuring efforts, is very uncertain.

Central America

In the Central American countries of Costa Rica, Honduras and Guatemala, the housing finance institutions are in a growth mode. In the Caribbean, housing finance institutions continue to perform well and most have enjoyed a good year, with a few exceptions such as Trinidad and Tobago which suffered recent civil disturbances from which it is recovering.

The African Region

In the African region, the progress of housing finance institutions is decidedly mixed. In Kenya, both the East African Building Society and the Housing Finance Corporation of Kenya have exceeded deposit holdings of 2 billion Kenya Shillings. Although there are some 12 other housing finance entities in the country, these two, plus the Savings and Loan Limited, are said to control well over 90 per cent of the total business. The HFCK

will act as fiduciary for a new US\$10 million private sector housing investment guarantee loan from USAID, part of which will be used for priority allocations to projects submitted by NACHU, the National Association of Cooperative Housing Union. The building societies of Zimbabwe register continuing growth and are assisting with the government objectives of servicing lower income groups through local projects. The Credit Foncier of Egypt and the Mortgage Bank of Nigeria have been supporting expanded housing finance programs. A new innovative program for private housing finance is being developed in Ghana with assistance from a World Bank loan. At least six more countries have requested international assistance to establish housing finance systems and programs.

The Asia Pacific Region

The greatest dynamism for housing finance exists in the Asia-Pacific region where we are currently meeting. The two giant countries, China and India, are taking housing policy seriously. There has been no slackening of the housing reform efforts in China, but institutional development still has far to go in terms of establishing of a National Housing Bank and promoting the growth of an expanded housing finance system.

There have been many developments in India. A National Commission on Urbanization finalized its report after several years of painstaking effort. A National Housing Policy has been drafted. A National Housing Bank has been established and is providing supervision for development of a housing finance system. The Housing Development Finance Corporation of Bombay, established in 1977, has proved a notable success. It has assisted in the development of several regional corporations as well as supported the establishment of the Gujarat Rural Hous-

ing Finance Corporation, perhaps the first specialized institution for housing finance in rural areas. The HDFC has also established an independent Centre for Housing Finance (CHF). It is currently engaged in discussions with the World Bank for an innovative private sector loan of \$100 million to be effectuated with a World Bank guarantee.

Other high achievers in the Asia Pacific region include our co-host for this meeting, the Housing Bank of Thailand, whose outstanding work and new directions were described in the May 1990 issue of Housing Finance International. The Korean Housing Bank must also be cited as an exceedingly productive instrument for providing housing finance, with an exceptional growth record. Despite its internal civil difficulties, Sri Lanka has continued its record performance of housing construction and improvement, having benefitted well over two million families since its target goals were established.

Japan's recent performance with respect to housing sector investment and urban and regional development remains to be adequately reported. It is surely impressive. Indonesia also is going through a considerable expansion of its housing finance activities. In several of the Pacific Islands, such as the Solomons, Vanatu and Fiji, housing finance loan projects are under consideration for World Bank lending.

Eastern Europe

The international finance organizations are likely to give high priority to requests from countries such as Poland and Hungary for modernization of their housing policy and finance sectors. Apparently, all of the centrally planned European countries have requested assistance in this field. This would seem to offer an opportunity for new partnerships and enterprises to be forged and could be a major area for economic development and cooperation in the 1992 European Com-

munity. The U.S.-based Federal National Mortgage Association (FNMA) has opened an international office which also stands ready to provide technical advice on resource mobilization, secondary market facilities and other areas.

Questioning International Assistance Levels

My predecessor chairman of this committee, Mr. Deepak Parekh, expressed his concern at the meeting in Hong Kong that the World Bank's interest in the urban sector, with emphasis on housing, has declined. I should like to confirm and share his concern about this situation. International technical and financial assistance for this sector has been inadequate. Moreover, it is declining and is not equitably distributed, being available only in a small number of countries while the vast majority remain unserved. For long periods in the past, financial aid has been provided primarily for pre-conceived schemes such as "sites and services" which have had no real impact and provided little replicability while basic approaches to national housing policy and programs have been ignored. We note that both "sites and services" and slum up-grading projects in the forms were previously financed, from World Bank lending patterns.

Urban Poverty has been replaced by Urban Management Efficiency as an area of priority emphasis for future operations in this field. But will this be still another illusory fashion to be replaced again after a few years? As Mr. Parekh pointed out, perhaps the weakest component of World Bank strategies has been insufficient attention to institutional issues from a conceptual level, visualizing institutional networks for urban and housing finance which interface smoothly with the prevalent environment.

For confirmation of our concerns we may look at the recent performance of the Bank's lending for the urban sector. For

fiscal 1988 this totalled over US\$2 billion, while for fiscal 1989 it was only US\$1 billion, of which housing finance projects accounted for \$447 million. But these loans were made to only three countries: Morocco, US\$80.5 million to the Credit Immobilier Hotelier, US\$350 million to Mexico, a second housing loan to FONHAPO; and US\$25 million to Ghana, as part of a larger loan, to be used for establishing a private sector housing bank. There seems, therefore, to be a reversal of prior Bank-policies for this sector; there is a marked tendency to make large loans to fewer countries.

If we look at the record of Housing Investment Guarantees of the USAID Office of Housing, we also see a lower level of authorization to about US\$100 million world-wide, with only a few country beneficiaries. In some cases, the World Bank and USAID seem to be lending to the same countries. There is an additional Congressional-mandated authorization for a \$400 million housing investment guaranty loan to Israel, which has not yet been cleared by the present administration.

The regional development banks are gradually stepping up their activities on behalf of the housing sector, but the totals for lending are still small. The Asian Development Bank approved five loans for four projects totalling \$220 million. Three of these projects were for urban development (in Bangladesh, Indonesia and Pakistan) and one for low income housing in Fiji. The Fiji project provided, for the first time, funds for a housing finance institution. Thirteen technical assistance projects totalling \$5 million were approved for wide-ranging institutional and project-preparatory support.

The Inter-American Development Bank, now reorganized, made two loans for the housing sector, one to Trinidad and Tobago, and one to Chile. The African De-

velopment Bank helped establish the corporation for Housing in Africa (Shelter Afrique), located in Nairobi, as its prime vehicle for operations in the housing sector. Shelter Afrique has in turn established an African Housing Fund which is engaged in promotion and development of self help and cooperative projects for the very poor, with some success. Shelter Afrique itself has about a dozen projects in implementation or in the pipe-line, and a number of country requests for technical and financial assistance for the establishment of housing finance institutions. To date it has been unable to date to attract needed external resources to supplement its modest capital base supplied by its 24 member governments.

The United Nations Development Programme (UNDP), through its Capital Development Fund, has supplied limited seed capital and technical assistance for a small number of demonstration housing efforts (eg. Ethiopia). The UNDP itself has expressed its commitment to supporting housing finance initiatives, including those to be implemented by Non-Governmental Organizations. But, yet nothing has materialized to back up its commitment.

It seems evident that a new privately oriented vehicle for promotion of housing finance operations is needed to provide services to the majority of the countries of the world who need such assistance and have no expectation of receiving support from the existing international finance organizations.

The Future

An important United Nations Conference on Environment and Development (UNCED) is to be held in Rio de Janeiro, Brazil, in June 1992. It is expected that the Conference will draw attendance from all heads of State, as well as many concerned Non Governmental Organizations. Major recommendations for international and national action will emerge from this Conference, aimed at securing the

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ning in this respect, but it is only the beginning, and much more needs to be done in the years ahead. ■

MARK BOLÉAT is Director General of the Building Societies Association of the UK and was, until recently, editor of Housing Finance International.

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sustainability and viability of the environment of planet Earth. In a similar conference held earlier in Stockholm, Sweden in 1972, the planning, organization and management of human settlements was the subject of priority discussion and was the occasion where the "poverty is pollution" phrase was first used. While the Conference produced important measures for human settlements improvement and financing unfortunately these have not been pursued. Perhaps Rio in 1992 will produce new sparks for international action for this sector. ■

NOTES

¹ Housing Finance International carried a full report by Mark Boléat in the August 1990 issue.

This is the text of a report presented by Luiz Eduardo Pinto Lima, Chairman, Housing Finance Development Committee of the International Union of Housing Finance Institutions at the Asia Pacific Federation meeting in Bangkok in September.

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nks, has been able to develop very profitable regional operations, with Latin American and Asia being the best examples. Again I believe this reflects its lack of local oligopoly dragging down its competence away from home base.

Another Northern Hemisphere exception might be Deutsche Bank, mainly because it does not seem to be under any great pressure at home due to both the relative strength of its oligopoly its East European opportunities. The main group of banks that I believe will stay can be classified as ones within our region, the Japanese banks, Hong Kong Shanghai Bank, Bank of Singapore, Bank of China. There is some regional logic to these being here and many of them are under less pressure at home when compared to the Northern Hemisphere banks. In addition, Asian banks as a generalisation seem to be more patient than their Northern Hemisphere counterparts. They will need to be! Nevertheless as a group, the foreign banks will be a totally insignificant force in the future.

Did the foreign banks serve a purpose? There is little doubt that they served their role as stimulants to competition, but now that most have fallen by the wayside, it is apparent that there is a danger of the oligopoly increasing its power. This is well illustrated by the posturing by NAB for control of the ANZ prior to the last election and the Treasurer's disapproval of this idea. What the Treasurer seems to have indicated in that matter is that he wants the big 4 incumbents to remain intact. While his dilemma is understandable, it does have the undesirable consequence of taking away the discipline posed by the threat of takeover from a competitor. Banks are already protected by the Bank Shareholders Act and for the big 4 to be immune from takeover really puts them into a privileged class again with some similarity to

the pre-deregulation period.

I believe that the foreign bank era is now over, the main hope for competition for the banking oligopoly is competition from the insurance oligopoly. This comes from the fact that banks and insurance companies are able to compete in each other's backyards.

To me this sort of green fields cross competition is the best way to handle the fact that for better or worse, we are stuck with two powerful oligopolies in the financial sector. This competition has worked well, so well that members of each oligopoly seem to have decided to bury the hatchet and combine. Thus the NM/ANZ merger proposal. To me this is hardly conducive to competition and efficiency. I believe it would be far better for both oligopolies to be encouraged to compete against each other via competition; that reflects green fields internal growth rather than anti-competition purchases of market share in each other's patch.

So it seems to me that deregulation and competition have well and truly passed the peaks of their influence. We still have four very powerful, but admittedly much more efficient, incumbent banks plus ominous signs of anti-competitive behaviour between our banking and insurance oligopolies. I believe that these trends pose major policy issues. ■

ROBERT A. FERGUSON is with Bankers Trust Australia Limited. This article appeared in the "Economic Papers" published by the Economic Society of Australia in the September 1990 issue.
