

1991: A Report on Housing Finance, Worldwide

It is a pleasure to address this Committee again. At its last meeting in Bangkok in September 1990 my report presented a broad overview of global trends in housing finance development, and I pointed out that the world was still in a remarkable period of transformation and economic restructuring with major impacts on systems of housing finance. This situation continues, accentuated by the realities of economic recession in some countries together with a grim shortage of global capital for international investment.

Thrift institutions in several industrialized countries have suffered the pains of outrageous fortune together with other key components of the financial services industry involved in housing and real estate, and there continue to be mergers, consolidations, takeovers and bankruptcies. In the United States, the real estate market is estimated to fully recover in 2 to 5 years.

Financial regulators seek to rationalize or reduce the costs to be borne by the taxpayer. In the United States, for example, they are studying the imposition of limitations to certain fiscal incentives, which primarily benefit high income households.

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 XIXth World Congress held in Hamburg, Germany in September 1991.

To the basic question as to whether specialized institutions for saving and housing finance are still necessary or even viable, there will be many different responses. Two of the traditional historic models, the Building Societies of the UK and the Bausparkasse of Germany apparently continue to do well in execution of their basic missions and concepts, having undergone considerable modification, modernization and continuing consolidation. They are prepared to meet the challenges of a more unified European economic setting, and with the Bausparkassen providing capital, to assist with absorption and reconstruction of Eastern Germany.

In the United States, on the other hand, the so called thrifts, the traditional savings and loans institutions, while not yet in the category of endangered species have dwindled in the number that are considered well-capitalized. The amount of mortgage loans they hold has dropped from 55% to 25%. The development of market driven systems has been encouraged in Canada, in view of a more competitive environment and the removal of regulations which provides the link between the mortgage sector and the overall capital market.

In some other countries, thrift institutions and commercial banks have tended to become more homogenized. In South Africa the Deposit-taking Act of January this year repealed the existing separatist legislation and consolidated control of the activities of banks and building societies under one Act. As a result of these developments, a strong Association of Mort-

gage Lenders has been created, absorbing the former Association of Building Societies.

If we look at the generalized situation of housing finance in developing countries we also see widely different trends. In the Caribbean, for example, the established building societies continue to do well. The Building Societies Association of Jamaica reports that total assets rose by 30 % in 1990 and new savings showed an increase of 53%. Thrift institutions continue to grow rapidly in Colombia, Venezuela, Bolivia, Ecuador, Costa Rica and Chile, including housing co-operatives. In Mexico reforms have freed the banks from state control and considerable increases in housing investment have been fostered in innovative ways. After the recent financial reformulation in Colombia, compulsory operations were reduced and credit operations became more flexible and diversified. It also made possible the creation of the secondary mortgage market. In Venezuela the national savings and loan system is benefitting from the new law on Housing Policy which provides for the administration of compulsory savings and financing through 20 Associations which, combined, have 3.4 million savers.

In the African region, there is also a decidedly mixed picture regarding the mobilization of savings and investments in housing. Starting from government initiatives towards economic deregulation and liberalization, Egypt began a successful experience of operational diversification. Zimbabwe remains one of the few countries where there has been effective co-operation between the government and

an active building societies movement to assist with the provision of shelter, housing and infrastructure for lower income groups. The Housing Finance Development Corporation and the East African Building Society of Kenya continue to grow and diversify with aggressive and innovative promotional activities for greater savings and investments. Many other countries are now requesting assistance for establishment of institutions for saving and housing finance, such as in the former Portuguese colonies, including Angola and Mozambique.

In the Asia-Pacific context we can see in countries like Japan and Korea a strong trend toward deregulation and improvement of private sector performance. This is the result of a more competitive environment in the region with increasing emphasis on market oriented housing finance system development largely administered by private sector institutions. China also continues with its steady program of housing and urban sector reform which endeavors to liberalize a heavily subsidized system of housing production and management, and in various cities it is encouraging and promoting private home ownership. Sri Lanka is engaging in a new spurt of promotion of shelter production through private associations, having substantially achieved all its original ambitious targets for housing production. The housing banks of Thailand and Korea continue with large scale programs for housing and encouragement of home ownership.

In the countries of West Asia and Middle East there are vast needs for reconstruction, for re-housing and for resettlement of exiles, refugees and victims of man-made and natural disasters and catastrophes. The processes of world urbanization will surely exert increasing pressures for investment in infrastructure and shelter with an anticipated 600 million residing in urban areas in the present decade. Urban development and finance will emerge as major issues in the 1990s if cities are to

become more efficient and well-managed engines of economic growth while at the same time ensuring that such production is environmentally sustainable and that people everywhere are able to live and work in healthy environments.

In some developing countries there is a search for new role models and systems to provide greater accommodation for new and changing circumstances, to offer more flexibility and to expand the opportunities for the mobilization of resources to meet the growing needs for shelter, housing and community improvement. This is particularly true in Latin America, where housing finance systems were seriously affected in the 1980's by state financial crises and inflationary economies. Deregulation and diversification are irreversible. In this context, the following considerations are important:

- Traditional savings deposits are limited and new instruments are essential for mobilizing housing finance to diversify investment possibilities. We need an integrated real estate financing system with investments from both internal (real estate funds, consortia and debentures) and external resources (including debt conversion possibilities). Such a system would provide financing for commercial, industrial and infrastructure projects as well as for investment in rental housing and improvement of existing housing stock.
- The setting up of financial plans with amortization and readjustment schedules compatible with the origin of funds and adequate to the paying capacity of borrowers. The condition of full return of the mortgage loans can only be satisfied by the adoption of indexation mechanisms, especially in those countries that apply fixed interest rates to their operations.

- The above mentioned reinforces the need to treat the social and the market segments separately by channeling public budgetary funds as subsidies to low income families. Any subsidies, however, should be granted in an explicit and direct fashion with the adoption of transparent and unbiased selection mechanisms.
- Development of mortgage instruments suitable for the improvement of an active secondary market and capable of involving typical institutional investors, such as insurance companies, pension funds and foundations, thus significantly fostering real estate financing activities.
- Encouragement for the creation of bodies specializing in managing mortgage credits; these credits might be granted or acquired by them with funds of their own or obtained on the secondary market. In Chile these bodies have been instituted in association with the insurance companies.

With this quick survey at the horizons, or rather, at the tip of the iceberg of the many facets of the world scene today it seems to me that members of the International Union must now, more than ever, adopt pragmatic "businesslike" directions for their strategic development. These will, of course, be closely related to the macroeconomic policies of the countries where they operate and particularly to the role of governments as facilitators for housing and urban development. Integrating housing finance into the financial systems of developing countries will be a key issue. To refer to my own country, Brazil, you will recall my optimism last year that state intervention is being reduced and privatization is being encouraged with the hope of establishing a more open and integrated market economy.

Progress has been made in conceptualiz-

ing the requirements for a new real estate finance system in Brazil. But my conviction is that in Brazil, and perhaps in some other countries, the large conglomerate of multiple banks or "Uni-Banks" and the Savings and Loans or Mutual Institutions reformulated to operate as mortgage banks are equipped and capable of providing the integrated and complex services needed for the implementation of the reforms I have described above. Our immediate goal, therefore, is to convince the government that a public-private sector "business" strategy for mobilizing new resources for integrated real estate financing and investment is essential and that this will prove to be an important area for accelerating development throughout the country.

For many developing countries it is clear that specialized housing finance institutions for mobilizing savings and promoting investments in housing and community infrastructure are essential instruments for providing for the growth that lies ahead. Since 1950, the world's urban population has grown from under 300 million to 1.3 billion persons, but there is a continuing annual growth of 4%, adding 45 to 50 million persons a year. Moreover, in 1988, some 330 million urban residents lived in poverty and their numbers are also increasing. In such circumstances, there is a need to promote methods which would encourage the use of micro-lending and credit for small scale improvement and entrepreneurship working closely with community-based organizations. There are now many successful examples of such programs which are, after all, specialized efforts to provide for modest financing the credit requirements of households which are outside the scope of more standardized mortgage systems of the formal sector. These micro-lending programs are destined to expand rapidly in the years ahead. They help people to help themselves, the repayment rates are generally high and they should be assisted by formal sector financing institutions at national, regional and interna-

tional levels.

Formal sector specialized housing finance institutions will have important roles in many developing countries but they take different names and organizational forms from those of the traditional building society or savings bank-*bausparkasse* systems. They may be housing banks, housing finance development corporations, housing and habitat foundations, savings and development corporations, housing cooperatives of various types, etc. Their essential functions will remain, of organizing and promoting savings plans and systems and directing investment for the financing of mortgages and community infrastructure. Most will have open systems for their clients and depositors; others will increasingly promote contractual "closed" or self-contained savings systems to enable mortgage loans for their savers and clients on affordable terms. In the large countries, and as national economies become more complex and sophisticated and participate in the economic and financial globalization process, there will be need and opportunity for expansion and integration of financial mobilization and integration techniques involving the capital markets and specialized instruments for investing institutions. In countries undergoing economic reform and restructuring, the use of large multipurpose banking institutions may have considerable advantages.

Before concluding, let me comment briefly about the growing concern and preoccupation of the international community with the development of new strategies and agendas to help more countries with their problems of providing shelter for the homeless and responding to the challenges of rapid urbanization.

At the session of the UN Commission on Human Settlements meeting in Harare, Zimbabwe in May this year, the Commis-

sion reviewed the faltering progress of many countries in their endeavors to comply with the *Global Strategy for Shelter for All by the Year 2000* adopted by the UN General Assembly in 1988. It was and is apparent that the numbers of the homeless and those without adequate shelter have increased considerably during the period to date, notwithstanding the "Strategy". As no substantial additive funding for this Strategy has been made available, the problems are likely to grow worse in the remaining years of the decade. The Commission did review several papers dealing with the environmental aspects of human settlements development, and recommended to the Secretariat of the 1992 UN Conference (UNCED) that this subject be placed before the preparatory committee for serious consideration. The Commission has also recommended to the UN General Assembly that there be convened a second international Conference on Habitat, to be held in 1997, 21 years following the first one held in Vancouver in 1976. The International Union is monitoring these events and activities so as to keep its members informed of current developments.

The World Bank has developed an important new policy report entitled "Urban Policy and Economic Development—An Agenda for the 1990's". This report focusses on the importance of cities in economic development and proposes measures for improving urban management and research. It indicates that urban lending is expected to grow significantly during the FY 91 to FY93 period. In fiscal 1990, 16 urban projects for a total lending amount of about US\$1 billion were approved by the Bank, representing 4.8 per cent of all Bank lending. The mainstream of the Bank's interventions in the housing sector has shifted emphasis from direct provision of housing to improving the financial delivery mechanisms for housing. Housing finance in FY90 was a strong subsector in dollar amount, accounting for US\$447 million or 45 % of the Fiscal Year lending amount. However, the geo-

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graphic impact was decidedly limited as two of the three housing finance operations were repeater projects in Mexico and Morocco.

The United Nations Development Programme which is the major funding organization for agencies in the UN system, including UNCHS (Habitat) and many others, has also developed a new policy report entitled "*The Challenge of Urbanization: UNDP Urban Development Assistance Strategy for the 1990's*". This report provides a critical overview of international assistance for housing and urban development, including the role of the UNDP itself.

The UNDP report urges that for future assistance to be more effective, it should be directed through a five year program approach in which goals and targets for all international aid can be established and monitored. For the housing and shelter sector the UNDP will encourage and expand the role of the private sector and Non Governmental Organizations (NGO's). There will be continuing attention to urban management improvement. But the UNDP also points to the importance of housing finance and the mobilization of household savings in the economy. It states that the

impact of housing finance programmes depends, in turn, on the quality and effectiveness of local institutions responsible for planning and implementing shelter projects. In effect the UNDP has passed the ball into the court of the members of the International Union.

The third international direction for improvement of shelter, housing and human settlements will be derived from the *UN Conference on Environment and Development*, to be held in Brazil in June 1992. The recognition of the environmental importance of this sector is a step forward but there is much to do before significant and practical recommendations achieve widespread acceptance at the international level. By the time of the next meeting of this Committee some of the matters mentioned in this report will be ready for further review and discussion.

I would like to thank the delegates from United States, Canada, Austria, Egypt, Japan, Korea, India, Colombia, Jamaica and Venezuela, for the valuable data on recent developments in housing finance in their countries. ■