Housing Policy and Housing Research: The View from the World Bank

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HOUSING policy at the World Bank has undergone a continuous evolution during the 20 or so years that the Bank has been involved in lending within the housing sector. During that time, the degree of involvement of the Bank in attempting to influence the housing policies of governments in the developing world has grown steadily. Bank lending for housing and related residential infrastructure has, for example, made up some 10 percent of the Bank's annual lending within the past several years - some $2 billion annually. Within the next several months the Bank will be issuing a new policy paper on housing entitled *Housing: Enabling Markets to Work,* the first in more than a decade. This paper is a summary of some of the important messages that will appear in the forthcoming paper. At the same time, it is intended to convey a strong sense of the role of housing research and evaluation at the Bank, and of how research and evaluation has shaped, and continues to shape, housing policy. Finally, it tries to identify some of the key priorities for continuing research necessary to improve the process of policy formulation and implementation.

The Policy Context

The Bank's forthcoming policy paper on housing articulates the emerging role of the World Bank in the housing sector, and provides a new agenda for policy and institutional reform of the housing sector in developing countries. This new agenda fits within the broader urban agenda outlined in the recent Bank urban policy paper entitled *Urban Policy and Economic Development: An Agenda for the 1990s,* and updates earlier housing policy papers issued in 1975 and 1980.

The Urban Policy Paper outlines a strategy designed to implement Bank urban operations at a city-wide level and at a scale necessary to influence the broad policies and the institutions that govern the performance of the urban economy and, in doing so, to address broader objectives of economic development and macroeconomic performance. A major theme of the paper is the need to leverage scarce public resources in a way that unlocks the energies of all of the actors in the urban economy — households, community organizations, and businesses. The new directions for policy set out in the Urban Policy Paper encompass four major areas:

(a) the need to focus on improving the **productivity** of the urban economy and to relieve constraints which cause productivity to lag,

(b) the need to address growing problems of urban **poverty**, in part by improving access to basic infrastructure and social services,

(c) the need to reverse the deterioration of the urban **environment**, and,

(d) the need to improve **understanding** of urban issues through research and evaluation.

The principal objectives for a new and better urban policy are also those for a new and better housing policy, as are the principal features of the strategy designed to achieve them - focusing on policies and institutions rather than on isolated projects, and attempting to leverage public resources in a way that enables and facilitates the productive activities of the many and diverse actors in the urban economy. Just as the *Urban Policy Paper* emphasizes the necessity of moving beyond a view of cities as vast seas of social problems and a drain on the overall economy toward one of cities as vital contributors to overall economic performance, this paper suggests that perceptions of the housing sector must undergo a similar shift. The key problem in housing policy must be seen as one of managing an important economic sector, with crucial links to overall economic performance, rather than, as is a common view, simply producing dwellings as a component of the social welfare system. These links, through the real, fiscal, and financial circuits of the economy are becoming increasingly well understood. As these become more transparent, the stakes of good housing policy become more and more evident.

At the same time, more is becoming known about the performance of housing markets and of their component parts — land, building materials, residential construction, and finance. This knowledge of how markets work, and of how they fail, provides the path to a powerful set of levers that can be used by governments to define an appropriate set of policies, institutions, and interventions to improve the performance of the housing sector and to allow the sector to best serve broader economic and social development objectives.

Housing as an Economic Sector

The Bank's *Urban Policy Paper* highlights the importance of the urban sector in the economies of developing countries, where urban-based economic activities typically account for more than half of the Gross National Product (GNP) in most countries. The housing sector is one of the key components of the urban economy, where the bulk of housing investment takes place. Housing investment typically comprises 2 to 8 percent of GNP and from 10 to 30 percent of gross capital formation in developing countries. Housing as an investment provides a flow of services equal to another 5 to 10 percent of GNP. Combining housing investment and housing services, the share of GNP originating in the sector is usually between about 6 and 15 percent. As an asset, housing is even more important, making up from 20 to 50 percent of the reproducible wealth (e.g., most wealth other than natural resources, including residential and non-residential real estate, industrial plants and equipment, etc.) in most countries. It also serves as both a major motivation for household saving and a significant influence on household consumption. In addition, it directly or indirectly affects inflation, financial depth, labor mobility, and the balance of payments, as well as affecting government budgets through taxes and subsidies.

The housing sector is thus a key economic sector, and must therefore be perceived and managed as an integral part of overall economic management. Unfortunately, in the great majority of developing countries, this perception has yet to take hold. Housing is too often perceived by governments solely as a welfare issue, requiring the transfer of physical or financial resources to low income households unable to house themselves adequately. Available resources, however, are rarely adequate. As a result, government housing agencies limit their activities to direct housing provision to a small minority of potential beneficiaries, ignoring the interests of most of the population. By focusing on a small and limited housing agenda, these agencies fail either to perceive or manage the housing sector as a whole.

The first necessary step toward changing both government and Bank housing sector activities in the years to come requires changing two perceptions: first, from perceiving the housing agenda as one of providing shelter per se, or as an element of welfare policy, toward perceiving a broader agenda of guiding and managing the housing sector as a whole; and second, toward viewing the housing sector as an important and productive sector, where policies have serious repercussions for overall economic performance, and not, as is a common view, as a sector which is a drain on productive resources.

The Demographic Dimension of the Housing Challenge

The production of housing continues to be one of the most important economic activities accompanying the process of urbanization. Since 1950, the urban population of the developing countries has more than quadrupled, growing from 300 million to 1.3 billion people in 1990. Two billion people are expected to be living in urban areas by the end of the decade, 2.7 billion by 2010, and 3.5 billion by 2020. Each year, some 12 to 15 million new households, requiring an equivalent number of dwellings, are added to the cities of the developing world.

Urban growth patterns vary significantly between continents. In the heavily urbanized countries of Latin America, where more than 75 percent of the population already lives in urban areas, urban growth rates will continue to decrease, and most urban growth will be attributable to natural increase rather than to migration. In these countries, growth rates will be on the order of 2 percent per annum. In recently urbanizing countries of North Africa and Southeast Asia, where approximately half the population lives in urban areas, growth rates will have peaked and are likely to slow down, reaching 3-4 percent per annum. In the larger, mostly rural Asian countries, such as India and Indonesia, migration pressures will tend to maintain urban growth rates at 3-4 percent as well. In the rapidly urbanizing countries of sub-Saharan Africa, however, urban growth rates will continue to be on the order of 4-7 percent per annum. Many cities will double or even triple their populations in the short span of 10 to 20 years.

Of the people swelling the ranks of urban dwellers, many of them will be poor, presenting a special challenge to those responsible for ensuring that housing and public services are adequately provided. In 1988, nearly 25 percent of developing country urban dwellers were estimated to be poor - some 330 million people. And despite the generally good record of urban income growth that accompanies economic development, it is not expected that the proportion of urban families which are poor will change appreciably within the next two decades. Many of these families will be housed in slum and squatter settlements, the visibility and problems of which will exert continuing pressure on governments to come up with creative solutions to the special housing problems of the poor.

At the same time urban population growth will place severe strains on the quality of the urban environment. Water resources will be taxed, inadequate waste disposal will cause environmental health problems, and open spaces will be under severe pressure for commercial and residential development. As in the case of the housing conditions of the urban poor, the visibility and increasing seriousness of urban environmental problems will put pressure on governments to make difficult choices among competing objectives.

The High Stakes of Housing Policy

The economic and demographic importance of the housing sector suggests that the stakes of good housing policy are high, with direct implications for the performance of the housing sector. The performance of the housing sector, its impact on the urban poor, and its contribution to economic development vary considerably even among countries with similar levels of economic development. Housing conditions are not simply a reflection of poverty; housing policies matter. When housing policies are appropriate, the process of economic development and the increasing incomes associated with it, create a productive and responsive housing sector which benefits all of its participants. When housing markets fail to work well, however, they sometimes fail spectacularly, and it is the poor that bear the brunt of that failure. There are vast differences in the efficiency and responsiveness of the housing supply system in different countries. In some, housing supply responds quickly and flexibly to changes in demand, in others, it hardly responds at all. Differences in housing supply systems affect housing affordability, quality and investment, as well as the quality of the residential environment.

Moreover, dysfunctional housing supply systems tend to produce their own pathology of policy responses—rent control, slum clearance, public provision of heavily subsidized housing, price controls, below-market interest rates for housing loans, and a host of other policies - to deal with the symptoms of the original policy failures. These, in turn, further distort markets, generally resulting in large benefits for a lucky few and widespread costs for everyone else, and affect investments in other sectors, savings rates, budgetary deficits, inflation, interest rates, labor markets, productivity, and even the balance of payments. Both the poor and the economy as a whole are major losers when the housing sector fails. In the United States, for example, the failures of the savings and loan industry are likely to impose costs on American taxpayers of some $300 billion. In Argentina, the system of housing finance and subsidies has been referred to by some as an "automatic fiscal destabilizer", responsible for some 25 percent of the country's sometimes staggering rate of inflation. In some Eastern European countries, systematic neglect of the housing sector has resulted in pervasive housing shortages that not only disappoint the wishes of households, but have profoundly disruptive effects on the performance of labor markets and the development of the financial sector. And in a number of countries, stringent regulation of housing supply through land use, building codes, and rent control has not only significantly raised housing prices but has disrupted patterns of savings and investment throughout the economy.

The more we know about how such failures occur, the greater the confidence we can have in being able to intervene effectively, and the easier it is to create and sustain a well-functioning housing sector.

The Well-Functioning Housing Sector

It is useful to look at the performance of the sector from a number of different perspectives. The most important are those of the five key actors in the sector—housing consumers, housing producers, housing finance institutions, local governments, and central governments, each of which has different interests. Consumers seek adequate housing that does not take up an undue portion of household income. They seek good locations and amenities, secure tenure, access to housing finance and a degree of mobility and choice. Housing producers require an adequate supply of residential land, infrastructure networks, building materials and equipment. They seek easy entry into the sector, plentiful skilled labor, adequate financing, and reasonable regulations. Housing finance institutions wish to compete for deposits on equal terms with other financial institutions, to avoid subsidies through the financial system, to lend at positive interest rates, and to be protected by adequate foreclosure laws. Local governments want to ensure that housing and associated infrastructure are of adequate quality to ensure that public health, safety standards and environmental quality are maintained. Central governments want to ensure that adequate, affordable housing is available to all, that targeted subsidies are available to assist households who cannot afford minimum housing, and that housing sector policy is integrated into national social and economic planning.

The housing sector cannot attain many of the norms listed above without appropriate policies and appropriate interventions by public authorities in housing markets. Yet many housing "solutions" of the past several decades have proven ineffective or worse, particularly when governments have tried to produce housing directly. A new view of government's role has begun to emerge — one that stresses government's role as a facilitator or enabler of the vast, but often untapped, energies of the private sector.

The Enabling Approach to Housing Policy

This enabling approach to housing policy is the cornerstone of the *Global Shelter Strategy to the Year 2000*, adopted by the United Nations General Assembly in 1988. The Bank's forthcoming housing policy paper moves the Global Shelter Strategy forward in two important ways. First, it presents a set of key insights on the linkages between economic conditions and policies affecting housing demand and supply, their linkages to housing outcomes, and the linkages between the housing sector and the overall economy. By focusing on these key linkages, governments can see the potential effects of various enabling strategies, and focus their interventions on factors affecting demand and supply, rather than on direct interventions to determine housing outcomes. The paper also moves the enabling strategy closer to being operational by elaborating on seven key components of an enabling housing policy which can be applied by governments and by the Bank to address housing problems in practical ways.

Understanding How the Housing Sector Works

A key aspect of making enabling strategies a practical reality rather than a rhetorical device requires understanding of how housing markets work, and applying that knowledge in ways that can effectively leverage limited public resources to create a well-functioning housing sector. Within the past two decades, a good deal of information has emerged concerning how markets work, with direct implications for the formulation and implementation of housing policy.

Regularities in Housing Demand: The most striking finding concerning housing demand is its regularity across countries. Low-income households typically allocate greater fractions of their income toward housing than do better off households. However, as economic development proceeds, the average fraction of income spent on housing by households in countries at different levels of economic development increases from about 5 percent to about 35 percent, before beginning to decrease again. This occurs because of increased priorities given to housing within the household budget as incomes increase and food is less of a problem. Studies suggest that the rate of population increase is the main determinant of the quantity of housing demanded and that levels of national income do not appear to influence it to an appreciable degree. The three other major factors influencing demand are tenure security and property rights, the availability of housing finance and in some cases taxes and subsidies.

Factors Affecting Housing Supply: Unlike housing demand, housing supply responsiveness is highly idiosyncratic between countries and has the greatest scope for reform. This responsiveness is strongly influenced by public sector action in the provision of infrastructure, the organization of the building industry, and the regulation of the housing sector. The responsiveness of housing supply affects its ability to act as a counter-cyclical tool. In Chile, for example, a flexible housing supply system helped the housing sector to pull the economy out of a deep recession, while in Malaysia the effects of a rigid supply system and a delayed supply response frustrated the attempt by the government to stimulate the economy.

Nothing influences the efficiency and responsiveness of housing supply more than the legal and regulatory framework within which housing suppliers operate. In Peru, for example, it takes almost seven years from project inception to occupation of the units in new developments. Estimates of housing supply in Thailand, where regulation is simple and efficient, suggest it is more than 30 times as responsive to shifts in demand as is the case in either Korea or Malaysia, where regulation is complicated and cumbersome. These differences are reflected in striking differences in average house price to income ratios among the three countries.

Explaining Variations in Housing Outcomes: A strong negative correlation exists between crowding and the incidence of slums and squatter settlements, on the one hand, and per capita income on the other. Many of the countries with higher than expected levels of crowding, however, are found to have particularly rigid housing policy environments. These policies constrain the supply of housing to an unusual degree, leading to higher housing prices. Korea, for example, which has a particularly rigid regulatory environment, has a far higher degree of crowding in its housing stock than would be expected on the basis of its per capita income alone. Many African cities are found to have levels of urban slums and squatter housing that are disproportionately high for their levels of per capita income for the same reason.

The differences between the house price-to-income ratios in the developed and the developing countries are striking. When we compare the centrally planned economies to either of the other groups the differences are even wider. In the developed countries, the median ratio of house price-to-income is equal to 3.9, while the median for developing countries is 5.5. Preliminary investigations suggest that centrally planned economies have the most expensive housing (measured in terms of its sale price) relative to household incomes. The lowest estimated range of house price-to-income ratios is in the Soviet Union (7-10) and the highest is in China (15-25). One recent analysis concluded that as the degree of overall price distortion in the economy increases, so too does the house price-to-income ratio.

Housing and the Macro-Economy: The housing sector is connected to the broader economy through the real, fiscal, and financial sides of the economy. Real effects of the housing sector include those that are associated with investment, output, employment and prices. Financial effects are associated with the financing of housing and related residential infrastructure, and which work through financial intermediaries. Fiscal effects are mostly associated with housing subsidies. Studies show that each dollar invested in the housing sector gives rise to about two dollars of additional economic activity in other sectors. Similarly, employment in the residential construction industry, which comprises from one to three percent of the economically active population in developing countries, is associated with employment in other industries in about the same ratio: one additional job in residential construction gives rise to about two other jobs.

It appears that the relative importance of residential mortgage loans in the portfolios of the financial system grows from next to nothing to more than 25 percent at moderate levels of economic development, and up to 40 percent in developed countries. Housing subsidies sometimes constitute a significant portion of government expenditures, and may lead to budget deficits and to considerable inflationary pressure. On-budget housing subsidies have been a particularly prominent feature in centrally planned economies such as Poland, where, in the late 1980s, housing subsidies comprised some 34 percent of all government budgetary subsidies, 13 percent of the government budget and about 3 percent of GNP.

Housing and Poverty: A productive, responsive shelter sector is often highly efficient at providing shelter to the poor, resulting in low cost burdens and better quality housing. Public housing and price controls, on the other hand, appear to actually lower the amount of low cost housing in the long run by driving private producers from the lower end of the market. Many other housing policies such as those having to do with land use and building regulation, housing finance, and infrastructure provision exclude and discriminate against the poor, raising housing prices and lowering quality. Subsidy systems in most developing countries, including centrally planned economies, are generally poorly targeted and often highly regressive. There is considerable scope in almost all developing countries for improving policies focussed on improving the housing conditions of the poor, both in terms of improving the ability of the marketplace to provide more, better, and less expensive housing for the poor and to improve the effectiveness of subsidy systems necessary to complement the supply system.

Seven Operational Instruments of Housing Policy

Markets for housing which are left to themselves can go a considerable way toward providing for the housing needs of society, but they do not always do so effectively. Housing demand may languish because there are no effective institutions for creating and preserving private property rights, no effective system for recording ownership, and no system for providing stable long-term sources of housing finance. Housing supply may be costly and unresponsive to demand as a result of underinvestment in trunk infrastructure or because of the existence of monopolies which control the availability of land, building materials, or residential construction. Each of these types of failures is usually at the particular expense of the poor. And expansion of the stock of housing may be at the expense of the environment, impinging on environmentally sensitive areas, using land wastefully, and creating severe urban pollution and waste disposal problems.

Dealing with these sorts of market failures creates a legitimate role, even an obligation, on the part of governments to undertake actions to ensure that the housing sector functions well. Eliminating or mitigating the effects of these market failures represents a key feature of government's enabling role in the housing sector. This role is one of dealing with the causes of many urban housing problems. At the same time governments have an obligation to avoid intervening in ways that disrupt markets. This is an obligation to avoid dealing with the symptoms, a mode of intervention that is frequently counterproductive.

Governments can enable markets to work and the housing sector to function well by focusing on seven operational instruments: three to stimulate housing demand, three to facilitate the process of housing supply, and one to create an overall institutional framework for managing the housing sector as a whole, and for ensuring adequate access to housing by the poor.

(1) **The development of mortgage finance:** Development of mortgage lending must go hand in hand with overall financial sector development. Financial policies should permit housing finance institutions to borrow and lend at positive real interest rates, and on equal terms with other institutions. Competition should be encouraged, to improve the efficiency of financial intermediation. Mortgage instrument designs should permit the interests of both borrowers and lenders to be realized through appropriate terms, especially indexing provisions. Collateral security should be fostered by well-designed and enforced systems of titling and foreclosure. Innovative institutional arrangements for providing greater access to housing finance by the poor, such as mutual guarantees and flexible payment schedules should be encouraged.

(2) **The targeting of subsidies:** Governments should see subsidies as either transitional or as a last resort in addressing the needs of the disadvantaged; governments should first try other methods for improving access to housing and its affordability such as regularizing insecure tenure, improving access to market-rate

housing finance, or improving the functioning of housing supply markets to reduce housing prices. If subsidies are thought to be necessary they must be well-targeted, measurable and transparent, and should avoid distorting housing markets and the financial system. One-time capital grants and housing allowances are usually more appropriate than are rent control and production subsidies. Subsidies may sometimes be considered as part of a package of countercyclical stimulus, but only under very special conditions.

(3) **Property rights development:** Systems of private, tradeable, and enforceable property rights should be developed. Programs of land registration and regularization of insecure tenure should be undertaken. Whenever possible, programs for regularizing tenure should go hand-in-hand with infrastructure improvement programs in slum and squatter settlements, and should seek to recover costs. Governments should seek to transfer publicly-owned housing to residents, and should seek opportunities to involve the private sector in the administration and maintenance of public housing.

(4) **The provision of infrastructure for residential land development:** The diverse agencies responsible for provision of residential infrastructure (roads, drainage, water, sewerage, and electricity) should focus less on their own physical objectives and more on opening up urban land for residential development. This will involve greater coordination in planning and possibly joint acquisition of rights-of-way, joint financing, and joint cost recovery. Central and regional governments should focus on provision of trunk infrastructure, with responsibility for secondary and tertiary networks left to local governments and private enterprises. Infrastructure planning should devote greater attention to the demand for infrastructure than is now the case. Cost recovery mechanisms need to be improved. Opportunities for privatizing infrastructure provision and maintenance should be sought.

(5) **The regulation of land and housing development:** Regulatory environments need to be established which provide an appropriate balance between the costs and the benefits of major regulations that influence urban land and housing markets, especially land use and building regulations. To accomplish this, regulatory audits need to be conducted to identify key urban regulations; to establish their impacts on housing demand, supply, and prices; and to establish priorities for regulatory reform. Consideration should be given to establishing alternative, affordable standards for land use, infrastructure, and building. Financial regulations must be established which facilitate rather than hinder development of financial institutions capable of mortgage lending.

(6) **The organization of the building industry:** Governments should seek to create greater competition in the building industry (including both building materials and residential construction), by eliminating regulatory barriers to entry into the industry, breaking up public and private monopolies, facilitating equal access of small firms to markets and inputs, and reducing trade barriers which apply to housing inputs. In some cases, governments should support the development of building research institutions, and facilitate training of residential construction sector workers and management.

(7) **The institutional framework for managing the housing sector:** New institutional frameworks should be devised which are capable of managing the housing sector as a whole. Ways of measuring the performance of the housing sector must be found, and systems for monitoring sectoral performance over time must be established. National strategies for the housing sector should be based on information about housing sector performance and about the relationship between policies and outcomes. There should be greater co-ordination of housing sector and macroeconomic policies; housing policies should be formulated on the basis of housing's broader economic and social impacts, and macroeconomic policy should be based in part on its likely impacts on the housing sector. Policies and programs for addressing the needs of the poor through all of the six other areas for intervention should be better focused and co-ordinated among responsible agencies.

Typology of Policy Packages: These recommendations concerning policies should receive different emphasis in different types of countries. In lower-income countries, particular emphasis should be given to facilitating the housing supply response by increasing the level of infrastructure investment, rationalizing land and building regulations, and enhancing building industry competition. In highly indebted middle-income countries, key priorities for housing reform involve areas of fiscal and financial policy, particularly improving the financial soundness of housing finance institutions, and reducing explicit and implicit transfers to the housing sector. In centrally-planned and formerly centrally-planned countries, the policies and institutions across the housing sector need reform; including reform of housing finance, subsidies, property rights, land and building regulations, and the reorganization of the land development, materials production and distribution, and building construction systems. Other middle-income countries facing dysfunctional housing supply systems should focus on regulatory reform, especially in the areas of land use and building, in order to facilitate a transition to more flexible and responsive systems of housing supply.

The Emerging Role of the World Bank as Enabler

The Experience of the World Bank in the Housing Sector: The World Bank entered the housing sector in 1972 with the first sites-and-services project in Senegal. This project signalled the first fundamental shift in housing policy in the post-war years, the shift from total public housing provision to public assistance in private housing construction. During the 1972-1990 period, the Bank was involved in 116 sites-and-services projects in 55 countries with an average size of US$26 million. Twenty years of sites-and-services and complementary slum upgrading projects represent significant improvement in public housing policies in the developing world. While these projects achieved an important objective - (1) demonstrating that the physical provision of low-cost infrastructure and units is possible - they generally failed to meet two other key objectives: (2) cost recovery from beneficiaries resulting in the elimination of public subsidies; and (3) replicability of such projects by the private sector. A significant second shift in policy and practice within the housing sector at the Bank took place during the early 1980s as lending moved away from sites-and-services and upgrading projects into lending to housing finance institutions. The newest generation of housing loans - including one extended to Korea and another being prepared in Mexico - are moving beyond housing finance to focus more acutely on the performance of the housing sector as a whole.

As an indirect consequence of this shifting lending strategy - and without a conscious Bank decision - Bank housing loans during the last decade have become bigger and have been made to relatively better-off countries. The average housing loan size went from US$19 million in the 1972-75 period to US$211 million in the 1985-1990 period, while the total value of sites-and services loans dropped from 100 percent of all housing loans in 1972 to less than 5 percent in 1990. In parallel, the per capita income of countries receiving Bank housing loans has more than doubled, in constant dollars, from the 1970s to the 1980s.

During the past two decades of Bank experience in the shelter sector, a number of lessons have been learned. First, slums and squatter settlements have gradually come to be perceived as important housing sub-markets where houses improve over time, rather than as immediate threats to the established order. Increasingly, the housing sector, both formal and informal, is expected to further economic growth, rather than to drain limited public resources. Second, project success has proven largely dependent on the overall distortions in the housing sector and in the economy: unless projects improved the overall regulatory environment, they have had a negligible impact on overall housing conditions. In addition, by focusing on individual projects, government attention has been diverted from regulatory reform and the formation of institutions with enabling, facilitating and co-ordinating roles. The projects typically undertaken - despite a largely successful record of physical implementation - have usually been too small to affect the housing sector as a whole.

It is now critical for the Bank: (1) to link projects more directly to policy, regulatory and institutional reforms, and (2) to target loans to the institutions - including local governments - capable of regulatory and policy reforms. In designing new lending, it is important to note that the shift to housing finance lending may have unintentionally reduced the requisite variety of lending instruments. Given the varied typology of countries requiring housing assistance, the Bank must develop a broader selection of housing sector loans.

Emerging Themes To Guide Lending: These lessons from Bank experience, coupled with the analytical lessons discussed above, suggest four themes to guide future Bank lending in the housing sector. First, Bank lending for housing should have a sectoral, and not a project focus. The Bank should seek to end the isolation of existing housing institutions as marginal channels of public welfare by predicating lending on borrower willingness to take a sectoral and enabling perspective of the housing sector. Bank assistance should be measured and evaluated by its impact on the sector as a whole. Second, the Bank should encourage an enabling role for the public sector. The Bank should seek to redirect borrowers from producing, marketing, financing and maintaining housing by assisting governments in undertaking the seven enabling activities discussed above. Third, the Bank should carefully choose its partners. It needs to focus on identifying appropriate counterpart institutions. Those with regulatory roles merit special attention. The Bank should allocate lending to borrowers which are willing and able to remove the most blatant distortions affecting the performance of the housing sector. Fourth, the Bank should seek to introduce innovative models of lending for housing: many of the instruments necessary to undertake an effective enabling strategy in the housing sector are still in the early stages of development, and require further experimentation. Finally, Bank lending should be based on government commitment to improved collection and analysis of housing data which would allow borrowers and the Bank to develop a common data base for deciding on critical priorities for housing assistance.

Priorities for Lending for Housing: These four themes translate into seven priorities for Bank lending for housing, paralleling the seven main components of the enabling strategy: (1) Mortgage finance: the Bank should seek to develop an active housing finance sector by coupling credit to housing finance institutions with introduction of new financial instruments, loans to reduce serious supply constraints, and improved access to credit for low-income households; (2) Targeted subsidies: as part of major housing sector reforms, the Bank should finance the transition from burdensome and inequitable subsidy programs - including subsidized credit and rent controls - to transparent subsidy instruments targeted more precisely on low-income households; (3) Property rights development: similar to rural sector land reform loans, this type of loan supports land titling. Such loans in the urban sector are an important complement to infrastructure upgrading programs and can support the privatization of public sector housing stocks; (4) Infrastructure for residential land development: the Bank should lend for large-scale integrated infrastructure projects which lead to orderly infrastructure provision and to large increases in residential land supply; for infrastructure upgrading loans for slums and squatter settlements, coupled with the regularization of tenure; and for sites-and-services loans to the private sector, with government in intermediary roles; (5) Building industry: particularly in formerly centrally planned economies, the Bank should lend to help dismantle and restructure large building materials and construction monopolies and should support institutional and regulatory frameworks for new private firms; (6) Regulatory reform: the Bank should lend to improve the legal framework for housing, including, for example, appropriate land subdivision and building standards, building management, and foreclosure and eviction procedures; (7) Policy and institutional reform and sectoral adjustment: the Bank should extend housing sector loans, sectoral adjustment loans or even broader structural adjustment loans premised on carrying out major policy and institutional reforms in the housing sector. These seven categories of loans can be issued for particular projects or programs, or in combination as housing sector loans. This new lending strategy will allow the Bank to act as enabler and to assist countries in implementing the goals and objectives of the *Global Shelter Strategy to the Year 2000.*

Priorities for Technical Assistance: To complement lending, the Bank should assist developing countries through technical assistance to create an enabling framework in four areas: (1) national shelter strategies and infrastructure plans that demonstrate how increased attention to demand side issues can overcome the problems of abstract needs-driven planning; (2) regulatory audits, new institutional arrangements and specific reforms such as rationalization of subsidy systems; (3) new financial instruments and more commercially-oriented housing finance practices; and (4) land market assessments and land registration, valuation, and taxation techniques.

The Housing Research Agenda: The enabling approach presents the Bank with an important research agenda: (1) improvement in the amount and quality of housing sector data — the focus of the joint UNCHS/World Bank Housing Indicators Program; (2) substantive research on the effects of policy differences on land and housing supply, on linkages between housing and the broader economy, and on the political economy of housing policy change; (3) development of practical tools such as regulatory audits, land market assessments, computerized mortgage instruments and urban housing survey packages; and (4) collection and dissemination of best practice information, including appropriate regulations, instruments, cost recovery mechanisms, and low-cost land registration systems.

Conclusion

The stakes of moving toward an enabling approach are high, as recognized in the Bank's *Urban Policy Paper* and by governments through their adoption of the *Global Shelter Strategy to the Year 2000*. Good housing policy results not only in better housing, but in a better economy. Inappropriate policy leads to inadequate housing conditions, underperformance of the housing sector, and a drag on the economy. The World Bank's forthcoming housing policy paper attempts to move the concept of an enabling strategy one step closer to reality by providing an analytical framework for understanding the housing sector and its role in the economy, case studies of the effects of good and bad policies, and a pragmatic set of interventions to assist governments to implement national enabling strategies. The World Bank, through its programs of lending, technical assistance and research, is prepared to help countries design and implement policies which lead to a well-functioning housing sector - one that benefits all citizens, and benefits them well. ■