

Housing Finance for Sustainable Development: A Fannie Mae Roundtable

*Statement to the United Nations Conference on Environment and Development (UNCED)
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STATEMENT OF THE ROUNDTABLE

The Roundtable recognized that over the long term the future sustainability of human settlements' in large part depends on the arrangements for financing of housing and urban infrastructure. The better mobilization and utilization of domestic resources and the development of internal financial markets and institutions must provide the bulk of the resources required for the reversal of environmental degradation of human settlements'.

Fannie Mae hosted a Roundtable on Housing Finance in Washington in February 1992 inviting participants from across the world to contribute to this important debate. The context of the meeting centred around the need to emphasise the importance of shelter finance for housing development especially for the urban poor and the vital environmental consequences of insufficient investments in the sector. The document, as it has emerged, stands on its own and is an excellent summary of the issues facing the international community concerned with shelter issues.

Typically, however, in the developing countries of the world today less than 15 percent of housing construction is financed through formal sector institutions. Therefore, the present situation demands establishment of a financial system designed to link a well-defined and sustainable resource base to appropriate investments through financial institutions.

Institutional Development

Financial institutions should have the following functions:

1. Develop a diversity of methods to mobilize resources, including household savings, through the financial system for housing finance;
2. Make available housing finance for a broad spectrum of the population;
3. Encourage public/private partnerships, including the participation of non-governmental organizations, private voluntary organizations and other

community-based groups, for those segments of the population that cannot be reached through formal private institutions;

4. Design a variety of instruments to address borrowing needs;
5. Provide financial services for the home building industry, including financing of construction and building materials production.

Government Contribution

Governments should assist the development of sustainable housing finance institutions by:

1. Providing a conducive regulatory and fiscal framework for housing finance institutions and effective supervision of the institutions to ensure reasonable standards of safety and security;
2. Using macroeconomic tools to limit

inflation to encourage development of long-term finance;

3. Offering tax or other incentives to enable financial institutions to build up capital and other resources;
4. Encouraging lending to low-income groups by providing incentives to enhance the flow of funds to housing institutions. In countries where long-term funding is not readily available, credit insurance or liquidity facilities may be established;
5. Providing subsidies, if necessary, directly to households if demand-side subsidies are appropriate or to builders if supply-side subsidies are used, rather than arranging subsidized (and thereby distorted) interest rates.

International Development Assistance

Significant progress cannot be made to stem global environmental degradation without increased resources for the development and upgrading of human settlements' and related infrastructure and services. In many developing countries the formal financial mechanisms necessary for this upgrading do not serve the segments of the population that most contributed to and are most affected by environmental degradation. Therefore

targetted assistance from the international community is all the more essential. The international development community now has several key options and opportunities:

1. To assist and encourage governments to design and adopt policies to promote sustainable human settlements development including housing finance as an integral component of such measures;
2. To encourage and fund experimental projects that link formal and informal finance mechanisms;
3. To assist housing finance institutions to serve a greater proportion of the population;
4. To ensure that international development programs include participation by women and targeting to the poor and disadvantaged;
5. For international donors, to cooperate and to coordinate their assistance and to increase their funding for the housing finance sector.

A New Agenda

The international community does not have currently in place an effective and coordinated system for service and funding to help countries mobilize their internal

resources. Thus, the ambitious global strategies and programs set forth by the World Bank, the United Nations Development Programme (UNDP), the United Nations Centre for Human Settlements' (UNCHS or Habitat) and the UNCED Secretary General are not being adequately addressed. New approaches must be established to maximize the use of existing resources and to encourage new investment from households and funding sources for sustainable development, particularly for housing finance and community infrastructure. Adequate finance for housing and infrastructure can result in major environmental improvement and offer jobs and participation for millions of people in thousands of small projects around the world.

The Report of the UNCED Secretary General on Promoting Sustainable Human Settlements' (A/CONF. 151/PC 100/Add.7) offers no cohesive new vision to enlist the support of the many unrepresented constituencies for its major new programs. The Report leaves untouched all the hard-core questions of international organizational structure for effective action in this field. Transformation of the present methods for providing both technical assistance and funding must be achieved if environmental improvement efforts are to be accelerated and sustained.

The Roundtable of Housing Finance and

Sustainable Development recognized that along with the problems there are significant new success stories from both public and private sectors in various countries. There are also examples of effective technology transfer and institutional development among organizations in different countries including the beginnings of modest efforts for cross-country funding and training without international agency intervention. Such concepts as city twinning, delegation to non-government organizations (NGOs) of responsibilities for project and program execution, and much wider use of contracting processes for providing assistance of different types and for institution-building are being recognized. There is considerable potential for the tapping of new funding through certain bilateral programs and voluntary funding efforts by and for NGOs to encourage participation, self-help and community-building efforts, and targeting to meet special needs, such as access of women to finance, credit and technical assistance, and for their incorporation into the development process.

A new Agenda 21 for Human Settlements' should provide for a process for housing finance development including, or parallel to, a process for development of funding for local government infrastructure through specialized institutions such as municipal development banks or other systems. It should also include national and international programs for realistic and

comparative research. These would be assisted by establishment of an Applied Housing Finance Research Center.

It was the sense of the Roundtable that if Agenda 21 is to be catalytic, meaningful and realistic, the considerations regarding housing finance presented at the Roundtable should be taken into account by governments and by the Secretary General of UNCED. The final report of the Secretary General for presentation to the Earth Summit should be further elaborated and should include issues and recommendations regarding housing finance and sustainable development. There will be a need for immediate consultations with the public and private sector groupings who form the real constituency for, and whose lives depend on the sustainable development of human settlements'.

BACKGROUND

The summary report is a product of the Roundtable sponsored by the International Union of Housing Finance Institutions and the Federal National Mortgage Association (Fannie Mae), held in Washington, D.C. February 3 to 5, 1992. Fannie Mae is the USA's largest investor in home mortgages. IUHFI is a worldwide open membership organization serving both public and private institutions engaged in savings mobilization and lending for housing and shelter improvements. The roundtable included representatives of both public and private sector housing finance authorities from fourteen countries: Brazil, China, Czechoslovakia, Dominican Republic, Finland, Germany, Hungary, India, Nigeria, Philippines, Trinidad and Tobago, Turkey and the USA. These people represented leadership in the following organizations: The European Federation of Building Societies, the Inter-American Housing Union (UNIAPRAVI), the Caribbean Association of Housing Finance Institutions (CASHFI), the African Union of Housing Finance Institutions, and the Asian-Pacific Housing Finance Coalition. In addition to representatives of IUHFI and Fannie Mae, the meeting also included participation from the World Bank, International Finance Corporation, the UNDP, the U.S. Agency for International Development (USAID), The United Nations Centre for Human Settlements (Habitat), the US Department of State UNCED Co-ordination Centre, The US Department of Housing and Urban Development, the Co-operative Housing Foundation (CHF) and several universities. A full report of the proceedings will be available at a later date. The Roundtable was convened in response to the decision by UNCED to include human settlements as a distinct program of Agenda 21, the UNCED action plan and to supplement the Report of the Secretary General of the Conference (A/CONF. 151/PC 100/Add. 7) on Promoting Sustainable Human Settlements Development. The International Union and Fannie Mae

sponsored the development of this paper in view of the UNCED Preparatory Committee agreement that:

human settlements' should be addressed as a substantive framework for sustainable development and that other programme areas such as atmosphere, land, coastal areas, fresh water and waste management should include the human settlements' dimension;

the implementation of the Global Strategy for Shelter to the Year 2000 should be strengthened and form a major element of the Human Settlements' Programme of Agenda 21, aimed at facilitating adequate conditions for all by focussing on critical elements in the enabling approach of the Strategy;

the Secretary General in developing the above-mentioned programme should take fully into account the views expressed by Member States which, inter alia, included the following (with direct reference to housing finance):

International cooperation for financing the upgrading of human settlements' and urban infrastructure; Stimulation of the locally available intellectual, financial and private sector potential for human settlements' planning and management; the encouragement to Governments to mobilize funding from all possible sources through new and innovative strategies.

The Secretary General's Report contains recommendations for action and large expenditure requirements for eight different substantive areas. But basic questions of housing finance policy, mobilization of resources and institutional development in this field are not dealt with. The International Union and Fannie Mae considered that a paper on Housing Finance for Sustainable Development would now be helpful in providing information and guidance for actions to be recommended by UNCED. It seems clear

that policies and systems for financing housing, shelter and community infrastructure are essential for the environmental improvement of human settlements' and their sustainability in all countries.

Since the 1950s, there have been repeated recommendations and resolutions of the UN Economic and Social Council, the UN General Assembly and other international bodies requesting measures for housing finance to be taken at national, regional and global levels. The UN Conference on Human Environment held in Stockholm in 1972 emphasized the poverty and pollution aspects of the world crisis of human settlements' development and devoted a key recommendation to assisting countries in the mobilization of resources and institution building for housing finance.

Stockholm was a time of new beginnings, but now for June 1992 there are even more difficulties in seeking the survival of the planet and its human society. The world economy is in transition, requiring major new rebuilding and reconstruction and massive investment for human settlements improvement. There is the imperative of a global strategy for shelter so that the human right to housing can be assured for hundreds of millions of people. At the same time there is a bankruptcy of present approaches, cities are on a treadmill in trying to meet the demands for infrastructure, services and facilities, and debt burdens hamper efforts for economic recovery, while institutional reform and policy measures lag far behind. The linkage between environmental problems and poverty and under-development were first underscored at Stockholm, and the phrase of the late Indira Gandhi that "poverty is the greatest polluter" has forced recognition of the human settlements' issues today. It is possible that UNCED will need to consider, as with the Habitat Conference following Stockholm, further international attention to human

settlements' priorities.

The participants of the Roundtable welcomed and appreciated the steps taken by governments to recognize human settlements" and urbanization as major components of the environment and development issues to be acted upon at the Earth Summit in Rio de Janeiro in June 1992. But there is still a large gap to be filled in the current programmatic proposals advanced for Agenda 21 for promoting sustainable human settlements' development. Without well conceived housing finance policies and programs there can be little effective action for improving the environment of human settlements'. As demonstrated at the Roundtable, there is much available successful experience in this area to be drawn upon and applied. The Earth Summit now offers a unique opportunity to address the need for focussed action regarding housing finance policies, the mobilization of domestic and international resources, and institutional development in this field.

SOME DIMENSIONAL ASPECTS OF THE PROBLEM

Extensive documentation prepared by the international development agencies has surveyed the size, scope and trends of the global crisis of human settlements development in three categories: soaring urban population growth; poverty aspects, and housing conditions. Some brief descriptive comments are reproduced herewith:

Soaring urban population growth

The world's urban population, 1.4 billion in 1970, grew to 2.4 billion in 1990 and is expected to reach 3.2 billion by 2000 and 5.5 billion by 2025. Much of the rise in urban population can be attributed to the rapid overall population growth in developing countries. The world population is likely to reach 6.3 billion by 2000

and almost 8.5 billion by 2025. The urban population of the developing countries - 675 million in 1970 and 1.5 billion in 1990 - is expected to reach 2.2 billion in 2000 and 4.4 billion in 2025. The urban population in developing nations is expected to grow by about 51 million a year over the next 40 years.

The growth of large cities and metropolises is expected to continue into the next century. There are likely to be 50 developing world cities of more than 4 million inhabitants in 2000 and 114 in 2025. There is also a growth in megacities - metropolitan agglomerations with more than 10 million people. By the end of the 1990s many of the largest cities will be in developing countries. These include Mexico City, Sao Paulo, Calcutta, Shanghai, Bombay, Buenos Aires, Rio de Janeiro, Seoul, Beijing, Cairo, Tianjin, Jakarta, Manila, Delhi, Karachi, Lagos, Dacca and Bangkok.

While urban population will increase five-fold over the next generation, urban facilities are already overloaded and the environment dangerously polluted; therefore each increment of urban growth leads to a further deterioration of the environment. Many Third World cities provide true evidence that "poverty is pollution," with half of their populations or more living in slums, uncontrolled squatter areas and marginal settlements'. While the magnitude of the world crisis in urbanization and the human environment is growing at an increasing rate, in both the developed and developing worlds, the institutions, resources, economic means and techniques required to implement environmentally sensitive, comprehensive approaches to urban development are either not yet in place, or are still too weak to have any practical effect on development patterns.

Poverty aspects

According to World Bank estimates for

1988, about 330 million urban residents - a quarter of the urban population in developing countries - were living in absolute poverty. As pointed out in the *Human Development Report, 1990*, by 2000 urban households living in absolute poverty are projected to increase by 76 percent, with many headed by women. Malnutrition and disease are critical problems in poor urban neighborhoods.

Acceleration of unplanned urbanization has brought dehumanizing trends in large urban agglomerations. In some countries there is the view that urban centers are becoming more and more unmanageable. There is a growing sense that nothing can be done to combat the forces of poverty, drugs, and dependency. If urban centers are to survive and prosper, they must meet the needs of all their citizens and generate productive enterprise and activity. Sustaining this activity will be possible only if the environment and the health of the people are maintained. There must be new emphasis on improvement of appropriate urban planning and management, including government reorganization where necessary. This must be reinforced by commitments for long term housing finance and investment in infrastructure.

Housing

The Habitat Centre has estimated that around one half of the urban population of the developing countries—some 600 million people—live in very poor quality housing. Given current rates of growth of poverty, this number can be expected to at least double by the year 2000, the target date for the UN Global Strategy for Shelter. It has been estimated that 17 percent of the world's stock of housing is made up of one-room shelters—with some three quarters of these to be found in the developing countries. For example, in Africa some 42 percent of rural and 35

percent of urban dwellings are single room and their average density of occupation is estimated at 2.23 persons.

The Global Strategy for Shelter endeavors to define the appropriate roles: governments facilitate action, the private sector, including NGOs and other entities, implement and build. The housing sector should be a leading sector for economic stimulus, recovery, and development including creation of employment and new opportunity. Repeated emphasis has also been given to the critical importance of developing a viable national housing finance system as an integral part of the overall national financial system and capital markets. Housing is a capital investment that generates a stream of services over a considerable period of time.

But in many developing countries formal housing finance systems accounts for less than 15 to 20 percent of the total volume of housing and shelter construction activity. Techniques for extending finance and credit to meet the needs of the number of low income households in the informal sector therefore are imperative if environmental degradation of settlements' is to be reversed. Fortunately, there are now many successful examples of projects and programs where such policies and techniques have been successful and these may provide adaptable models for use in other places and regions.

Countries in transition

In the current world scene a number of countries are endeavoring to deal with the problems of transition of their economies and governments. The countries of Central and Eastern Europe, and the former Soviet Union have to wrestle with some crucial questions. These include (1) the allocation of resources for housing construction and finance; (2) the management and maintenance and valuation of existing housing stock and related facilities; (3) the

forms of tenure, subsidies and costs; (4) how savings can be mobilized; and (5) how both home ownership and more rental housing can be promoted as basic factors for economic growth and social stability. Other vital questions address environmental degradation, the clean up of pollution sources, and the concept of sustainable development.

Towards a common goal

The global strategies developed by the World Bank, the UNDP and Habitat for urban policy and cooperation, and for promoting sustainable human settlements' development are all somewhat different. But they all support the strengthening of local government and urban management capabilities as essential for effective progress. It is at the local level that enabling strategies, public/private partnerships, and coalition-building must be implemented, with due regard for environmental concerns and sustainability. It is at the local level that participation and assistance from NGOs and community-based organizations will be recognized and appreciated.

THE ROUNDTABLE WORKING GROUPS

Much useful information and documentation was prepared in connection with the Roundtable. Participants from diverse countries reviewed their efforts to institutionalize programs and systems for savings mobilization and housing finance development and investment.

Local Strategies that Work

In the industrialized, developed nations there are many variations of specialized savings mobilization and housing finance systems that are quite effective and successful. A foremost example is the Bausparkasse contractual savings

systems of Germany which have functioned successfully for many years to attract voluntary savings through contractual plans for housing finance designed for individual households. In addition, the government-sponsored secondary mortgage market in the United States, consisting of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the U.S. Government National Mortgage Association (Ginnie Mae), has provided housing finance for many low-, moderate- and middle-income Americans. But before attempts are made to implant or duplicate such systems elsewhere it must be understood that there are legal, monetary, economic and political conditions and variables which are basic prerequisites for the effective functioning of such systems. In their absence, the schemes will not readily function nor produce similar results.

In many developing countries such as in Latin America high inflation rates have been pervasive, hampering savings mobilization efforts. Colombia has had a long-standing indexing system for both savings accounts and mortgage repayments through its Corporations for Savings and Housing. The system continues to work successfully because the country's inflationary rates have been relatively modest. Mexico has now also adopted and put in place a dual indexing system which reduces the inflationary impact and preserves the value of the capital by adjusting monthly payments as a fixed percentage of incomes. The functioning of such indexing tools is a positive enhancement for the housing finance industry in nations where continuing high annual rates of inflation are a fact of life.

In the Philippines the Home Development Mutual Fund (HDMF) provides a good model for successful application of the

resources of a provident fund to the needs of low and moderate income families for mortgage finance. The source of funds is a voluntary employee payroll deduction savings program. The HDMF has also provided support for the implementation of a Community Mortgage system designed to provide landless community groups and associations with the opportunity for security of land tenure and credit for building core housing or for incremental self-help building.

The Cooperative Housing Foundation has developed and successfully implemented in Latin America a model delivery plan for improvement of informal slum and squatter communities. The system utilizes loans and technical assistance to NGOs, private voluntary organizations (PVOs), combined with other private non-profit groups to channel credit, at market rates of interest, to the working poor of the informal sector. These modest loans are for home improvement, home expansion, construction of core housing, and for upgrading projects for small scale community infrastructure. This program channels loan funds to support and accelerate the incremental upgrading process characteristic of these communities. In the process it also creates and strengthens networks of private non-profit NGOs to perform the limited financial services required, to select candidate households and to manage the payout and recovery systems of the lending portfolio. CHF has now launched a special Shelter the World Fund to attract private voluntary contributions for an expansion of its successful delivery system. With minor adjustments to local variables the concepts and activities of Shelter the World Fund should have applicability in much of the developing world. As the level of funds to such micro-lending programs increases, it is important that the actual performance experience of these loan portfolios be carefully documented.

The work of the Housing Development Finance Corporation (HDFC) of India was

also considered noteworthy in that it has helped to establish HDFC patterned institutions in several areas, organized an Asia-Pacific coalition of housing finance institutions, and also established a permanent Center for Housing Finance open to other countries for specialized training of housing finance personnel. China's outstanding efforts and commitment to housing production were also described. During the period 1979 to 1990 total housing investment nation-wide occupied an average of 6.73 percent of GNP, more than four times that of the prior 30 years. The annual average of dwelling units constructed in this time frame is estimated at 10.6 dwelling units per 1000 population. As a result living conditions and space standards have considerably improved both for the rural and urban populations. The challenge now is to encourage privatization and more rational management of the existing housing stock, promote housing reforms and funding at local levels, and to establish a vital finance system including possible creation of an independent housing bank for urban residents; establishment of special savings schemes for housing, and legalizing the collection of service charges for urban infrastructure.

Guidelines - Housing Finance for Sustainable Development

Guidelines for housing finance for sustainable development will differ for countries depending upon their development status, the state and maturity of their capital market structure, and whether their economies are experiencing high or low rates of inflation. Because some developing countries with well-developed capital markets suffer from high rates of inflation short-term loans for housing may be available but not long term loans because of high interest rate risk. In addition to emphasizing stabilization policies, housing finance efforts emphasize the creation of innovative mortgage instruments such as

price level adjusted mortgages (PLAMS) and dual-indexed mortgages (DIMS) that can attract capital in these environments.

Transitional countries consist largely of the former socialist economies where initial government efforts need to strengthen property rights, perfect land title systems, institutions and laws governing eviction, foreclosure, etc. as a precursor to the development of primary mortgage markets. While the problem of creating housing finance systems in transitional countries may vary with the extent of inflation, in the short run it is difficult to distinguish between price increases necessary to bring housing costs to market levels, and inflation-induced price increases caused by too much currency chasing too little supply.

In all types of economies the primary roles of government are to create, maintain and support the legal and institutional system necessary for a viable housing finance system; to provide a low inflation environment, thereby making it possible to attract long-term capital to housing finance; and to provide a social safety net for that segment of the population that cannot afford market prices for shelter. The creation of a national mortgage market and, ultimately, a secondary market, requires that all mortgage originators adhere to similar property and credit underwriting standards. To initiate such a market some governments may establish such standards or these may evolve from the market.

Government's role is also to create a regulatory system for the provision of housing, including minimum building standards. Typically, formalizing the system of housing finance leads to the imposition of higher building standards than those operative in the informal sector. The challenge is to avoid adopting standards that are higher than those necessary to protect the basic health and

safety of the population and not to hinder human settlements' development which is otherwise sustainable.

Inflation is the primary enemy of housing finance and to strengthen housing finance systems governments should endeavor to contain it and to help keep interest rates down. Governments should develop housing finance policies as part of their broader development policies. Governments can and should use finance policies to help foster locational decisions of families and economic activities.

It will be useful to distinguish between the various concepts of housing finance which normally is provided for those who can afford to pay market interest rates for long-term mortgages where they are available, and shelter finance which may refer to methods for accessing credit or financing for those too poor to pay much if any of the costs of shelter. As a matter of principle, it is not desirable to subsidize capital to increase affordability. To assure adequate flows of capital to the housing sector mortgage capital investment must be permitted to earn (risk-adjusted) market rates of return, while lower occupancy costs should be provided to consumers through a variety of subsidy techniques.

It is recognized that actually no system of housing finance in developed countries is wholly unsubsidized. The U.S. Government, for example, subsidizes mortgage capital in a variety of ways, including through mortgage insurance, the tax treatment of financial institutions and mortgage interest, by permitting states to issue tax exempt mortgage bonds, and through other means. While developing and transitional economies should be encouraged to create private mortgage markets with as little distortion and subsidy as possible, these economies should not be held to a higher standard than other housing finance systems in market economies.

To assure capital investment and

availability over the long-term, providers of housing capital should receive market rates of return. To maximize the efficient production of housing for the poor, shelter capital should be provided by the private sector at market interest rates, while the government subsidizes occupancy rather than capital costs. The issue is not whether shelter capital is earning a profit, but whether it is less expensive to create housing for the poor by:

- (1) using private capital while subsidizing occupancy costs, or
- (2) the public finance and provision of housing.

Because the provision of small mortgages to marginal borrowers carries high transaction costs, governments should use NGOs as financial intermediaries. Micro-lending programs for financing housing should build on the successes and institutional structures of community-based micro-lending programs for economic enterprises. The portfolio performance of these programs should be documented as experience in micro-lending is gained.

Multilateral Agencies

Since 1955, the United Nations for many years has been involved and endeavored to respond to resolutions and recommendations concerned with housing finance. The UN centre for Housing, Building and Planning, established in 1965, found that some developing countries could be assisted to establish housing finance systems through modest seed capital investment plus appropriate technical assistance. This was followed by a recommendation to establish an International Housing Finance Corporation. Although no action was taken on this specific proposal, a similar proposal emerged in Recommendation 17 of the Stockholm Conference on the Human Environment of 1972.

In December 1974, GA Resolution 3227 was adopted, establishing a voluntary International Habitat and Human Settlements' Foundation under the authority and direction of the United Nations Environment Programme (UNEP) Governing Council. The UNEP Fund provided a one-time allocation of US \$4 million for the start-up of the Foundation which soon became active and operational from Nairobi. Several governments made additional voluntary contributions to the Foundation.

As a result of the Habitat Conference, the new UN Habitat Centre was established in Nairobi in 1978 to consolidate UN activities in this field. The Foundation was then transferred to the Centre where it lost its character as a unique development assistance institution. The Foundation therefore was unable to respond to a final request of the UNEP Governing Council in 1977 which requested the Foundation to establish: "... an information service for housing and human settlements' financing to assist developing countries... and to improve their effective access to the international capital markets." The UNDP provides the bulk of the funding for technical cooperation and other activities of the UN Habitat Centre, and has recently adopted its own plan of action and strategy for dealing with urbanization

In 1972, the World Bank began in Senegal a first project to promote "sites and services." Some 60 sites and services and squatter upgrading projects were to be approved by the Bank during the 1970's. The other major player in this market has been the USAID which in 1961 began in Latin America to promote sites and services as well as seed capital lending with technical assistance.

Unfortunately, despite the awesome growing needs for action on urbanization issues, including housing finance and sustainability, the multi-lateral agencies

have allocated only small percentages of their available funding for this sector. Though some countries benefit from UNDP program and project lending for this sector, *de facto* assistance for housing finance policies and programs remains at a lower constant level than that of the World Bank, about 2 percent for targetted urban projects. In 1991, the World Bank made 16 urban loans for a total of US\$ 1,255.4 million, representing 5.5 percent of overall Bank lending. But there was direct lending for housing, including financing, in only three countries, Korea, Vanatu and Papua New Guinea. As for the USAID, for some years now, apart from its loans and guarantees to Israel, its world-wide total Housing Investment Guaranty authorization is about \$100 million per year. Clearly, the current level of effort from the multilateral agencies is not sufficient to address the growing problem.

While each agency (The World Bank, Habitat, UNDP, and USAID) has developed its own new agendas defined by their own policy positions, all have generally accepted a conventional paradigm of development in the field including the following: the targetting of beneficiary groups, minimum reliance on subsidies, careful assessment of affordability and replicability of projects and the need for greater attention to shelter finance. Recent evaluation studies suggest while the general approach of replacing the public housing provision approach has been sound, no alternatives have demonstrated much success in terms of replicability and increasing the efficiency of the flow of finance to low-income households. Future strategies will need to concentrate on developing demand-side strategies that are replicable.

Scope for Change

The shelter sector is likely to develop to the extent that it is adequately and efficiently financed. This realization should encourage international development

agencies to promote and develop housing and shelter finance activities as an integral part of shelter strategies. Certain bilateral aid agencies have also made important contributions in this direction, and it is to be hoped that others will seize opportunities for effective and catalytic action. Defining resource bases for institutional structuring will prove critical for a sustainable finance program. This in turn depends on the manner in which institutions are integrated into the domestic finance systems of their respective countries. In order to deal with this satisfactorily, a cadre of professionals will need to be built up in the sector within international agencies who understand the issues from an applied point of view. Even today only very few key personnel can be identified from all the agencies presently dealing with the sector worldwide who understand the implications for policy in this area.

With increasing complexity in international affairs, it is imperative that there be close coordination between international agencies with respect to their conceptual approaches as well as their sequencing of programs in given regions or countries. For example, both the World Bank and the International Finance Corporation are active promoters of shelter finance in developing countries without a clear demarcation criterion of the role of each. Further, regional development banks, such as the Asian Development Bank, must also coordinate their efforts in regions and countries where they operate simultaneously with emphasis on a joint approach rather than a competitive outbidding of claims to innovation. The UNDP with its newly emerging human development index, may develop a different approach to development resulting in a much greater need for constant interaction and sharing of experience. The UNDP has also experimented with a denominated "program approach" for its key sectoral activities, attempting to integrate cooperation from the government, internal

and external finance agencies, both multilateral and bilateral, as well as from NGOs and community-based organizations. Typically these program approach development efforts will have time horizons of five years or more. These efforts should assist in coordination and transformation of response modes to more realistically meet country requests for assistance.

As the demand for resources is likely to outstrip supply as long as economic growth lags population growth, the need for developing an approach that leverages resources (human and financial) will be crucial for programs designed to achieve a visible impact on the sector. A great deal of leverage is possible through approaches that use an institutional promotion and development strategy like the HDFC in India, and which later refine the resource raising mechanisms once institutions gain momentum and develop their own track record. A similar approach encourages regional cooperation by sharing comparative advantages and making these available to others. This speeds the reform process in neighboring countries and reduces the need for external inputs.

The future directions of multilateral agencies should include:

1. A greater focus on the private sector for shelter delivery and finance;
2. Greater attention on institutional development and its associated resource base to serve the sector;
3. A clearer demarcation of a multi-sector approach to shelter, incorporating the impact of labor market developments, database inadequacies as well as the definition of the links to the financial and fiscal environment;
4. Stronger emphasis on regional coordination, assistance and institutional understanding;

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5. Implementation of operations converting external debts of a country into investments in appropriate housing, infrastructure, and environmental protection projects; and
6. Creation of an Applied Housing Finance Research Center to explore the issues raised above.

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a discount rate to amortize the loans. The amount by which payments do not maintain the loans' real, inflation-corrected value should be seen as the government's contribution and budgeted accordingly. The rest of the Fund's expenses should be treated as those of a financial intermediary and also treated accordingly.

One of the most important components of the MHF's financial management practices will be its selection of the indexes it uses to value its assets. The importance of a well-functioning and credible index is difficult to exaggerate and there are clearly a number of options for both wage and price indexes. Rather than discussing the merits and possible shortcomings of the various options available, we focus here on the objectives that should be used in evaluating various measures.

For the price index the concern is with consumer prices (rather than the wholesale or construction industry prices). The consumer price index is obviously the most direct measure of the current level of this price. However, it by no means provides an effective measure of expected prices and it is an ex post measure that can be quite volatile. There are two ways this volatility can be reduced: (i) extending the period over which the index is measured; and (ii) using an assumed rate of graduation in repayments that is the projected inflation rate instead of the actual inflation rate. Of these two approaches