Resource Flows for Housing: Ideas, Paradigms and Coalitions

By Nasser M. Munjee

The lessons of experience take a generation to learn. The prevailing orthodoxy develops its own momentum; it produces its dogmatic adherents who are happy to imbibe the paradigms in place as well as its ardent critics who view the present state of affairs as hopelessly misguided - the analytical few on the cutting edge of progress are the real innovators, those who are constantly re-evaluating experience with intended objectives and fine tuning the instruments being used to bring these about. Every so often, the traditional paradigm is overthrown - fine tuning of instruments is no longer effective - the core of the system, which is the foundation of all that has been built, is seen to be defective then a revolution occurs - a new paradigm emerges and replaces the old, in turn becoming the new orthodoxy.

This picture of the progress of ideas goes back to Thomas Kuhn[1] and provides an illustrative framework for the development of ideas in the shelter sector. Eventual success in achieving policy goals is entirely dependent on the strength of the intellectual framework constructed as the "core" of the strategy from which policy prescriptions stem. No amount of "fine tuning" a weak core can bring about the desired results (in fact this is likely to confuse and complicate the issues even more) and it takes courage and enormous effort to displace this core once it is in place. The question I would like to ask in this paper is: Do we have a strong Core that is applicable internationally? What might this be and how has it evolved? What are the possibilities for testing this Core constantly to ensure that innovators are in command of its evolution and not converted ideologues? It is answers to these types of question that will produce the future strategy for the sector in developing economies and will ensure that the participants in the process include those most disadvantaged as an integral part of the process rather than as "targeted groups" for project formulation.

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CHANGING VIEW OF SHELTER STRATEGIES 1970 - 1992

Vancouver

The first major gathering of shelter professional under the aegis of the United Nations took place in Vancouver in 1976 and resulted in what came to be known as *The Vancouver Action Plan* which followed the *Vancouver Declaration.* The consequence of this meeting was to have major impacts on the development of the shelter sector; it resulted in a serious call for government action and international donor support for improving the housing and infrastructure conditions of the poorest families in developing economies. In effect, it placed the problems of human settlements squarely on the international action agenda and thus encouraged the international development agencies to formulate their own approaches and strategies to tackle this ubiquitous problem. It soon became apparent that tackling shelter problems involved major "cross cutting" issues which were by no means easily resolved. The shelter problem remained on the borders of poverty alleviation, rural-urban migration, urban employment markets, the urban environment, infrastructure investment, land policy, relationships between central, state and local governments, interactions with developmental, financial and municipal institutions and of course incorporated the political problems posed by "vote banks" that poor communities represented. These are not simple issues to address through coherent policy interventions.

Vancouver thus put the shelter sector on the public policy agenda and pointed the way for international support. The policy paradigm that it described recognised the importance of the informal sector (in preference to slum clearance prevalent at the time) and its role in improving existing settlements. It recognised that the notion of "master planning" had to be toned down to realistic standards and that public sector performance needed to be improved and made more relevant to specific development issues. The paradigms it suggested may be summarised as follows:

- Shelter was viewed as a subcomponent of **Social Policy** with an emphasis on **equity** considerations rather than economic growth.

- Primary reliance was placed on the **Public Sector** as a part of **Public Policy** to **provide** services which were seen to be severely lacking. The public sector needed to improve and invite participation from potential beneficiaries of public programmes. No direct contribution of the private sector to the development process itself was envisaged.

- Resource mobilisation issues for these investments was generally ignored; the role of the financial sector and financial institutions did not figure at all in the recommendations.

- On the supply side, interventions were viewed as **project** to project ones rather than any reliance being placed on development **processes.**

- The private sector was not generally regarded as a positive contributor in the belief that these were not projects that were amenable for adequate economic rates of return. Indeed, public policy needed to be more vigilant lest the private sector 'derail' public programmes.

- Little understanding of **markets** was displayed in the recommendations. In fact, the consequences of some of these recommendations had the potential of having perverse effects on land and shelter availability for the poor.[2]

World Bank (1975)

In the era of Robert McNamara, the World Bank's focus of attention shifted to poverty alleviation through a "Basic Needs" approach which was best reflected in its emerging housing and urban agenda. The World Bank's *Housing Sector Policy Paper* [3] issued in May 1975, reviewed housing conditions in seven cities in order to assess the relationship between urban housing and social and economic development, the functioning of housing markets as they impacted the poor and the possible policy responses to the housing problems posed by these cities. The main conclusions in this paper set the core paradigms for housing strategy to the present day. The anchor for the analysis lay in the observation that:

"Many housing programmes have met with little success because they have attempted to meet housing 'needs' rather than the effective demand for housing. In contrast to estimations of need according to arbitrary standards, effective demand is derived from a household's ability and willingness to pay for housing."

The paper, therefore, initially approached the housing situation from the standpoint of housing demand; the gap between the unit cost of housing and the willingness and ability to pay for it amongst lower income households. The analysis, however, quickly switched to a detailed discussion of the **supply** response to meet housing demand at a particular income level (i.e. discussion of the *supply curve* of housing for this segment) and tended to disregard the importance of the variables likely to influence the demand curve.

The basic conclusions of the report, therefore, may be summarised as follows:

- Urban housing lending would only be considered in the context of an overall urban development strategy and a demonstrated commitment of the host government to assist the poor through realistic housing strategies that retained and improved poor quality housing stock and created employment and and investment priorities in these locations.

- Land policies would facilitate land tenure for the poor, encourage direct public sector intervention in land markets, encourage full cost pricing of services.

- The provision of serviced sites by the public sector on which poor households would construct their own housing by self help methods was the essential platform of the new strategy. Reducing standards so that the poor could afford an entry into the market and improve their standards at their own pace.

- The active discouragement of traditional methods of 'conventional' housing delivery by way of mass housing projects.

- The recognition that the Bank must respond to requests for assistance to establish housing finance institutions largely by providing 'seed' capital and encouraging mortgage insurance institutions to facilitate lending for housing to poor families.

Housing finance - the main ingredient in influencing the demand curve for housing - is mentioned only in one short paragraph and a brief section in the final chapter of the report.[4] The role of housing finance in stimulating housing sector development is not seen in its macro implications and the Bank notes:

".. the Bank Group's experience with institutions providing housing mortgages is very limited, and it is clear from the record of other international assistance agencies that such assistance is fraught with many dangers."

However, the Bank explicitly recognises the importance of building strong housing finance institutions which, as they mature, would "develop lending instruments and practices to meet the needs of the poor." In the meantime, in the absence of these strong institutions:

"the continuation and extension of housing finance for project beneficiaries directly through a housing project organisation is an efficient way of financing housing for the poor."

The Bank was clearly very cautious in developing intervention points in the housing finance sector and preferred, at that time, to concentrate on developing the supply responses which met realistic standards more relevant to the target population which was being served by public policy.

Vienna Recommendations

It was not until 1986, in Vienna, that an international meeting organised by the *National Association of Realtors* of the USA and the *International Union of Building Societies and Savings Associations* (now renamed the *International Union of Housing Finance Institutions* - IUHFI) brought together a small group of senior, predominantly private sector, professionals from 32 countries who discussed, amended and adopted a pre-prepared document by leading housing experts drawn from international development agencies, housing finance institutions and the construction sector. *The Vienna Recommendations,* as they came to be known, had significant consequences for shelter strategies and moved considerably beyond the *Vancouver Declaration.*

The need for a new statement was evident - the old paradigm had been tested and seen not to produce the results that were expected. The solution lay in a new paradigm and not in fine tuning the old. The very core of the new approach lay in re-emphasising the role of the private sector in the development process; the need to form partnerships between the public and private sector; to emphasise the role of markets and to underscore the crucial role of the price mechanism; and, most important, to re-introduce the central role of resource mobilisation, financial institutions and mechanisms as vital to any healthy development of the shelter and urban sector of the economy. Economic growth is necessary for effective policy, which combined with equity considerations, should form a central component of growth strategies; focussing attention on equity without emphasising the need for growth is a path to unsustainable programmes of development. The new paradigm that emerged may be summarised as follows:

- The forging of development **partnerships** with the public and private sectors using the comparative advantages of each to achieve a commonly understood agenda. **Co-operation** and **Efficiency** become the key words of this new approach.
- Governments have the responsibility to create **Enabling Environments** in the macro-economic plane so that these partnerships can be forged, co-operation encouraged and efficiency ensured.
- Shelter and urban strategies should be an integral part of national economic development.
- **Financial sustainability** of any programme is a key measure of its eventual success. Mobilisation of resources, the development of financial institutions and the creation of innovative financial mechanisms is a vital first step to any long term strategy.
- Land is a basic input into development of the shelter and urban sector. While national land policies should reaffirm the importance of secure land tenure, it should also ensure the efficient funtioning of land markets conducive to economic development.
- In terms of shelter delivery, both the formal and informal private sector must assume responsibility for shelter provision through incremental self building. The provision of appropriate financial mechanisms holds the key to this effort. Both the private and public sector should support the creation of a system of viable and efficient financial institutions that support the builder, the buyer and the supplier of inputs for housing.
- The development of Housing Finance holds the key to shelter sector development. Housing finance institutions need to be developed which are integrated into their capital markets, have access to resource bases and seek innovative methods of reaching poor families.
- Similarly, urban development policies that ignore urban finance issues are likely to find it difficult to improve capacity, streamline urban management and undertake effective planning. Urban and municipal finance, therefore, emerges as a priority issue for public policy attention.

Vienna, therefore put the private sector role squarely back into the strategy agenda, stressed the need to get the financial funds flow to the sector well defined through a strong, capable and effective institutional structure and stressed the enabling role for governments. Wherever possible, governments were to refrain from direct provision of projects and services and were to move toward creating conducive environments for co-operation, partnership and institution building which would be able to address the most immediate problems faced by developing societies.

UN Global Shelter Strategy For Shelter to the Year 2000

The *Global Strategy* was adopted by the General Assembly of the United Nations at its 43rd Session in Resolution 43/181 on December 20, 1988. The key approach that guided the new policy were:

Realism: policies that made allowances for the constraints that existed;
Vision: a careful choice of priorities and action to avoid the creation of new problems while attempting to solve old ones;
Comprehensiveness: Looking at the problem in a holistic perspective and not trying to attack small sub-components of a larger problem;
Gradualness: a step-by-step approach

incorporating actual possibilities;
Flexibility: Constant adjustment in the light of experience.

These guiding principles fully reflected the emerging "new view" for shelter strategies; that while all governments were committed to improve shelter conditions in their countries, translating rhetoric to reality was proving to be extremely complex as a result of a number of cross-cutting issues that also needed to be tackled. A holistic vision with a realistic and gradual approach were therefore the building blocks of the new programme.

As a result, the following basic operating principles emerged, which strongly reflected the view taken earlier by the *Vienna Recommendations* :

- The Adoption of an **Enabling Approach** for the Shelter Sector.[5] This stressed the following:

  Shelter Strategies were to be Self Sustainable which was the logical implication of the Enabling Approach

  Given that this implied the involvement of a multiplicity of actors in the process, implementation strategies would be difficult to establish.

  While the poor would be the central objective of shelter strategies, it could only work if it were a sub-component of a National Strategy for Shelter which addressed the shelter problems of all income groups.

- Organising Shelter Delivery needed to be placed in a context which followed from the adoption of an *Enabling Approach*. In particular Shelter Strategies needed to be:

  Placed in the National Decision-making context

  The Legal and Regulatory framework for the shelter sector needed to be more user friendly.[6]

  The Government's role needed to be re-defined and made specific in order to provide the necessary support to the other actors in this market place - especially non-government organisations.

  Co-ordination between various government departments was necessary if the process were to be implemented.

  The interaction between institutions needed to be similarly re-organised with their roles subject to review in the light of the new approach.[7]

  The institutional structure for the provision of urban services needed to be steamlined with particular attention being paid to the full participation of communities in decision making.

  Building and infrastructure codes and regulations needed to be revised substantially in order for community participation to become effective.

  Data bases for understanding land and housing supply mechanisms was absolutely necessary for efficient strategy formulation and implementation. It was necessary, therefore, to create and monitor key data bases which would support these strategies.

- Mobilisation of financial resources was seen as a key element in any coherent implementation strategy for infrastructure and shelter provision:

<u>INFRASTRUCTURE:</u>

Adequate investment in infrastructure was seen as crucial to any shelter strategy:

Payments for these investments must be raised by user charges and betterment levies

Local authority finances needed to be improved in terms of more efficient collection mechanisms for user charges and property taxes as also for recovering the costs of public infrastructure provision.

<u>HOUSING:</u>

Shelter finance reform was placed squarely in the context of a broader reform of the financial sector.

Shelter development, to be sustainable, would require a steady flow of long term finance.

Fiscal and Credit policies should be oriented to ensuring that the shelter sector is allowed to compete fairly for available finance and that intermediation costs are minimised.

Financing should also flow to stimulate the private rental housing sector for all income groups

As far as possible subsidies should not be built into the development of these overall systems. They should be measurable and transparent and should be targeted to those most in need and those in equal need must be treated equally. Subsidy systems should be delivered at least possible cost and should not impose unacceptable costs on people or institutions other than the direct beneficiaries.

Finally, and perhaps most important, the recognition that shelter policies could not function as a self contained sector within the macro-economic environment in the GSS set it apart from all previous approaches; the cross cutting issues made it imperative that the precise linkages that shelter investments have on the macro-economy (and vice versa) should be identified and incorporated in an overall policy framework.

- National Shelter Strategies must incorporate macro-economic policies that link the shelter sector to the economy as a whole:

Macro economic policies in the 1970s[8] led to the empirical observation that at given levels of economic development the fraction of GNP invested in housing typically fell by values ranging from 11 to 24 percent in relation to historic ratios resulting in worsening housing and infrastructure conditions in developing economies.

Public expenditures in the shelter sector represent a significant share of total public investment. It can be as high as 13% of the National Budget, 30% of total subsidies (excluding off budget expenditures and subsidies) and 3 to 4% of GNP.

Housing investments are productive and an important source of income and employment generation. Housing investments comprise between 2 to 8% of GNP and 10 to 30% of fixed capital formation in developing economies. The time lags between investment and output realisation is also considerably shorter than other investments, making the housing sector a key sector to stimulate the economy. Economic rates of return are competitive with other capital investments and in infrastructure investments far exceed the norm. It is, therefore, a myth that shelter sector investments are unproductive because of high "captial-output" ratios.

Housing represents a very important share of national wealth and is, therefore, a key determinant of saving and investment. Housing typically represents from 30 to 50% of all reproducable assets in an economy, the aggregate value of housing is from one to two times that of GNP and the annual flow of rents derived from housing as an asset is between 10 to 20% of GNP.

The Shelter Sector was at last removed from the SOCIAL domain and placed squarely in the ECONOMIC domain. It took fifteen years to move from the *Vancouver Declaration* to the *Global Shelter Strategy* a period in which shelter investments suffered dramatically throughout the developing world. In the realm of ideas major new approaches were developed during this period and a new paradigm has emerged overthrowing the old; This paradigm has resulted in all major international agencies reviewing their future strategies in the urban and shelter sector in the early 1990s all of which reflect major departures from previously held positions.[9] The challenges that lie in the future will have to do with moving beyond GSS and developing and implementing a strategy using the new paradigm that will ensure a self sustainable flow of funds through a network of institutions that are carefully positioned to play their role in an overall plan. Bringing this about is not likely to be an easy task; success will depend on the innovation and creativity that can be brought to bear from both within and without the public domain.

THE EMERGING PARADIGM: THE NEW VIEW

The Operation of Housing Markets

The performance of the housing sector is dependant on the operation of both supply and demand for housing and the efficiency with which this market clears at market determined prices. The history of housing strategies hitherto indicates that it is dysfunction of the supply side of the equation - too little supplied at the affordable price - that creates policy responses that distort the market even further leading to rent controls, subsidised public housing and the socialisation of land policies. This further reduces market supply resulting in even greater interventions and the creation of 'informal' solutions. The resulting increase in supply prices creates a demand for interventions on the demand side of the equation as well - subsidised housing finance and employer provided housing.

Strategies in these conditions, would require a reversal of the process. The removal of constraints to the supply side - making the supply curve of housing more elastic - which will reduce costs and boost entry into construction; positive incentives for investments in construction inputs as well as construction finance and a gradual expansion of market determined housing finance. The strategy of simultaneously reviving both the market determined demand and supply curves for housing and encouraging the necessary institutional responses that will help this process along - more efficient regulatory structures for land transfer and development and housing finance institutions for example - is emerging as the most important interventions governments can make in the sector. The task for governments in the new paradigm is to reinstate the market mechanism for shelter and shelter finance.

The World Bank's housing sector involvement began in 1972 three years before its first housing strategy paper in 1975. The lending operations in the period 1972 to 1990 reflected the first paradigm shift on the supply side of the housing market from investments in public housing to investments in sites and services. 116 sites and services projects were undertaken in 55 countries with an average size of US$26 million.[10] The approach demonstrated what was possible and relevant through demonstration projects though it did not succeed in eliminating subsidies. Real resource costs were higher than final pricing, project standards remained too high for low income households forcing them to spend more than they would otherwise have done and financing arrangements were never satisfactory.[11] The approach remains valid though it suffers from some key conceptual problems which has prevented it from emerging as a *complete* approach to the problems of low cost housing. Reducing standards may have to move down further from sites and services to slum and squatter upgrading to impact many more poor households in a replicable manner. This supply side approach created its own problems; the efficiency of the housing market was not stressed and the efficiency of demand side responses was largely ignored. Mayo and Gross admitted that "Loans to beneficiaries should also be made at market rates of interest in order to allow loan-granting organizations to generate a sufficient surplus to ensure their institutional viability and growth."

The Importance of Housing Finance

With greater emphasis being paid to the demand side of the housing market equation, housing finance and the development of appropriate institutions has assumed much greater importance in housing strategy formulation. Indeed, using the dictum that any sector will develop according to the importance it receives with respect to its access to finance, housing strategies that disregard this essential feature are not likely to succeed.

The World Bank recognised this after a decade in the business and, in the early 1980's, lending moved away from sites and services - the supply side - towards housing finance - the demand side of the equation. The total value of the Bank's sites and services projects went down from 100 percent in 1972 to 5% in 1990 while housing finance lending continued to increase.

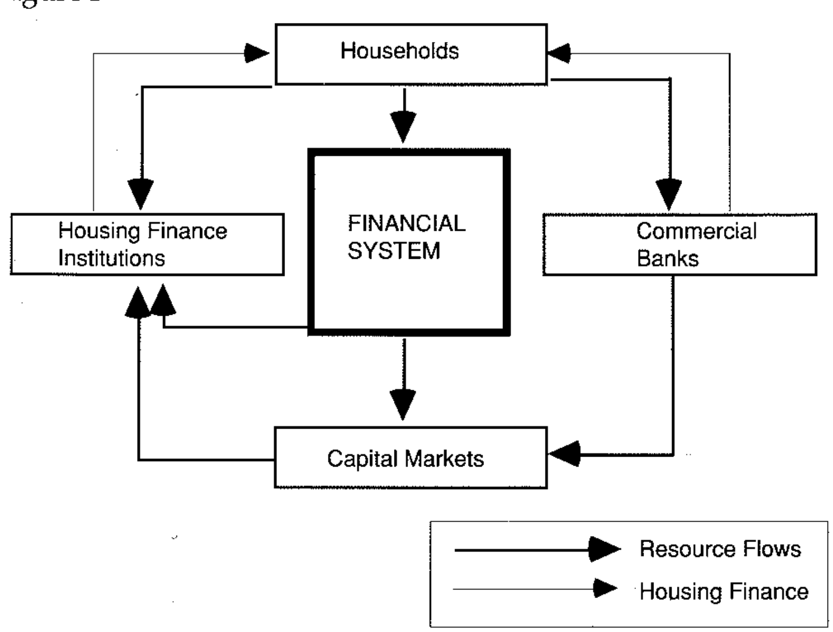
In the seven years since the Bank's first housing finance project, 21 projects focussing on housing finance or including major housing finance components were approved totaling over US$2.0 billion.[12] Bank lending during the six years 1985 to 1988 exceeded the total 16 year volume of sites and services lending since the first project. On average, housing finance lending over the period 1983-90 constituted 31% of total Urban Lending by the Bank with the last two years recording 40 and 47% respectively. These figures clearly illustrate the shifting focus of attention and can be noticed in the lending programmes of other international development agencies working in the field of shelter as well.

The mere shifting of energies to tackle the demand side of the equation, though it has redressed the balance, has not necessarily solved the problem. The reason for this lies in the fact that, by its very nature, the issues have been widened and policy objectives, as a result, have moved beyond the housing sector *per se.* New objectives include the impact on the economy as a whole and the relationship with the financial sector in particular of a better functioning housing finance and delivery system. Resource mobilisation, fiscal impacts, the regulatory environment, institutional development, privatisation and support for broader financial sector reform are all included in the expanded agenda to ensure structural changes that would support the long run development of the housing sector.

Merely supporting existing institutions (normally development finance institutions) through successive lines of credit for mortgage lending is not likely to create a self sustainable housing finance system unless it is linked to broader financial sector policies that incorporate the newly emerging system into its own flow of funds structure. Hence the integration of housing finance into the financial system becomes a crucial component of the new strategy. Integration in this sense does not imply the loss of specialisation, it merely specifies the manner in which the new institutional structure is to "plug into" the flow of financial resources.[13]

A simple diagram might illustrate this process (FigureI). The figure illustrates that the flow of funds from households filters through commercial banks, the financial system and specialised housing finance institutions to households as housing finance. The housing sector is directly "plugged in" to sources of continuous resources flows on the basis of market pricing. Typically, however, developing countries have systems that could be characterised as illustrated in

Figure I



A Fully Integrated System of Housing Finance

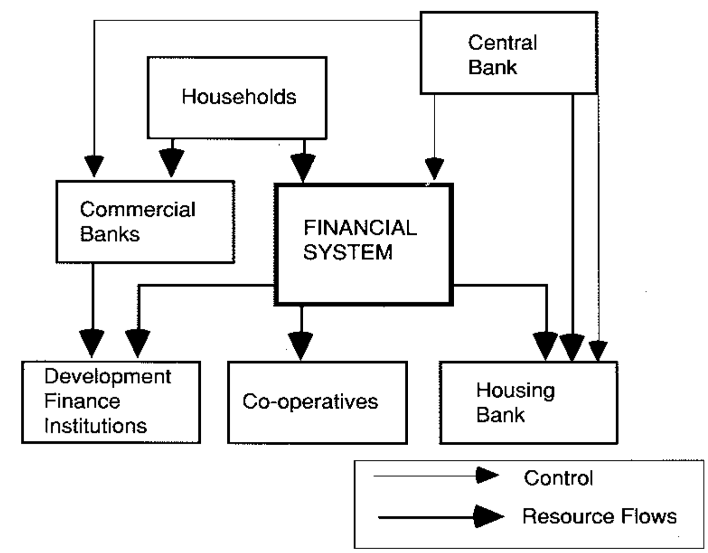
Figure II.

In this system, the flow of funds is controlled through an institutional structure that is positioned to ensure that the required amount of funding is channelled to "priority" sectors in the quantities and at a price that is pre-determined. Institutions act as conduit agencies and are not inherent resource mobilisers for their particular sector of economic activity. Even if it is generally agreed that an integrated system would be the preferred method of financing various sectors of the economy, the transition from an apex directed system to an integrated or network system is a daunting process. It requires a reformulation of the flow of funds in the financial system as a whole and this explains why moving towards the demand side of the equation as far as housing finance is concerned has raised a number of issues beyond the housing sector itself.

Housing finance is especially important in this process as it constitutes a major component of the personal sector's holding of financial assets. In the UK, in 1991, Building Society deposits constituted 15.4% of the total only after the personal's sector's holding of equity in life insurance and pensions (52.3%); commercial bank deposits constituted only 10.3%. Housing finance institutions therefore were central to the financial system in the manner in which they raised resources from households. Similarly it can be shown that where housing finance institutions are encouraged and given broadly an integrated, resource generation role in the domestic financial market in developing economies they quickly become the fastest growing sector in the financial system (India, for example).

In summary, the paradigm that seems to be emerging over two decades of housing sector interventions appears obvious though it has taken over a generation to identify. This paradigm rejects government intervention in the market as a "provider" of services and shifts the focus to an "enabler". This, infact, has very serious implications for traditional institutional structures that

Figure II



An Apex Controlled System of Directed Credit

heve been created in developing economies characterised by Figure II. It rejects the top-down approach which demands that institutions play certain specified "roles" for which they receive specific inputs and replaces this with the principle: it does not matter who does what, but rather, how efficiently things get done. This approach demands that all relevant actors need to formulate approaches in partnership which will automatically specify each actor's role according to the *comparative advantage* of each. The distinction between the public and private sector is not terribly important; it is the capacity and willingness of both to work together to solve common problems that is crucial.

The government's role in this process as enabler is to ensure that the housing market has the means to operate efficiently and to intervene only in those areas where market failure is likely to arise. This process would require a review of major constraints affecting the supply curve for housing (zoning, building codes, development plans, entry into the construction industry, construction finance) which would permit responsive housing supply to price signals; and would require the careful development of housing finance institutions that are designed to plug into the financial system in order to ensure a continuous flow of funds to the housing sector. Reorientating existing institutions, be they public or private, to respond to this approach would be a necessary part of the strategy if implementation plans are to succeed.

While this is the appropriate first step in housing sector reform, the second stage of the process must be to assess the efficacy of promoting a well functioning housing market that accesses all income group households and addresses the housing problems of the poor. The extent to which this can be done through the internal economics of the system without implicit subsidies will determine the success of the new paradigm. Unfortunately the experience so far demonstrates that some successes have been achieved in the first step of encouraging and building strong housing finance institutions but has not been particularly successful in the second step of directing a greater flow of finance to poor households. Indeed a clear paradigm is yet to emerge that guides policy intervention in this direction.

ACCESSING LOWER INCOME HOUSEHOLDS: SHELTER FINANCE

In many developing economies, financial deepening is still evolving; institutional developments are yet to mature and achieve a size and efficiency commensurate with the population it wishes to serve. Informal activities by households "beyond" this reach is a logical outcome of this inadequacy - activities which seek "home grown" solutions to the most immediate problems. Public policy has learnt to recognise these activities as "solutions" only very recently; the earlier response being to consider them "illegal" and therefore subject to the full weight of the law.

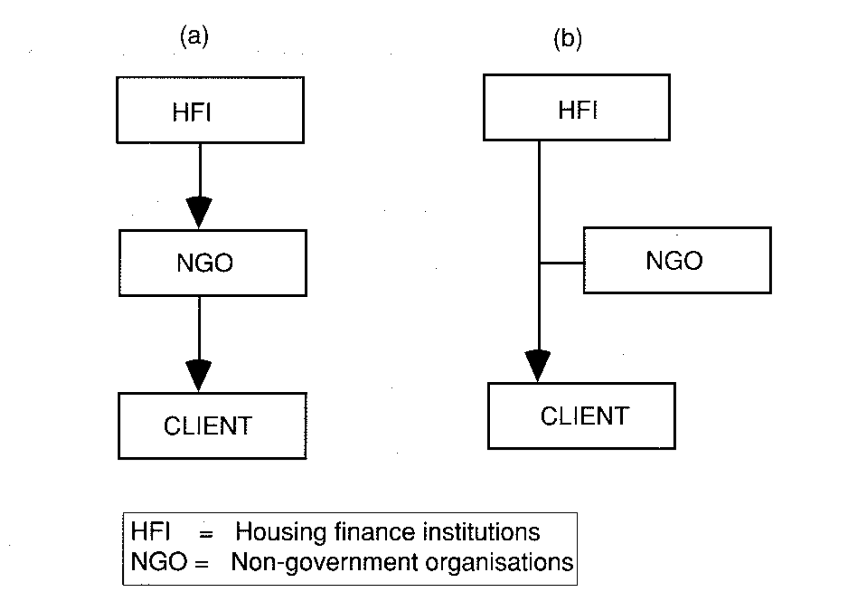
Informal solutions to pressing problems are the natural consequences of inadequate institutional responses. This does not, however, imply that households who operate in the informal economy to seek *particular* solutions are operating in the informal economy *per se*. It does not even imply that all these households are poor; indeed in the shelter sector it may just imply that they cannot afford housing as a consequence of severely distorted public policies. Even within shelter responses, the part played by operating in the informal economy could be related only to a specific problem - for example finance.[14] In other words, informal activities are a response to inadequate access to formal institutions for very specific problems; a future paradigm might therefore lie in creating these institutional responses in a creative and innovative way.

Experiments in institutional linkages in Shelter Finance

The traditional method of linking formal and informal institutions can be visualised in Figure III. Formal housing finance institutions (HFI) which normally operate in the median income percentile of the population, experiment with lending to lower income groups through intermediary institutions which are typically grass roots organisations organising a particular community and offering a range of services. The HFIs, not wishing to take on credit risk of clients that cannot be formally appraised, search for an NGO to which they lend (Figure IIIa) for on-lending to the community or alternatively routing funds through an NGO to households directly (Figure IIIb). In either case it is a marriage based on convenience rather than affection; the HFI abnegates responsibility in precisely the areas where it possesses comparative advantage (credit appraisal, accounting and loan recoveries) and the NGO takes on responsibility in which it may possess very rudimentary skills and, as a consequence, stretches its limited resources from those areas where it does have special skills (organising the community).

Initial responses from these arrangements have not been very satisfactory with low recovery rates, NGOs losing interest in older projects which begin to create problems and the high transaction costs involved.

Figure III



<u>The Co-operative Housing Foundation (CHF)</u>

The CHF has been working on these problems for many years principally in Central America and the Philippines but is gradually expanding its activities to Asia, Africa and Latin America. It essentially follows the above model to test a "financing and development model that transforms the enabling strategy from a concept to a replicable programme."[15] The CHF model routes funds through intermediary institutions to affiliate credit unions and individual and community associations. CHF lends to intermediary institutions at slightly below market rates for 3 to 5 years. The intermediary marks up the funds slightly but also provides below market loans to its affiliates. The affiliates loan funds to beneficiaries at market rates. The spreads help each level to service their costs. The security for the loan is flexible, and may involve mortgage of property, cosigners on the loan and payroll deductions. Peer pressure is also built into the programmes to facilitate repayments. Figure IV illustrates the process.

This model is flexible and permits a variety of relationships between the formal institution and the intermediary organisation. It is a new beginning that attempts to forge and nurture links between the formal and informal sectors of the economy. It does, however, need further development in order to develop into a paradigm - especially with regard to the resource flows that are necessary to make it work.

The Grameen Bank

The Grameen Bank project, the brainchild of Professor Muhammad Yunus in Bangladesh is, perhaps, the most notable institutional experiment that demonstrate that financial support to the landless poor, especially women - to set up small enterprises and other income generating activities - can succeed without subsidies or other welfare based interventions by the government. In this demonstration the Bank has succeeded remarkably well. It brought to bear clear conceptual principles combined with a workable institutional structure which could reach out to people on their own terms. More recently the Grameen Bank has launched its Housing Loan Programme where borrowing takes place with groups of five borrrowers, repayable in weekly instalments of 2% with the loan amount being determined by the borrower (between 30Tk and 5000Tk). In weekly meetings of borrower groups, the Bank goes out to the people to collect repayments. There are now 607 branches looking after 23,560 centres with 580,734 members of which 87% are women.[16]

The Bank has developed its own housing model to suit local conditions (water proof and flood resistant) but, more significantly, has structured its loan facility to directly benefit from its income generating loans. The housing loan is consequent to a perfect record of prior economic loans and is offered in two packages; the basic loan and the standard loan, the latter being larger than the former and linked to a slightly more elaborate house. Loans are disbursed in two weeks and the house is built in four; demonstrating how rapidly demand and supply can be matched in this rural shelter market. With increasing income, improvement and extensions are possible and households tend to allocate greater savings and income to improving their homes which have become a source of pride and achievement.

The experiment is a working example of an institutional response designed with the end user in mind; using the well tried management principle of customer predicated services applied in the rural context. Loans are structured to meet specific requirements; security is based on peer pressure and what is possible and repayments are structured to be afforadable. The Grameen Bank is an example of a formal institution *directly* structuring a financial mechanism with beneficiary groups at the grass roots level.

An Emerging Paradigm

In order to be effective, any arrangements that attempt to link the formal and informal sectors of the economy must have sound conceptual foundations. Figure V describes some of the issues that arise in integrating the informal sector into the formal housing finance system.

The top half of the figure indicates that a housing finance system needs to be placed squarely in the financial system of the economy if it is to be self sustainable. Housing finance institutions normally operate on the top half of the dotted horizontal line; to be effective in reaching the informal sector a network of relationships need to develop between HFIs, NGOs and Community Based Organisations (CBOs) which are simple, preserve the comparative advantages of each, but, at the same time, deliver an output which is predicated by potential beneficiaries. The role of government on the top half of the diagram - the formal sector - is to create a regulatory and

Figure IV

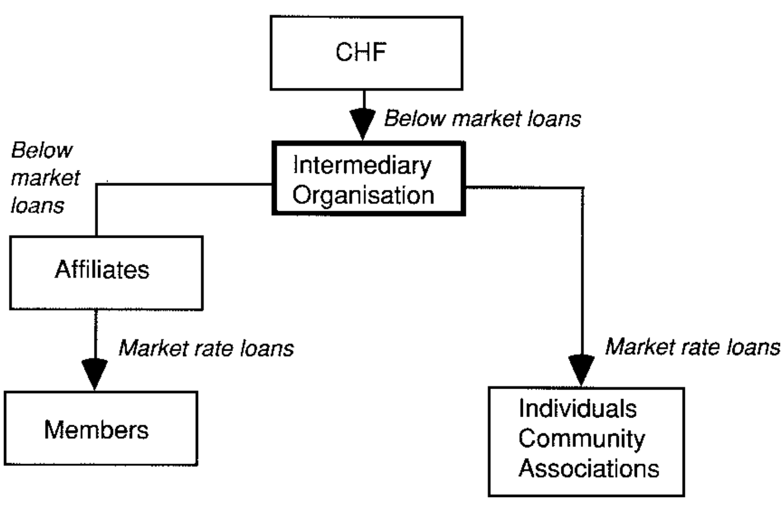
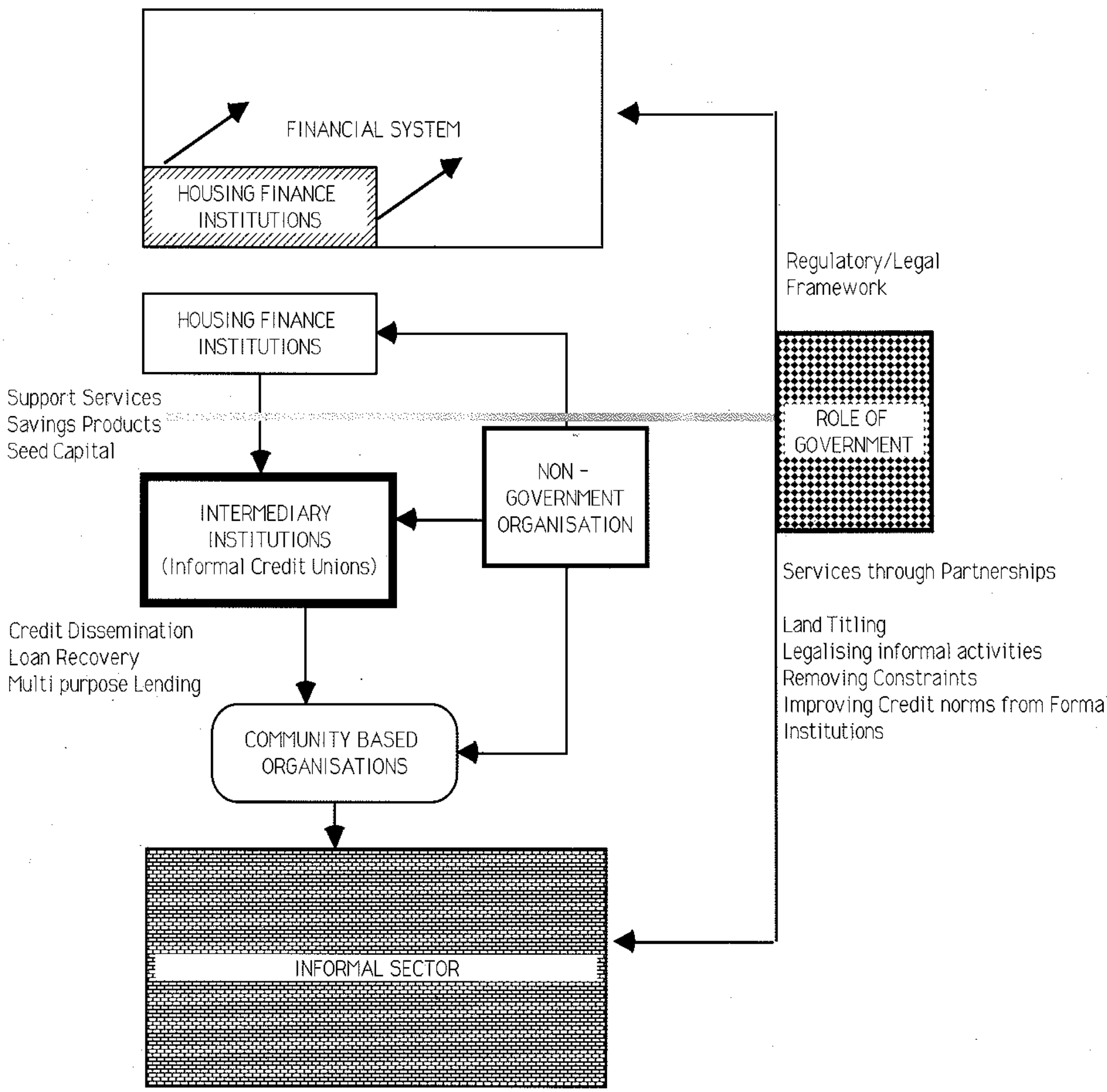


Figure V INTEGRATING THE INFORMAL SECTOR INTO THE FORMAL HOUSING FINANCE SYSTEM



legal framework in which institutions can operate efficiently; on the bottom half - the informal sector - governments need to encourage service delivery through partnerships and by improving land titling, removing constraints to the flow of finance to encourage resource mobilisation for intermediary institutions.

The heart of the concept is that top-down resource flows will not help solve the problem in the long run. Resources must be generated at the level at which they are applied; Catalytic resources can be made available to initiate processes but the eventual success of the programme will depend upon the relevance of services to the beneficiaries and the resource flows that are generated to serve them. Therefore, the alternative paradigm that emerges from this approach would look something like Figure VI.

In this approach the HFI and the NGO, in partnership promote an informal credit union providing venture capital to the new entity as well as initial management and technical support. The client groups are involved in deciding the outputs required though operations are professionally managed. While the clients receive resources either directly or through CBOs, they are also part of the resource mobilisation effort through the placing of funds currently being saved in informal means at little or no returns. All funds are applied in the community to encourage the process of savings with the Union. The initial stage of the process is to build a *financial* organisation that operates viably accepting and offering market determined financial services. These would be structured according to community needs and cover small enterprise, shelter and multipurpose loans. Specialisation in financial services (eg limiting operations to shelter loans exclusively) at this level narrows the operational range of the institution and discards the very purpose for which the poor save. Shelter related technical services would also be made available once shelter priorities assume significance in the community.

Two experimental projects in India are currently in an advanced stage of formulation using these principles; one involves the creation of a credit union in slum communities in Ahmedabad and the other a credit union to serve the needs of village communities in Kanyakumari district of South India. These projects will be action research projects to test certain principles being applied and to ascertain the problems and strengths of the proposed framework. Under the *Asian Coalition of Housing Finance Institutions* similar projects are being formulated inThailand and the Philippines all of which will be evaluated to derive lessons for strengthening the paradigm on which they are based.

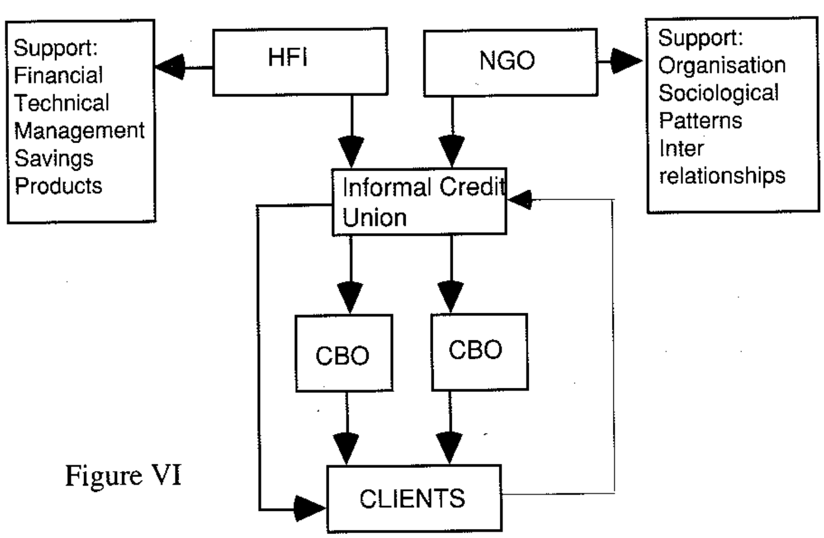


Figure VI

THE ASIAN COALITION OF HOUSING FINANCE INSTITUTIONS

In 1990, I had the privilege of putting together a project document for the United Nations Centre for Human Settlements (Habitat) on *Public Private Partnerships in Expanding Access to Housing Finance.* The principle idea was very simple: Could we extend the recommendations made in the *Vienna Recommendations* to form partnerships in a regional context? There was merit in bringing together the strongest institutions in the Asia Region to form a Coalition as a means of sharing experiences, creating a forum in which new ideas could be pursued and providing an oppurtunity for other nations to study experiences already available in the region. The Coalition, which has just completed one year of active co-operation, at present, consists of the Government Housing Bank in Thailand, the Housing Development Finance Corporation in India, the Korea Research Institute for Human Settlements and the National Home Mortgage Finance Corporation of the Philippines.

The Coalition is presently pursuing four key objectives: facilitating technical assistance in the region, providing training in housing finance, undertaking research and experimenting through action research new methods of linking the formal and informal shelter finance activities. In its first year, it has responded to requests from China, Mongolia and Vietnam for active pariticipation in study tours and training; future assistance programmes are being formulated for Nepal, Pakistan, Bangladesh and possibly Sri Lanka.[17]

The Coalition represents an excellent example of sharing in the Asia Region so far as shelter finance is concerned. One of its major successes has been the close relationships that have developed between each institution each of which is a major force in its own country so far as shelter issues are concerned. The cross-sharing of techniques and ideas within Coalition members has also been significant leading to better and more diverse operating practices. In the future, the Coalition hopes to expand its activites to develop a strong advocacy role for shelter sector developments from both the demand and supply side of the housing market in the Asian region. Its action research agenda focusses attention primarily on institutional links between the formal and informal sectors in the belief that the future challenges facing us in the region is to ensure that the institutional structures we build today must be relevant for our basic constituency now and in the forseeable future - those who seek homes and especially the poor.

The Asian Agenda

The shelter policy paradigm has shifted considerably over the two decades in which shelter strategies have been pursued in the developing world. Today the ruling paradigm discounts active intervention on a project to project basis and instead recommends a policy approach that attempts to unfetter housing markets that have been distorted in the past. Active interventions will be required to help the poor and marginalised in our emerging societies. The precise nature of these interventions remains unclear though what is clear is that any intervention should avoid distorting markets and if they involve subsidies they should be targeted and explicit and their incidence known. In order to plan intervention strategies that can meet these requirements a lot more needs to be known on the dynamics of housing markets and hence key data needs must be met by tracking a few key statistics. Finally, institutions that presently exist may need to be re-orientated towards fulfilling the needs of this new approach and new institutions established where none exist today to serve unmet needs. In any case, networking institutions, be they new or old, is of paramount importance in an increasingly integrated world.

How will Asia respond to this approach? The *Asian Coalition of Housing Finance Institutions* offers one method which works through strong institutions in the region. The Regional approach offers many advantages over a purely national approach towards evolving implementable strategies. Policy documents issued by governments in the region need to move away from being structured rhetorically as "wish lists" into more pragmatic documents that incorporate well thought out strategies, sequence events logically, recognise the need for institutional change and the implications this will have, establish realistic time frames and output targets and, while stressing urgency to tackle several issues simultaneouly, tackle the core issues with much greater energy and commitment.

The *Asian Coalition of Housing Finance Institutions* will attempt to provide inputs into this process for all countries in the region. It will also establish, in 1993, an Asia Network of Housing Research, bringing together individuals who have an excellent track record of work in the region in order to determine whether a new agenda can be established for future work which meets the needs of the new paradigm. This Network will be linked to the *European Network* thus helping to share the agenda and to encourage co-operation and data sharing on the major issues that confront us. In this way we hope to link the emerging paradigm to an action research agenda as well as a conceptual approach agenda using the best minds and institutions available to us in the region.

That progress depends on shared learning is a basic dictum of the scientific enterprise or of institutional growth. If this principle is coupled with a *genuine* commitment to put in place an environment that encourages its perpetuation and a constant refinement of the technique it suggests (the principle of learning by doing) the results that it implies can be quick and effective. The need for recognising this has, perhaps, never been as urgent as it is at the present time. The Asian agenda is to push it forward with all the strength at our disposal. ■

NOTES

[1] Thomas Kuhn, *The Structure of Scientific Revolutions* (The University of Chicago Press, 1970).

[2] For land policy, for example, the following was suggested:

"*Land because of its unique nature and the crucial role it plays in human settlements, cannot be treated as an ordinary asset controlled by individuals and subject to the pressures and inefficiencies of the market. Private land ownership is also a principal instrument of accumulation and concentration of wealth and, therefore, contributes to social injustice; if unchecked, it may become a major obstacle in the planning and implementation of development schemes.*"

India passed into law its own version of this principle at about the same time (The Urban Land (Ceiling and Regulation) Act, 1976)

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PARADIGMS...

➪ 13

[3] The World Bank, Housing Sector Policy Paper (World Bank May 1975)

[4] Ibid.,41, 48-49

[5] This approach stressed the need to mobilise all the resources of all the actors in the shelter production and improvement process. The approach emphasised that decision making would be left to people themselves to determine the priorities, the pace and the extent of the development process.

[6] Especially laws dealing with price controls - land prices, rent, interest rates - property rights, transfer of ownership and collateral instruments.

[7] For example, public sector institutions might wish to review their role as builders of housing units and transform themselves into providers of serviced land instead.

[8] Especially high and rising levels of inflation, volatile interest rates, stagnating income, increasing indebtedness and declining terms of trade were the key factors.

[9] The World Bank is reviewing its own shelter strategy in the light of past experience and is likely to publish a position paper shortly. It has already reviewed its Urban Strategy and has published its approach in *Urban Policy and Economic Development*, World Bank Policy Paper, 1991.
USAID has issued its own approach in *Urban Economies and National Development*, prepared by George E. Peterson, G. Thomas Kingsley and Jeffrey P. Telgarsky of the Urban Institute in Washington D.C. for the Office of Housing and Urban Programmes, U.S. Agency for International Development, Washington D.C.
UNDP issued a strategy paper entitled, *Cities, People & Poverty: Urban Development Co-operation for the 1990s*, UNDP, 1991.

[10] Steve Mayo, *Housing Policy and Housing Research: The View from the World Bank*, Housing Finance International, December 1991.

[11] *Sites and Services - and Subsidies: The Economics of Low-Cost Housing in Developing Countries*, The World Bank Economic Review, Vol 1 No.2 1987, (301 - 335).

[12] Robert Buckley, *The World Bank & Housing Finance: Its Role in Financial Reform*, Housing Finance International Vol V No.3 (March 1991).

[13] For a more detailed discussion of this aspect see James Christian, *Integrating Housing Finance into the National Finance Systems of Developing Countries - (Part I)* in Housing Finance International, Vol V No.4 (June 1991).

[14] Judith A. Hermanson and Richard T. Owens, *The Informal Sector in Housing and Urban Development: A Review and a Road Map*, Co-operative Housing Foundation, Prepared for USAID (March 1990).

[15] Harold O. Wilson, *Informal Shelter Finance: An Enabling Strategy in Action*, Housing Finance International Vol VI, No.2 (December 1991)

[16] *The Grameen Bank Housing Loan Project*, Mimar 34 (March 1990)

[17] See the *Asian Coalition Newsletter*, June 1992.

INFORMATION...

➪ 19

prevalent. Computer-readable data files ofvarious designs are also appearing, not only accessible by large scale data processing facilities but also by individual analysts with access only to microcomputers. Some needs for information are relatively straightforward and can be handled by a telephone conversation or through simple correspondence.

Design of data products, especially printed products, needs to occur in consultation with the users. Much bulk can be generated in thick volumes of tabulations that do not provide the required cross tabulations.

Pricing of data products is another strategic question. Private vendors of data will set prices so as to maximize their returns - not necessarily the profit on an individual data product, but in such a way as to maximize the overall long-run return to the firm - which may involve using data dissemination as a marketing tool for other products and services of the firm.

Pricing strategies for government dissemination of data differ from those of private providers. Because of the externalities and market failure aspects of data production mentioned above, government subsidies to private firms for provision of data may be justifiable. For data disseminated by the government, the optimal charge may be one that covers only the marginal cost of additional copies of reports or other data products. Charging more, in an attempt to match the average cost of collecting and disseminating the data, may only push some customers out of the market and cause others to procure illegal copies, which will be available at approximately the marginal cost of reproduction. Some charge is probably warranted, however, to screen frivolous requests.

Information systems can always be expanded. But expansion does not necessarily bring improvement. The key is to begin with the questions that need to be answered and then to work backward to determine and implement the most efficient methods for generating and disseminating the information needed to answer those questions. ■

NOTES

[1] Ashok Chaluvadi, "How Builders Study Their Markets," Housing Economics, National Association of Home Builders, December 1991.