Housing Finance: Habitat II and the Way Ahead

by Kyung-Hwan Kim

EVOLUTION OF HUMAN SETTLEMENTS POLICY: VANCOUVER TO ISTANBUL

UNCHS was established following the recommendations of Habitat: United Nations Conference on Human Settlements held at Vancouver in 1976. However, its mandate and commitment, which continues in the 1990s, dates back even before its predecessor, the Centre for Building and Planning was established in 1965.

Now we are looking ahead to Habitat II which is scheduled to take place in Istanbul, Turkey in June 1996, twenty years after the Vancouver Conference. Why another Habitat? There are two major justifications for Habitat II. The first is that achievements since 1976 failed to arrest deterioration in the living conditions of a vast majority of the population in many developed and developing countries. The other justification is that the recommendations of the Vancouver Conference are outdated as knowledge of functions and needs of human settlement have undergone a major evolution. The enabling approach to shelter and the sustainable development imperative emerged.

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To form the two central themes for Habitat II: Shelter for All and Sustainable Human Settlements in an urbanizing world.

In 1986, a decade after its creation, UNCHS produced a Global Report on Human Settlements. In this Report it was proposed that Governments should shift to an "enabling strategy" in their human settlements development efforts from the supply approach which prevailed until that time. This new approach requires that the government create the right incentives and facilitating measures to ensure that other actors can take action to a greater degree to provide shelter and the associated infrastructure (HS/174/68E, iii).

The important points of the global report led to the publication of "a new agenda for human settlements", which was adopted by the United Nations in 1987. The new agenda was developed into the Global Strategy for Shelter to the Year 2000 so as to ensure that every family has access to a decent home at a price it can afford (HS/238/91E, p.71). GSS, which was adopted by the General Assembly in December 1988, for the first time pulled together global experience and laid out a comprehensive global strategy built on the enabling approach.

GSS represents a new approach also in its scope in that it highlights the need for maximum collaboration between the public and the private and community sectors in formulating and implementing national shelter strategies. The requirement for participation and full commitment from all levels of Government, is also stressed. This is a drastic change from the basics of the Vancouver recommendations which emphasized governmental initiative and allowed for a very limited role for the other actors such as the private sector, NGOs, the population at large and even local authorities.

The other line of development in thinking in the area of human settlements came from the concern for the sustainable development meaning improving the quality of life for all. The Preparatory Committee for the United Nations Conference on Environment and Development (UNCED) decided that human settlements should be treated as a distinct programme of Agenda 21. It was also decided that its programme areas should address human settlements as a substantive framework for sustainable development and should include the human settlements dimension.

In short, GSS and Agenda 21 are the two building blocks for Habitat II. The major objectives of Habitat II are to confront the challenge of providing a sustainable living environment in a rapidly urbanizing world and to articulate strategies which will cope with the requirements of growth, improve human well-being and achieve financial and environmental sustainability. Habitat II will also give specific attention to the needs and contribution of women and socially vulnerable and unserved groups and to meeting the basic human need of shelter.
The immediate objective of the Conference would be to formulate a global plan of action capable of guiding national and international efforts through the first two decades of the next century. The action plan will include a set of programmes and sub-programmes, with realistic targets and timetables, and provisions for monitoring and evaluation of performance; indications of financial requirements, including ways and means to mobilize the necessary new and additional financial resources; measures for the reorganization and strengthening of the capacity of institutions as well as of international cooperation and coordination.

The conference agenda includes: a review of trends in policies and programmes undertaken by countries and international organizations to implement the recommendations adopted by Habitat; to follow through the many important human settlement related issues brought out by the Rio Conference on Environment and Development held at Rio de Janeiro in June 1992; to conduct a mid-term review of the implementation of GSS, identify constraints and incorporate adjustments and improvements in the Strategy in order to accelerate progress towards the achievement of its main objective of adequate shelter for all.

In addressing these issues, Habitat II will seek to broaden the base of participation and contribution by various stake-holders of human settlement developments. After all, the ultimate importance lies in the degree of satisfaction of people about their settlement conditions rather than the performance of programmes. Policy experience since Vancouver demonstrated that settlements development cannot be the result simply of global plans of action or of top-down government policy. Therefore, Habitat II will build on a participatory process and encourage the widest possible range of contribution to the Conference and its preparatory process from central and local governments, local authorities associations, academia, NGOs, CBOs, and the private sector.

For these and other reasons, relying on a purely market-based approach to provide housing loans to low-income groups has serious limitations (HS/243/91E, p.7), and it seems almost inevitable for governments to release very large amounts of long-term capital to the housing finance market and ensure that financial institutions do lend to the poor.

The problem with this alternative is that directed credit schemes for housing often fail to reach the urban poor and end up lending smaller volumes for housing than those which would have resulted from a more neutral and market based system (World Bank 1993, p.118). This happens because of the fragmented nature of the housing finance system which is isolated from the rest of the financial and capital markets. Therefore, we go back to the case for market-based systems in which housing finance institutions are allowed to compete for savings mobilization at competitive interest rates. Subsidies should be limited and more directly targeted to the low-income groups (HS/174/92E, p.55).

On the other hand, some case studies demonstrate that it is indeed possible for formal housing finance institutions to serve the demands of low income households if they adapt to their needs, and especially if NGOs and CBOs serve as intermediaries, and if the programme includes income generation activities (Lail 1991). These experiences, it is claimed, disprove important misconceptions which exist among formal housing finance institutions regarding the willingness and capacity of the urban poor to pay market interest rates, and demonstrate that the problem for low-income borrowers is not necessarily with high interest rates but rather with other requirements such as formal titles and statutory regulations (HS/243/91E, p.7). The experience of building societies of Zimbabwe also suggests that accepting lower building standards help in making loans more affordable.

But it seems fair to say that we have yet to find a satisfactory answer to the question of how and under what conditions lines of
credit can be made available to the poor who do not satisfy conventional credit conditions (HS/62/84E, p.2-3). Our knowledge is even more limited about the linkage between formal private sector initiatives and the informal sector which accounts for a predominantly large share in the financing of shelter in developing countries. Again, there is some anecdotal evidence in favour of "outreach" programmes to mobilize funds among the poor, utilize informal rotating credit societies, and to lend to villages or community organizations rather than to individuals. Nevertheless, more research, careful documentation and dissemination of good practices is needed, and UNCHS will continue to support such endeavours.

After having said so much about the important role of housing finance and housing finance institutions in achieving shelter policy goals, it should be appropriate to point out the limitations of housing finance as a component of shelter strategy. It is well established that macroeconomic instability and high and variable inflation rates are the most serious obstacles to developing viable and flexible finance systems in developing countries.

The ultimate success of a well-functioning housing finance system in making housing affordable also hinges upon the housing delivery system. Distortion in other subsectors within the housing sector makes the supply of housing less responsive to the increase in demand. Rigid regulation in land and housing markets, unrealistically demanding building standards, and an over-regulated construction industry are some of the factors which contribute to inelastic supply and hence high housing prices (World Bank 1993).

The point is that no housing finance mechanism can overcome excessively high housing prices. In cities where a median house costs ten years income of an average household, it is impossible for housing finance to reach most households, let alone low income households. Therefore, improving housing finance systems by itself is not enough to make housing affordable. We also need to rationalize land use, building regulations and infrastructure standards, as well as promoting competition in the construction and building materials industries. In short, housing finance should be integrated into the housing delivery system (HS/62/84E). Otherwise, enhanced housing finance may lead to an increase in house prices with a limited impact on housing production and housing conditions.

One final point is that many people in the low income groups simply cannot afford owner occupation no matter what. The poorest need to be assisted with subsidized funds in a carefully targeted manner. At the same time financing should be made available to rental housing as well as incremental building and improvement. This will offer a wider range of options to the urban poor.

HOUSING AND URBAN SECTOR INDICATORS

Another important aspect of human settlements development policies is the need for practical tools which will assist cities and countries to assess human settlements conditions (take the temperature), devise appropriate policies and strategies (prescribe medicine), and measure their impact on improving human settlement conditions. In this context, the joint Habitat/World Bank Housing Indicators Programme (HIP) and the Urban Indicators Programme (UIP) play an important role in Habitat II.

The objectives of HIP are to support GSS by developing conceptual, analytical and institutional frameworks for managing the housing sector as a whole. HIP is designed to strengthen the in-country capacity for monitoring housing sector performance, and in so doing to improve the soundness of housing policies and strategies through their regular in-country monitoring. The first phase of HIP was implemented during the period September 1990 to December 1992, when indicators were developed and data was collected through an extensive survey of 52 cities covering 52 countries around the world. The results have been published in a set of documents (World Bank-UNCHS 1993).

The Fourteenth Session of the United Nations Commission on Human Settlements held in April 1993 commended the cooperation between the Bank and Habitat and passed a resolution that the preparation of Habitat II utilize the approach of the HIP as a means of focusing governments' attention on key policy and performance issues. So, we have just entered the new phase of HIP, global implementation and institutionalization. A permanent facility has been established within Habitat responsible for the collection, analysis, application and dissemination of internationally comparable data on housing sector performance.

Global implementation will take an evolutionary approach. It is proposed that initially data relating to a small set of key indicators will be collected for one major city in approximately 30 countries each year and then data collection will be expanded wherever feasible, in each country to cover other cities, and possibly rural areas.

A set of 10 key indicators has been identified from Phase One to capture the essential elements of shelter performance in all countries. The set consists of price indicators (the house-price-to-income ratio, the rent-to-income ratio), quantitative indicators (housing production and housing investment), quality indicators (floor-area per person, permanent structures, and authorized housing), demand-side indicators, and supply-side indicators (the land development multiplier, and infrastructure expenditure per capita).

In the area of housing finance, the housing credit portfolio defined as the share of housing loans out of the total loans outstanding at financial institutions is included as the key demand-side indicator. It measures the importance of the housing finance system to the overall financial sector as well as access by households to credit. A preliminary international comparative analysis...
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suggests that the size of the housing finance sector rises with the level of income and the financial depth of the economy. It was also found that there are considerable variations within and among regions due to differences in institutional and policy influences (World Bank and UNCHS 1993, Volume I, p.19).

In order to support the in-country preparatory process for Habitat II, it has been decided that a set of policy-sensitive urban sector indicators will be developed jointly by the World Bank and UNCHS to be used together with the key housing indicators in addressing the two main themes of Habitat II: Shelter for All and Sustainable Human Settlements in an Urbanizing World.

The urban indicators will cover major fields of urban infrastructure (water supply, sanitation, solid waste management, transportation, electricity), urban finance, urban environment, social services, productivity, poverty, and quality of life. The Secretariat for Habitat II, which has been established within UNCHS, will call upon relevant ongoing programmes and initiatives of the UN system to provide funding and technical assistance for country-level activities including the application of human settlements indicators.

The process of developing and using a standardized set of indicators will contribute to harmonizing national reporting at Habitat II and also lead to the formation of a database of internationally comparable information, which will facilitate the sharing of knowledge and understanding the best practices at the city, national and international levels, thereby assisting individual countries to improve their policies by learning from experiences of others, as well as their own. Nevertheless, the programme still strongly emphasizes the importance of strengthening national capacity for regular and systematic monitoring of housing conditions and housing policies. Therefore, individual countries may consider some additional indicators or narrow the list of indicators to pay more attention to as they see appropriate.

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Although proposals for increased regulation (i.e., credit controls) have been made, the U.K. government has refrained from making significant changes to the housing finance system. In particular, no lenders or insurers have failed or have been bailed out. Some households have benefited from the creation of an ex post safety net through the government's purchase of foreclosed homes and renting of them to former owners.

REFERENCES


