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- Better location, better housing: incorporating location into affordable housing loan programs
- Issues and challenges for the housing sector in Bangladesh; strengthening specialised state-owned financing
- Housing finance in Tajikistan
- Flemish housing policy and outcomes: new directions after the reform of the Belgian State?
- Affordable housing: a case of land ownership in the Andaman and Nicobar Islands

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Location, land and housing policy

↳ By Andrew Heywood

That residents in affordable housing often suffer disadvantage in terms of a range of indices such as health, employment and educational attainment is well-known. In-depth studies from the UK and other markets attest to the diminished life chances of those who live in the affordable sector.

What is more disturbing is that some studies of social housing suggest that when all other factors are excluded then the fact of living in social housing may in itself be instrumental in promoting disadvantage amongst resident households. It is arguable therefore that homes built with public subsidy and intended as a contribution to social justice and equality of opportunity may, at least in some cases, contribute towards a contrary outcome.

Location must be a key factor as to whether affordable housing will succeed in its social mission, whether the tenure is social rented housing or some variant of homeownership. Estates of affordable or social homes built in peripheral areas far from employment opportunities, decent educational provision, and health care, will inevitably impact negatively on the lives of lower income households relative to their more affluent fellow-citizens. Add the absence of a well-developed transport infrastructure and those who find themselves living in these areas cannot easily travel to gain access to essential facilities- even if they can afford to.

Accountability for poor location can be hard to ascribe. Does responsibility lie with government for providing inadequate subsidy, with planners, with providers of services and amenities or with developers?

In our first article in this issue, Arthur Acolin squarely addresses issues of location in the development of affordable housing. As he states, "…low land costs generally reflect undesirable locations due to lack of access to employment centres as well as amenities." The issue is how to discourage developers and planners from siting affordable housing on the cheapest land.

Acolin analyses the possibilities for utilising technology in applying location criteria in site evaluation and uses pioneering work in Mexico on spatial databases to examine the challenges that government, planners and developers may face. He then goes on to look at the possibilities of incorporating location criteria into site assessment in other markets.

Ultimately ability to access particular locations is rooted in the relative supply of desirable land. land. In some countries there is an absolute shortage of land and gaining access to any land for housing may be to compete with other priorities such as much-needed food production. In Bangladesh, the subject of our second article around 1% of all farm land is converted to non-agricultural use each year leading to a 0.86% annual reduction in rice production according to the author, Debasish Chakrabarty, Managing Director of the state-owned Bangladesh House Building Finance Corporation [BHBFC]

Mr Chakrabarty shows how, although Bangladesh has achieved significant economic growth and improved the living standards of the population, there is still an urban housing deficit of 4.6 million units in a country with an urban population of around 43 million. There is significant need in rural areas also and problems of poorly located and poor-quality housing are also common.

Within the context of an under-developed housing finance market in the country, Mr Chakrabarty highlights the intervention of the BHBFC in its role as provider of loans for those with low to middle-incomes.

The former Soviet republic of Tajikistan has borders with a number of countries including China, Afghanistan and Pakistan. Like many former countries of the Soviet Union it has a high level of homeownership (97%) due to privatisation of the housing stock. Nevertheless, all land is still ultimately owned by the state, with homeowners and others holding land as leaseholders. We are very pleased to publish the article Housing finance in Tajikistan by Eugen Doce since it offers a valuable overview of both the housing market in Tajikistan and of its developing housing finance market. At present, housing finance only funds a small proportion of new homes sold in the country. Mr Doce provides an informative summary of the mortgage products currently available. The maximum term appears to be ten years, with interest rates between 15% and 36% on loans that are often denominated in US dollars.

Like many countries including the UK and Spain, Belgium has experienced regional tensions, in this case, between the Walloon and Flemish communities. These have been partially resolved by providing a greater degree of legislative and policy devolution for Flanders. Housing policy has therefore been within the competence of Flanders since the 1980's. In her article Flemish housing policy and outcomes: new directions after the reform of the Belgian State? Sien Winters analyses the Flemish housing market and the housing policy response. She shows how the market is still dominated by the aspiration towards homeownership in spite of home ownership levels having peaked, significant affordability issues and the reform of mortgage tax relief. Social rented housing has continued to expand although from a low base and it remains a relatively small sector when compared with countries such as France, the Netherlands and the UK. The private rented sector has maintained itself at around 20% of the housing stock despite very limited support in policy terms.

The Andaman and Nicobar Islands, the site of a former penal colony, are the subject of our final article in this issue. They are administered by India although they lie some 1500 kilometres from the mainland in the Bay of Bengal. There was a large increase in population following Indian independence, due to an influx of former refugees from what is now Bangladesh. It was policy to settle land on the new inhabitants. Nevertheless, availability of land remains a major issue and landlessness is not only a problem in itself but excludes households from accessing housing subsidy under the Government of India's plan to provide housing for all by 2022 under the Pradhan Mantri Awaas Yojana [PMAY] scheme. This problem exists across rural India.

Sanjay Kumar, author of the article, was Deputy Commissioner for the North and Middle Andamans. He recounts a fascinating personal story of his intervention to assist landless households living below the poverty line to come together to purchase land and thus enable them to claim the housing subsidy. Mr Kumar's story is a testament to the continuing importance of local efforts to overcome entrenched problems and of the way in which such efforts can have a wider application.

Contributors' biographies

Arthur Acolin is an Assistant Professor of Real Estate at the University of Washington in Seattle. He was a consultant for the World Bank on international housing finance and urban development projects in several Latin American countries.

Debasish Chakrabarty joined Bangladesh House Building Finance Corporation [BHBFC] as Managing Director on 01 January 2017. Prior this, he worked at Rupali Bank Limited as Deputy Managing Director. Mr. Chakrabarty started his banking carrier by joining BHBFC in 1995 as Assistant General Manager where he was promoted to Deputy General Manager. He joined Rupali Bank Limited with promotion to General Manager in 2011 and later promoted to Deputy Managing Director. Mr. Chakrabarty has undertaken work for the World Bank and for "MIDAS" in Bangladesh amongst many other projects. He has travelled widely in the course of his career. [3.18]

Eugen Doce has headed the Housing Finance Competence Centre at Frankfurt School of Finance & Management since 2007. Prior to the work at Frankfurt School, Mr. Doce worked for the banking sector in the Balkans and Germany, dealing mostly with credit processes for housing improvements, and SME lending. He has hands-on experience of the credit process cycle and has successfully managed loan portfolios. Mr. Doce holds a Masters Degree in Business Administration and European Studies.

Claudia Magalhães Eloy is a consultant on housing finance and subsidy policy in Brazil, who currently works for FIPE [Fundação Instituto de Pesquisas Econômicas] and has worked for the World Bank [TA] and for the Brazilian Ministry of Cities and Companhia de Desenvolvimento Urbano e Habitacional of São Paulo [CDHU]. Claudia has also participated in the development of the National Housing Plan, in the analysis of the Housing Finance System. She holds a PHD in Urban Planning at the University of São Paulo [USP], a Master in City Planning at the University of Pennsylvania, a Master in Public Administration at Bahia's Federal University [UFBA] and a BA in Architecture and Urban Planning [UFBA], with a specialization in Real Estate Finance at the Brazilian Economists Order [OEB]. She also attended Wharton's International Housing Finance Program.

Andrew Heywood is an independent consultant specialising in research and analysis of housing and mortgage markets, regulation and policy with both a UK and international focus. He is a visiting fellow of the Cambridge Centre for Housing and Planning Research [CCHPR] and a research fellow with the Smith Institute. He is also Editor of the journal Housing Finance International. Andrew writes for a number of publications on housing and lending issues and publishes reports commissioned by a wide range of clients.
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Sanjay Kumar is a Fulbright scholar and enrolled on a Master in City Planning course at MIT. Since 2008, he has been a member of the Indian Administrative Service and before that served in the Indian Air Force for over a decade. His recent assignments include Excise Commissioner, Special Transport Commissioner and Special Inspector General Registration, Delhi.

Alex J. Pollock is a distinguished senior fellow at the R Street Institute in Washington DC. He was President and CEO of the Federal Home Loan Bank of Chicago 1991-2004, and President of the International Union for Housing Finance 1999-2001.

Zaigham M. Rizvi is currently serving as Secretary General of the Asia-Pacific Union of Housing Finance and is an expert consultant on housing and housing finance to international agencies including the World Bank/IFC. He is a career development finance banker with extensive experience in the field of housing and housing finance spread over more than 25 countries in Africa, the Middle-East, South-Asia, East-Asia and the Pacific. He has a passion for low-cost affordable housing for economically weaker sections of society, with a regional focus on Asia-Pacific and MENA.
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Mark Weinrich holds graduate degrees in political science and economics from the University of Freiburg, Germany. He is the General Secretary of the International Union for Housing Finance and the manager for international public affairs at the Association of Private German Bausparkassen.

Sien Winters is research manager at HIVA Research Institute for Work and Society, KU Leuven and coordinator of the Policy Research Center Housing, Flanders. She is one of the leading housing researchers in Flanders and participates in housing policy discussions as an expert, including as a member of the Flemish Housing Council. [3.18]

Asia-Pacific regional roundup Autumn 2018

↳ By Zaigham Rizvi (ed.)

Fiji

The HFC Bank, Fiji

HFC Bank's core business focus is providing home lending facilities. It has re-strategized its business to offer full-fledged banking solutions with quality products and services including a transactional deposit account, insurance, term deposits, personal loans and selected business lending facilities within its niche' market segment. The HFC Bank was established in June 1962 by the Fiji Government in collaboration with the British Overseas Development Corporation [BODC] (now known as Commonwealth Development Corporation [CDC]) through its locally incorporated company Fiji Development Company [FDC]. FDC had an initial shareholding of 67% and Fiji Government had 33%. In March 1971, FDC and the Fiji Government became equal shareholders with shareholdings of 50% each.

HFC Bank, Fiji's only local bank has launched a *Special Housing Facility*, bringing Fijians closer to their dream of owning their very first home.

The launch was undertaken by the Acting CEO Mr. Raj Sharma at the HFC Bank Head Office in Suva today. Two important components of an ideal home loan are: (i) Interest rate and (ii) Equity.

With HFC Bank, both these hurdles have been made easier for customers. Under this new facility, customers who are buying or building their first home will be able to enjoy a low 4.25% per annum interest rate fixed for 5 years. Customers will also enjoy the benefit of 10% equity requirement under this scheme", said Mr. Sharma while launching the product.

In Fiji the home loan package is known as 'Toso Mai'. The loan packages are planned to remain effective for five years. The first package called 'Toso Mai Dua' was designed for those earning $25,000 and below a year and it was the only home loan package available with a fixed interest rate for the next five years. The second package known as 'Toso Mai Rua', was for those earning $25,000 and above but less than $50,000 a year with an interest rate of 3.95% for the first 12 months, and then a 7.50% variable interest rate thereafter. The third package was called 'Toso Mai Tolu' which was designed for existing customers earning below $10,000 a year for whom the Authority would reduce the interest rate from 7.5% to 5%.

While launching the package, Housing Authority Chairman, Colonel Mosese Tikoitoga said they remain committed to providing affordable, decent and quality housing for all Fijians. Tikoitoga added that the project was estimated at $25 million and to be financed by Reserve Bank of Fiji.

Housing Authority Acting CEO Isikeli Navuda said since 75% of the national population earn below $23,000, they were anticipating an increase in home loan applications.

India

Ministry of Housing and Urban Poverty Alleviation: innovation needed in low cost materials & technologies says Hardeep Puri

Hardeep Puri, Minister of State (I/C) for Housing & Urban Affairs has stressed the need for innovation in low cost materials and technologies for the poor. Delivering the keynote address at the "Global Housing Construction Technology Challenge [GHCTC] – Design Workshop" here today, he mentioned the great work done by several research organizations to develop easier and cheaper materials like stabilized mud-blocks, bamboo, waste-recycled, etc. and innovative construction employed for disaster relief; re-used elements, traditional techniques and local resources. He hoped that this could include not just PMAY(U), but also the large rural component and several urgent and transitory needs for urban housing.

GHCTC was a 2-day workshop organized by the Ministry of Housing & Urban Affairs on 4th & 5th January 2018. Bloomberg Philanthropies, World Resources Institute [WRI] India, senior professors from the US, officials from various State Governments, and other stakeholders participated in the workshop. While addressing the participants, Mr. Durga Shankar Mishra, Secretary, Ministry of Housing & Urban Affairs informed delegates about the entire process involved in the Global Housing Construction Technology Challenge, and expressed confidence that the workshop would provide a platform for discussing key issues involved in the process.

Addressing the participants at the conference, one expert stated that many challenges are faced by those who have been designing for the competition. In his opinion, the GHCTC would invite all to contribute towards the mitigation of technological challenges, with clear benefits, by adhering to transparency, accountability and quality. He was of the view that, if the designs meet the challenge and could satisfy the customers of the specific segment of the population, then this would be worthy of the prime minister's vision of giving houses to all. He further said, "I can see the challenges of inviting innovation in not just construction technology (the processes of putting the materials together as a building), but also in related issues, such as:

- "Material technology (science of developing new / improving existing building materials)
- "Structural systems (science of transferring loads and countering external forces)
- "Building services (the amenities lifelines that enable habitation)
- "Building physics (performance of the buildings after construction)"

There could also be innovation in resource management (including land, labor, capital, machinery, etc.), project management and material & labor resource logistics, site services & infrastructure planning (for and after construction) and overall value-chain enhancement management of the construction process.

Housing for all by 2022 – An ambitious scheme in India is showing early signs of success; home finance companies are lining up to provide loans under the Pradhan Mantri Awas Yojana.

DIPTENDU DUTTA/AFP

For many the term "affordable housing" might sound hollow in this day and age of overpriced houses that stretch the finances for most of us. Indeed, today buying one's own house can take a significantly long period of time and financial strength. However, beyond exorbitantly priced luxury homes in India's metros, affordable housing is a new sub-sector sweeping India's real estate sector. Aimed at housing for the masses, the Narendra Modi government's plans could indeed change the scenario of home ownership in India.

AMBITIOUS TARGETS TO MEET BY 2022

On June 9, 2014, President Pranab Mukherjee gave a speech to Parliament that had an ambitious target. He said: "My government is conscious of the fact that our urban infrastructure is under severe stress. Soon, 50 per cent of our population will be residing in urban areas. Taking urbanization as an opportunity rather than a challenge, the government will build 100 cities focused on specialized domains and equipped with world class amenities. Integrated infrastructure will be rolled out in model towns to focus on cleanliness and sanitation. By the time the nation completes 75 years of its Independence, every family will have a pucca house with water connection, toilet facilities, 24x7 electricity supply and access."

Affordable housing for the rural sector has been a priority since the launch of the Indira Awas Yojana in the 1980s. Under the current administration, rural housing is covered under the Ministry of Rural Development's Pradhan Mantri Awas Yojana (Grameen). Affordable housing for the urban sector was approved by the Union Cabinet in June 2015 and is managed by the Ministry of Housing and Urban Poverty Alleviation.

A MULTI-TIERED APPROACH

The Prime Minister Awas Yojana has ambitious targets. According to its website, these are:

- Affordable homes with water connection, toilet facilities, 24x7 electricity supply.
- Two crore houses to be built across the nation.
- Targeting the lower income groups and economically weaker section of society, that is the urban poor, by the year 2022.
- Two million non-slum urban poor households are proposed to be covered under the mission.

To achieve these targets, the government is offering generous incentives to those seeking to buy an affordable home, mainly in the form of lower interest rates under the Credit Linked Subsidy Scheme. Under this scheme, those who belong to the economically weaker section and lower income group gets an interest rate of 6.50% for loans up to Rs 6 lakh, the middle-income category 1 gets an interest rate of 4% for loans up to Rs 9 lakh, and middle-income category 2 gets an interest rate of 3% for loans up to Rs 12 lakh. These interest rates are significantly lower than market rates, which are all above 8%.

AFFORDABLE HOUSING ON A ROLL

The affordable housing initiative is aimed at homes with a value of approximately Rs.20 lakh. Homes with these values are typically located on the outskirts of metros and Tier-1 cities. They are aimed at first-time home buyers in the middle to lower-income category.

The government's attempt has met with initial success. Home finance companies are lining up to provide loans under the Pradhan Mantri Awas Yojana, and real estate builders are launching suitable projects in various cities. A report in the *Business Standard* stated that the National Housing Bank – which registers, regulates and supervises housing finance companies – has received six applications in the past six months from new housing finance companies. The news report also indicates that, various builders were launching new projects under the affordable housing scheme.

Similarly, an *Indian Express* report states that dedicated affordable housing finance companies have seen their assets (the total market value of assets that a financial institution manages) boosted by 50% to Rs.23,000 crore as on March 31, 2017, from Rs.15,000 crore as on March 31, 2016.

POSITIVE INTENT, POSITIVE OUTCOMES

The Pradhan Mantri Awas Yojana has been given a huge target, which also presents huge opportunities for all concerned. There is more than just housing at stake for the government, given that the construction sector is a big employment generator. Jobs created under the Pradhan Mantri Awas Yojana would be very welcome in a situation where employment opportunities appear to be slowing down.

Housing finance companies and real estate builders have already seen a slowdown in the luxury housing segment. The affordable housing program could provide good opportunities for real estate developers with serious intentions.

Finally, for the people belonging to the middle to lower-income categories, the Pradhan Mantri Awas Yojana provides a significant opportunity for owning a house of their own, which is a big dream come true for them.

Pakistan

Low-cost housing initiatives

Pakistan, like many other countries in the Asia-Pacific region and around the globe, has been facing a considerable volume of shortage of housing units. The shortage is around or over 10 million units. Out of this number, around 4 million plus of the housing backlog is in urban areas. The housing shortage is largely amongst economically weaker segments of the society. The matter of concern is, the backlog is regularly mounting on a year-on-year basis, as the supply is not meeting even half of the demand which is increasing yearly due to population growth. According to the 2017 census, Pakistan's population has reached 208 million of 32 million households as per the latest official census of 2018, and this is growing at an average annual rate of 2.4% since the previous census of 1998. The average household size in Pakistan is 6.5 persons per household. However, due to changing socio-economic circumstances the household size is shrinking, which is resulting in greater demand for additional housing units even if the population remains the same. It is estimated that the annual additional housing need due to increasing population is approximately 0.7 million. Less than half of this annual demand can be met, thus resulting in further piling up of the backlog. This calls for emergent initiatives to address the supply of low-cost housing and making housing finance accessible and affordable.

On the supply-side, the developers are not yet catering for the need for low-cost housing. In fact, this could not be done for various reasons, mainly the high cost of land, rising construction cost, incidence of high taxes on construction materials, absence of fiscal and regulatory incentives etc. However, there are some developers who have done commendable jobs in this regard irrespective of all such oddities, and have presented imitable examples of decent low-cost habitat, like the Khiyabane Ameen Housing project in Lahore and Ansaar Management's projects in cities like Faisalabad, Lahore and Peshawar, as well as the Naya Nazimabad project in Karachi.

On the finance-side, however, the situation is quite disappointing. The overall outstanding mortgage debt is PKR 83 billion (PKR 122 to a US$), with a mortgage debt to GDP Ratio around 0.5%. There is only one specialized housing finance institution [HBFC] in Pakistan, which is operating in the public sector since 1952, whose current outstanding mortgage portfolio is only about Rs.12 bn. The institution was established to serve the low-income segments of the population, but has gradually drifted away from its mandate. There is no other specialized housing finance institution operating in the private sector, and also none in the private sector.

With this dismal background, two positive initiatives have recently emerged:

State Bank of Pakistan [SBP], the central bank of the country, has provided with a draft "Policy for Promotion of Low-Cost Housing" to stakeholders and interested parties for critical review and comments.

Pakistan Tehrik-e-Insaf [PTI], the leading political party of the country which has won the recent elections and is going to form the next government under the leadership of Mr. Imran Khan, has announced its housing policy. Delivery of one million housing units per year is part of its agenda.

SBP's draft low-cost housing policy:

Salient features in SBP's proposed low-cost housing policy are given below, which are likely to be revised according to the comments to be received by SBP.

The eligibility criteria for low cost housing financing in Pakistan to be adopted is a loan amount of up to Rs. 2 million with the property valued up to Rs.2.5 million. The maximum monthly income of a low-cost housing finance borrower should be up to Rs.60,000.

SBP is to introduce a subsidized financing facility for low cost housing by providing liquidity to the financial institutions at a subsidized rate. SBP will provide refinance up to Rs.1 million or 50% of the loan amount at a rate of 1% to banks/DFIs and the end borrower rate will be 5%. The remaining 50% of the loan / financing amount shall be provided by the banks/DFIs from their own sources at fixed rates of up to 12% or variable rates of 1 year KIBOR plus a risk premium up to 4%. The facility will be provided for both individual house borrowers and housing builders/developers. A similar financing facility will also be provided through the Islamic financial institutions.

- Banks to be assigned housing finance targets with instructions to make these targets part of the overall business plan and departmental targets.
- The general reserve requirements against low cost housing finance portfolios of banks/DFIs to be waived.
- Bank/DFI's exposure to low cost housing to be exempted from the exposure limit of 10% for real estate sector.
- Microfinance Banks to be allowed to increase housing finance amount up to Rs.1 million from Rs.500,000.
- A standardized loan application form is to be issued through PBA to streamline loan processing by banks/DFIs.
- Banks/DFIs to introduce innovations in offering housing loan products.
- SBP to facilitate provincial governments and state-owned enterprises/autonomous bodies to avail housing finance from banks.
- Tax incentives offered by the Federal Government, to builders and financial institutions on income derived from low cost housing.
- Capacity building and awareness creation.

Housing policy of the new Government of Pakistan Tehreeke Insaf [PTI]:

PTI has an agenda to provide 10 lacs of housing units in a year, or 50 lacs units in five years of its tenure, in urban and rural areas, to address the dire need of the country.

Under the target of 10 lacs housing units a year, the policy will aim at the following:

- 4 lacs/year in the Rural Areas,
- 2 lacs/year in Peri-Urban areas under social housing schemes, and
- 4 lacs/year housing units in the Urban Areas.

This is the first time in the history of the country that a Government will include rural housing in its overall housing agenda. PTI Housing Policy initiatives will be led by the following parameters:

- Rural Housing as well as Urban Housing: PTI will focus on both the rural and urban housing supply, and work to facilitate their financing. Rural housing, which is needed to cover 2/3rd of the population, has always been neglected in Pakistan. So, the total housing supply target should also cover rural housing supply.
- Address housing issues of supply-side and finance-side.
- Primary focus on low-income affordable housing segment.
- Government to play role of enabler and facilitator, and not developer.
- Government to provide fiscal and regulatory incentives for low-income housing.
- Strengthen the role of developer industry/ABAD, academia, and planners etc.
- Large scale housing development by ABAD as well as the others, under various models of Private Public Partnership [PPP].
- Land banking at federal and provincial levels.
- Slums rehabilitation and a resettlement program to ensure decent habitat by efficient use of land.
- Provide all fiscal and regulatory support to the developer industry as well as primary lenders of housing finance (Banks and HFIs) to facilitate lower-construction costs and affordable mortgages.

↳ **Zaigham Rizvi**

Philippine

The country's economic boom shows no signs of slowing down. Considered as one of the fastest-growing economies in the region, it has exhibited an increase in gross domestic product [GDP] by 6.7% in 2017. This robust macroeconomic condition continues to pave the way for different sectors to further flourish, including the real estate sector.

The real estate industry's steady growth in the past decades is attributed to the increase in demand for residential and commercial properties driven by various factors. These demand drivers, according to a report by Leechiu Property Consultants, include rising urban population growth; the housing needs of BPO (business process outsourcing) employees, since a growing number of these workers need to live near their workplace; and remittances from Overseas Filipino Workers [OFWs], more than half of which are real estate-related.

Oxford Business Group [OBG] stated in a 2017 report, "Years of investment and strong economic development in the Philippines have fostered a robust real estate sector that now extends outside of the greater Metro Manila region and into secondary markets around the country. Economic development and a growing middle class continue to fuel demand for new, high-grade residential units, while commercial investment drives an ever-increasing amount of retail and office space."

The bullish performance of the country's real estate sector is projected to further thrive in the years to come. The OBG report continued, "Buoyed by a strong macroeconomic environment, cash-laden investors and a full pipeline of projects scheduled to be built over the next decade, the real estate sector will continue to exhibit strong growth in the coming years. A steady stream of new residential and mixed-use projects is under way at locations across the Metro Manila area, as well as other fast-growing secondary cities around the country."

Real estate consulting services firm Colliers International also shared the same outlook in a December 2017 report, which stated that opportunities abound for the property sector.

"Colliers encourages developers to take advantage of opportunities that could arise from the implementation of government policies such as the Comprehensive Tax Reform Package; relaxation of foreign ownership restrictions on retail and construction; and amendments to the existing procurement law and business registration systems which should entice more developers to take part in the government's ambitious infrastructure development program," the firm said in the report.

Colliers sees that the improvement of road networks and expansion of airports in major urban areas in the country will further unlock land values, making it more feasible to initiate residential projects.

Moreover, Colliers said that the demand for residential units in these locations would continuously grow, as OFWs will continue to set aside part of their remittances for housing requirements.

"Colliers expects developers to continue venturing into residential projects in second-tier and third-tier cities all over the country, where demand primarily comes from end-user buyers. The markets may be smaller compared to Manila but more stable in terms of end user housing demand," the report continued.

On the other hand, the firm predicted that there will be less office launches following the decline in BPO companies' office space demand. However, there will be a greater demand for flexible office spaces over the near to medium term given that there are 1.3 million freelancers in the Philippines, and mobility, connectivity, and flexibility is becoming the norm.

The industrial parks are going outside Metro Manila. Colliers said that townships are also projected to grow in areas such as Cavite, Laguna, Bulacan, Pampanga, Cebu, and Davao over the near to medium term, as land values are being unlocked by an aggressive expansion of road networks anchored by the government's initiative to generate economic opportunities outside Metro Manila.

↳ **Robert J. ADFIAP, Manila**

Thailand

Low-income housing plans being drafted by Thai government

National Housing Authority [NHA] Governor Tachaphol Kanjanakul, said that his organization was developing long-term low-income residential development plans under the Thai government's "Housing for All" initiative.

The NHA is currently awaiting the finalization of the Ministry of Social Development and Human Security's 20-year residential development strategy (2017-36), which will serve as Thailand's residential development framework.

The Department of Social Development and Welfare and the Community Organizations Development Institute [CODI] as well as other government agencies will also work on residential development plans.

The comprehensive national residential development plan will be presented for cabinet approval this month.

Governor Tachapol said the NHA this year will focus largely on improving the Din Daeng area communities, where it is replacing decade's old Din Daeng social housing flats with high-rise residential units that will be developed in phases.

The old Din Daeng flats were built in 1963, and included 64 residential buildings with 4,144 units. The NHA constructed an additional 30 buildings with 5,098 housing units in 1973. NHA plans to redevelop 36 new building consisting of 20,292 units; 6,546 units will be for existing tenants.

Phase one of 334 units began in December 2017, with another 334 units scheduled for completion in June 2018.

Phase two (two buildings, one of 32 storey and another of 35 storey, totaling 1,247 units) will be completed in 2020. Phase three will include three 32-storey buildings and two 35-storey buildings (3,333 units), which will be completed in 2022.

More than 100,000 people will be accommodated in these sites.

GH Bank hosts Home Expo 2018

A Home Expo featuring financial institutions and real estate companies was held at Queen Sirikit National Convention Center in Bangkok, which was hosted by Government Housing Bank [GHB].

The expo titled "GH Bank Expo 2018" offered Bt6.5 billion ($US202.1 million) of low-interest loans to purchase non-performing assets [NPAs] including single-family homes, twin houses, town-homes, apartments, and commercial buildings, all of which are located in Bangkok and its vicinity.

Selling NPAs is a popular tool for banks to remove bad assets from their balance sheets and reduce the number of impaired loans.

To induce buyers' interest, at the expo the purchasers were offered no-interest mortgage loans for the first two years if they could pay a 20% down- payment.

GH Bank hosts New Urban Agenda International Seminar

On Friday, July 6, 2018, Government Housing Bank hosted an international seminar on the New Urban Agenda at Bangkok's Queen Sirikit National Convention Center.

More than 200 guests attended the meeting in which the leading international and local housing experts spoke on the theme of "Leaving No One Behind." Housing and urban development will focus on the implementation of the New Urban Agenda and sustainable development goals [SDGs].

Dr. Vichai Viratkapan, GH Bank Executive Vice President, Strategic Planning Group 2 and Acting Director-General of the Real Estate Information Center [REIC] welcomed all attendees and international speakers.

Khun Suvit Rojanavanich, Director General, Fiscal Policy Office, Ministry of Finance presented the keynote address and spoke of Thailand's strategic urban development needs in the coming decades.

Prominent overseas presenters and panelists included Dr. Douglas Webster, a Senior Sustainability Scientist of Julie Ann Wrigley Global Institute of Arizona State University, who shared his views on Urban Strategies for achieving sustainable development goals.

Curt Garrigan of UNESCAP talked about implementing the New Urban Agenda in Asia and the Pacific.

GH Bank pushing non-performing assets sales

GH Bank's chairman Surachai Danaitangtrakul said the Bank will be selling non-performing assets [NPAs] of approximately Bt3.9 billion ($US 121.8 million) this year.

The Bank sold approximately Bt3 billion ($US93.7 million) of NPAs in 2017.

To attract buyers, the bank is offering no-interest loans for the first two years on mortgages with a 20% down payment.

GH Bank now has 10,000 NPAs valued at Bt8 billion ($250 million).

High-interest-rate savings were also offered at GH Bank's 2018 Expo.

GH Bank offering mobile app and QR code payments

State-owned GH Bank is gearing up to be a digital services bank by jump-starting its mobile app and QR code payment services. Cashless transactions are the new norm in global payments. GH Bank is learning from Scandinavian countries that have become the benchmark for cashless societies.

GH Bank President, Chatchai Sirilai, said the Bank is currently developing its own mobile app and digital services. The app is being developed internally by GH Bank, and will include features such as monthly payments, loan applications, digital deposits and withdrawals.

"The bank also will offer QR payment service in order to meet the ambition for a cashless society from this month onwards," Chatchai said. "The service is part of the company's shift from cash-based operations to digital services."

GH Bank expects that 50% of total transactions will be conducted through apps in the near future. The Bank currently experiences about 700,000 transactions in a single month.

Loan growth this year is forecast at 6%, he said.

At the end of June, the Bank issued new mortgage loans of Bt 105 billion ($US 3.28 billion, with an year-on-year increase of 53.7%.

The Bank's new 2018 annual mortgage loan target is Bt 189 billion ($US5.9 billion).

Europe – a shifting regulatory landscape

By Mark Weinrich

In my previous column I discussed the progress of the banking union agenda. With two pillars already in place – supervision and resolution – there were rising expectations that concrete steps towards a European Deposit Insurance Scheme [EDIS] would be agreed at the European Council meeting which happened this June. I noted in my last column that substantial gaps in the national deposit guarantee schemes and the lack of an appropriate cover for legacy risks are serious arguments against a hasty introduction of EDIS. The European Council seems to take a similar view. Ultimately only the progress report of the former Bulgarian Council Presidency was noted at the meeting. This report calls on the Austrian Council Presidency to continue the technical work on EDIS. In accordance with the Council conclusions of June 2016, political talks on risk-sharing in the form of EDIS are still planned only if sufficient progress is made in the field of risk reduction. This outcome of the Euro Summit disappointed observers who had hoped for an ambitious timetable for the completion of the banking union, but it is certainly more constructive to sustain efforts to reduce non-performing loans and to avoid their future build-up first, before a well-designed EDIS comes into force when the time is ripe.

Connected to the issue of EDIS is the fact that the euro area is not considered as a single jurisdiction. This basically means that intra-eurozone business is regarded as cross-border, producing higher systemic risk scores and increased capital add-ons for banks with eurozone-wide business activities. In a recent overhaul of the way it identifies global systemically important banks [G-SIBs], the Basel Committee on Banking Supervision has hinted it might be prepared to treat the European Union's banking union as a single jurisdiction. The European institutions (the Commission, the Council and the Parliament) though still struggle for a common position – and are less ambitious. For instance, the European Council's proposal for the second Capital Requirements Regulation [CRR II], currently in trilogue[1] negotiations, suggests treating the eurozone as a single jurisdiction when calculating G-SIB buffers. However, the proposal would also prevent banks falling off the G-SIB list entirely as it forces them to remain in the lowest 1% surcharge bucket, even if the bank falls below the threshold for G-SIB designation when cross-border eurozone exposures are eradicated. This Council proposal would be difficult for the Basel Committee to incorporate into the international standard, potentially undermining international and even European consistency in setting capital buffers. However, it is not only the disagreement between the European institutions and member states that holds back the Basel Committee from treating the European Union's banking union as a single jurisdiction. Many experts are convinced that EDIS must be up and running before the banking union is recognised internationally.

On a slightly different note, it is worth mentioning that the European Commission has formally withdrawn proposals for an EU regulation on bank structural reform. On July 3, 2018, following its announcement in its 2018 Work Programme of its intention to withdraw 15 pending EU legislative proposals, the European Commission announced the formal withdrawal of that legislation, which includes the 2014 Proposal for a Regulation on structural reform of the EU banking sector. The original proposal built on the 2013 recommendations of a high-level expert group on reforming the structure of the European banking sector, chaired by Erkki Liikanen who was from July 2004 to July 2018 Bank of Finland Governor and ECB Governing Council member. For banks within its scope, the provisions of the proposed regulation would have imposed a ban on proprietary trading and would have empowered supervisors to require banks to ring-fence certain trading activities from a deposit-taking entity. The rationale given for withdrawal of the proposed regulation is that no agreement on the proposal was foreseeable, the proposal having made no progress since 2015. In the meantime, the financial stability objective of the proposed regulation has been met by other regulatory measures in the banking sector, notably the entry into force of the banking union's supervisory and resolution arms. Under the Bank Recovery and Resolution Directive, for example, resolution authorities can require banks to make structural changes pre-emptively if that is needed to make them resolvable.

It is quite clear, that banking union continues to be both an objective and a process of fundamental structural changes in the euro area's financial architecture.

[1] Negotiations between the institutions on legislative proposals generally take the form of informal tripartite meetings ('trilogues') between the Parliament, the Council and the Commission.

Latin America and Caribbean, Autumn 2018

↳ By Claudia Magalhães Eloy

Breaking the mold in LAC: what are the new ideas to foster and finance affordable housing?

In the last issue, we talked about the housing deficit in the region and how necessary it was to come up with innovative ways of approaching this persistent issue in order to produce more effective and sustainable solutions. It was promised then that this column would discuss some of the latest regional initiatives of this kind, a few of which were presented at the most recent World Bank Conference.

The first highlight is about a regional initiative: The Platform of Housing and Urban Development Indicators of Latin America. This Platform integrates a regional network, aimed at implementing an information platform, to collect, maintain and update housing and urban development indicators. Currently in its first phase, a total of 9 indicators have been defined:

7 on housing: –

a) total housing deficit, quantitative and qualitative and as a percentage of total households;

b) total government spending for housing, in relation to GDP;

c) typical loan to value [LTV];

d,e) number of residential mortgage loans disbursed by government entities as well as by private banks;

f,g) number of subsidies paid for housing purchases and construction by land owners;

2 on urban development –

a) government spending for provision of water services and urban sanitation;

b) investment in urban mobility projects, both as a proportion of total GDP.

An initial version of the platform has been published (a free web version may be accessed in the following link www.indicadores.uniapravi.org) and mechanisms for updating and maintenance are being set up. Promoted by the Inter-American Housing Union [Uniapravi] and the Inter-American Development Bank [IDB][1], it has also received the support of state owned housing and urban development institutions in Bolivia, Mexico, Peru and the Dominican Republic. More recently, cooperation agreements were signed with Chile, Colombia and Argentina, in order to incorporate data from these countries into the platform, but eventually they are expected to cover all LAC countries.

Data availability in the region has moved forward but to a certain extent remains a problem and is a significant obstacle to tackling the housing issue appropriately: it discourages private investment and misinforms policy makers. Another regional initiative currently ongoing is the Urban Housing Practitioners Hub [UHPH][2], an open space platform designed to promote the exchange of local practices and establish a research agenda for Latin America and the Caribbean. Financed by the IDB, with the support of MINURVI, the Lincoln Institute of Land Policy, Cities Alliance, Habitat for Humanity and RIVHA (Red de Investigadores en Vivienda y Habitat en las Americas), as well as local entities such as Minvu (Chile) and CAIXA (the Brazilian state housing bank), its purpose is to improve the quality and scale of local practices and policies, in alignment with the New Urban Agenda. These platforms, together with the global Housing Finance Information Network [Hofinet[3]], will improve access to information, thus helping integrate and disseminate data useful for the design, implementation and monitoring of policies and investment in housing throughout the region.

The Terwilliger Center for Innovation in Shelter (Habitat for Humanity)[4] presented the USD$4 million Shelter Venture Fund (launched in 2017) that invests in entrepreneurs seeking innovative solutions to address the needs of the 1.6 billion people that live in substandard housing globally. In LAC, after the ShelterTech[5] 2017 selected and provided mentoring and support to 12 startups in Mexico, the SVFund has invested in two companies that provide low-cost eco-friendly energy solutions:

- **Energryn –** offers hybrid solar/electric water heaters with a pay as you go service;
- **Vitaluz –** installs isolated solar energy systems in a prepayment model.

Solutions like this may increase in scale and constitute a positive breakthrough in a country where nearly 65 million people live on less than USD$615/month, over 600k homes still do not have electricity and 8.8 million households have informal access to the grid.

In Brazil, Artemisia, in partnership with big local construction materials companies is launching *Lab Housing: Innovation and Shelter*, a startup acceleration program[6] that offers a 6-week workshop/webinar program to support 15 entrepreneurs in improving their business plans and enhancing social impact. It aims to attract entrepreneurs innovating in areas such as microcredit, home improvement/completion solutions, affordable housing condominium management, water, sewage and energy.

More specifically on innovative credit solutions in the region, there was the presentation of Creditas, a Brazilian fintech that has been offering home equity loans in Brazil through

[1] Through the Technical Cooperation Agreement Regional Network for Development of Housing and Urban Development Sectors of Latin America and Caribbean.

[2] https://www.uhph.org

[3] www.hofinet.org

[4] https://www.habitat.org/impact/our-work/terwilliger-center-innovation-in-shelter

[5] https://vilcap.com/program/sheltertech-mexico-2017/

[6] https://www.artemisia.org.br/labhabitacao/

the use of a digital platform, via which mortgagors may submit required documentation and expeditiously contract a loan with customized interest rates. Such customization comes about as the result of a combination of 3 scores (credit plus payment capability; liquidity of collateral and legal risk), calculated based on correlations and algorithms supported by several databases, based on a mindset where technology can boost efficiency, reduce origination costs and risk of defaults, and therefore lower rates. This pursuit of assertiveness aims at the promotion of loan origination at more competitive interest rates and at the reduction of cost of funding that so far has come from banks, investment funds and RMBS.

A recent Interamerican Development Bank study[7] on fintechs points out that one of the main differences between the region and developed countries is the persistence of a significant part of the population that lacks access to formal financial services: 49% do not hold a bank account yet. Through the use of technology and unconventional means – digital footprints and platforms – fintechs, led by the pursuit of greater productivity and reduction of costs, may boost efficiency and contribute to the expansion of credit down-market. This will be achieved firstly by fostering financial inclusion, a major challenge and, at the same time, a huge opportunity for fintechs in LAC, but also by expediting credit processes, improving risk assessment and lending assertiveness, thus enabling lower interest rates and greater access. Yet, the digital revolution of the banking and financial sector may pose unforeseen risk for financial stability, as it shifts the sails towards the winds of new players outside the financial system. Proper regulation to cope with these movements is complex, considering that, as François Villeroy de Galhau (2016)[8] asserts "the scope of this new financial ecosystem is not yet stabilized". In Brazil, where most existing fintechs are in the payment process business, recent regulation[9] (may/2018) has allowed fintechs to operate with peer-to-peer lending models (P2P) as well as to offer credit with shareholder equity capital, whereas up to then, fintechs had to partner with authorized financial institutions. Moreover, last month, the Central Bank opened a public consultation process regarding the regulation of fintechs operating with microcredit[10].

Back to the above-mentioned IDB study, they conclude that this new emerging context indeed improves chances of including or better serving those that remain excluded or underserved by the traditional financial industry. When it comes to access to credit, savings or insurance instruments in LAC, the percentage significantly exceeds the 49% estimate for non-bank account holders. They conclude that a dynamic fintech sector is developing in the region: 703 financial startups were identified in 15 out of the 18 countries studied[11], offering a wide range of solutions in all segments, penetrating the financial system with underlying global technologies. They also seem to be more consumer oriented and better adapted to current demographic changes and user behaviors. Nonetheless, according to Ándres Fontao[12] "the road is long and there is yet much to be done before we can contemplate ecosystems of financial services similar to those in place in Asia or Europe". He suggests forums and consultations, the implementation of temporary regulatory sandboxes[13], investing in RegTech, fostering cooperation through structured open innovation programs and funding initiatives to the industry through the national development banks.

We hope to bring more news in this column of a vibrant and consolidated fintech ecosystem in line with improved and sustainable housing finance affordability in LAC countries.

[7] Innovations you may not know were from Latin America and the Caribbean. https://publications.iadb.org/bitstream/handle/11319/8265/FINTECH-Innovations-You-May-Not-Know-are-from-latin-America-and-the-Caribbean.pdf?sequence=7&isAllowed=y

[8] https://publications.banque-france.fr/sites/default/files/medias/documents/financial-stability-review-20_2016-04.pdf

[9] CMN Nº 4.656, April/2018. It created 2 sorts of FinTechs: *Sociedade de Crédito Direto (SCD) and Sociedade de Empréstimo entre Pessoas* (SEP).

[10] Edital 66/2018 at https://www3.bcb.gov.br/audpub/AudienciasAtivas?0

[11] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

[12] Page 7 of the IDB report.

[13] In the financial industry, a regulatory sandbox refers to testing grounds for new business models that are not protected by current regulation or supervised by regulatory institutions. It is a mechanism for developing regulation that keeps up with the fast pace of innovation, particularly relevant in the fintech world. www.bbva.com/en/what-is-regulatory-sandbox/

The adventures of investing in Fannie Mae and Freddie Mac stock, or how to lose 99% in a government deal

By Alex J. Pollock

Fannie Mae and Freddie Mac are the most important housing finance institutions in the United States, and therefore in the world, with combined assets of a remarkable $5.4 trillion, which include nearly half of all the $10.6 trillion in outstanding U.S. residential mortgages. They are without question "systemically important": any default on their obligations would rock both the domestic U.S. and the global financial markets. The largest investor in their mortgage-backed securities is the U.S. central bank, which holds about $1.7 trillion of them.

Fannie and Freddie have a hybrid legal form: they are basically government agencies, "implicitly guaranteed" by the U.S. Treasury, as it was often said, but in reality fully guaranteed. At the same time, they also have private shareholders and publicly traded stocks. The shareholders expected to profit greatly by trading on the credit of the United States and the numerous other special advantages which Fannie and Freddie had been granted by politicians and regulators.

How did the shareholders do? For a long time, their optimistic expectations were more than justified. Then they lost close to everything. After that, Fannie and Freddie's stocks became purely speculative vehicles, which made first big profits and then big losses. This essay chronicles the adventures of investing in the stock of these companies sponsored by, guaranteed by, and later entirely controlled by the U.S. government.

Fannie's all-time high stock price was $86.75 per share in December 2000. Ten years before, the price had been $8.91, so the aggregate gain in price over the 1990s was 874%. This means Fannie's stock price went up on average 25% per year for a decade. Not bad! Fannie created a powerful, ruthless and feared lobbying organization to protect its no-fee government guaranty and its other competitive privileges. Its political clout and its arrogance became legendary.

"Pride goeth before destruction and a haughty spirit before a fall," says the Book of Proverbs. This was certainly true of Fannie with matching consequences for its private shareholders. From its peak, after Fannie's massive losses put it into government conservatorship, its stock price dropped to a low of 20 cents per share in November 2011. That was a loss for the shareholders of 99.8%. Now, at the end of July 2018, Fannie's stock price is somewhat higher at $1.51. This still represents a loss of 98.3% from its peak.

Who would have thought that could happen? Probably nobody. But a fundamental characteristic of prices in a financial bust is that they can go down a lot more than you thought possible.

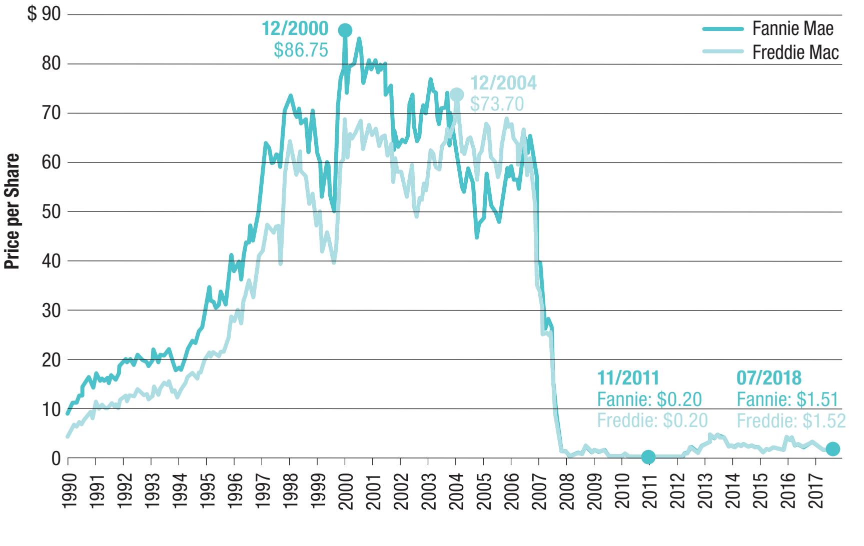
The shareholders of Freddie Mac experienced a similar elation and then collapse. Freddie's all-time stock price high was $73.70 in 2004. Ten years earlier it had been $12.63, so the shareholders in this government deal had enjoyed a 484% aggregate gain over the decade, or on average over 19% per year. Then came the losses, the conservatorship, and the shriveling of its stock price to the trough of the same 20 cents per share in 2011. That meant a 99.7% loss from the peak. From the peak to now, the loss is 97.9%.

Reviewing the losses for the equity investors in these former political and stock market darlings, one can only exclaim, "Mirabile dictu!" They form a memorable lesson.

The history of this adventure in investing to trade on the government's guaranty is shown in Graph 1, which displays three decades of stock prices for Fannie and Freddie, from 1990 to July, 2018.

At their stock price bottom of 20 cents per share, Fannie and Freddie were completely controlled by the government, but the two stocks continued to exist and trade. They became

GRAPH 1 Fannie & Freddie Stock Prices, 1990-2018



Source: S&P Global

and remain a pure speculation on political events and the outcomes of various lawsuits that investors brought against the government. The lawsuits have been unsuccessful, and the politicians, although they have debated the matter mightily, have not been able to agree on any legislative restructuring. As the Washington saying goes, "When all is said and done, more is said than done." In this case, vast volumes have been said, but nothing has been done.

Fannie and Freddie continue to live on the government's guaranty. They could not exist for one minute without it. Under the conservatorship agreement, the U.S. Treasury takes essentially all their profits, so their capital continues to round to zero. As long as this situation lasts, there can never be any cash for the shareholders, so the price of the shares is a pure gamble on the situation changing by some political outcome. This speculative essence has made Fannie and Freddie's shares over the last seven years extremely volatile.

Had you had the courage to buy at 20 cents, you might have multiplied your investment up to 29 or 27 times, as the intervening highs have been $5.82 for Fannie and $5.52 for Freddie. But had you been tempted by the optimism of those highs while investing based on the possible actions of the government, you could once again have had huge losses – of over 70%.

Table 1 shows your returns had you bought Fannie or Freddie stock at the lows, or had you bought at various subsequent dates, including at the post-2011 highs, and in each case held the shares to July 2018.

TABLE 1 The Results of Buying Fannie and Freddie Stock at Various Dates and Holding to July 31, 2018 (2011-2018)

BUYING DATE	FANNIE MAE		FREDDIE MAC	
	$	% GAIN (LOSS)	$	% GAIN (LOSS)
Nov-11	0.20	653%	0.20	666%
Jun-12	0.26	490%	0.25	508%
Dec-12	0.26	490%	0.26	478%
Jun-13	1.41	7%	1.35	13%
Dec-13	3.01	-50%	2.90	-48%
Mar-14	5.82	-74%	5.52	-72%
Jun-14	3.91	-62%	3.86	-61%
Dec-14	2.06	-27%	2.06	-26%
Jun-15	2.33	-35%	2.21	-31%
Dec-15	1.64	-8%	1.62	-6%
Jun-16	2.00	-25%	1.85	-18%
Dec-16	3.90	-61%	3.74	-59%
Jun-17	2.33	-35%	2.23	-32%
Dec-17	2.65	-43%	2.52	-40%
Jul-18	1.51		1.52	

Source: S&P Global - month-end prices, except highs were both on March 10, 2014.

As the table makes clear, such purchases during the speculative phase generated very large profits at first, and very large losses afterward, measured on the assumption that you held the shares until now. Of course, the results of interim purchases and sales could have varied a lot in both directions.

The end of this eventful history of Fannie and Freddie's stockholders has not yet been written. Whatever future chapters may add, the story has demonstrated that however attractive the deal is at first, the government can be a dangerous business partner over time.

Better location, better housing: incorporating location into affordable housing loan programs

By Arthur Acolin

1. Introduction

Affordable housing programs in countries throughout the world have produced units located where land costs are low. However, low land costs generally reflect undesirable locations due to lack of access to employment centers as well as amenities. This is particularly problematic when housing projects are located beyond the urban fringe, requiring substantial public investments to connect them to transportation (roads and transit) and to services (water, sanitation, electrical and gas networks) increasing both upfront and long-term servicing costs (OECD 2015). These costs often fall on local governments, and when they do not provide adequate connections, the developments can quickly deteriorate leading to abandonment, vacancies and crime. In addition, poor locations can limit residents' employment and educational opportunities. The long-term costs of having affordable projects built in undesirable locations can negate the welfare benefits the programs aim to provide to their recipients.

Developing mechanisms to build affordable housing in desirable locations has to be a component of reaching the target of Goal 11 of the UN Sustainable Development Goals [SDGs] of ensuring "access for all to adequate, safe and affordable housing" by 2030 (UN 2015). Building affordable units without taking location into account will mobilize scarce public resources without delivering adequate and safe housing. This paper presents one such mechanism: explicitly incorporating location into the criteria for allocating funding for affordable housing, building on the Location Efficient Mortgage. Finding ways to incentivize more compact development in better location is also likely to have important environmental sustainability benefits, which are not discussed here (Forsyth et al. 2017).

Progress in data availability about urban expansion, notably from remote sensing imagery incorporated into Geographic Information Systems (Angel et al. 2012; World Bank 2015), makes it possible to effectively develop location criteria that can become part of the evaluation of potential sites. Locations with access to employment centers or existing amenities can be prioritized while locations that are too remote from existing urban areas can be made ineligible. It is also increasingly possible to build information about how land costs vary from the center to the periphery of a metropolitan region. Taking into account land costs into the funding formula and offering incentives to developers to build in better locations in the form of land assembly assistance, higher density and height allowance or accelerated processing of permits can obtain better location outcomes for affordable housing programs.

The paper uses the case of Mexico to show the promises of developing national spatial databases and incorporating location in affordable housing programs and the challenges to do so. Since 2013, Mexico, with technical support from the World Bank and Harvard Graduate School of Design among others, has been experimenting with including location into the eligibility criteria in its subsidized housing program. This effort resulted from major issues associated with building millions of housing units in undesirable locations that Mexico is still working through. Improved data about urban expansion, emerging evidence of the costs associated with poorly located affordable units and the potential benefits of better location for local governments and residents provides an opportunity to design affordable housing programs with better outcomes.

This paper reviews the rationale for incorporating location in affordable housing programs based on the outcomes of large scale affordable housing programs in South Africa, Mexico and Brazil. It then discusses the experimentation with Location Efficient Mortgages in the US and presents evidence of the feasibility of incorporation location based on Mexico's experience and makes suggestions on how to do it in other countries.

2. Affordable housing programs without location criteria

The unmet housing needs of growing populations, particularly in urban areas, have driven the adoption of housing policies that aim to support access to adequate and affordable housing, targeting lower and moderate-income households. These policies originally focused on the supply side, with government entities directly providing housing units to households. Going back to the 1980s, a shift toward demand side interventions took place due to the capital-intensive nature of providing public housing, and negative experiences with programs that delivered poor quality units and did not take into account maintenance costs. Demand side interventions focus on providing subsidies to households to enable them to afford adequate housing units and often include provisions that limit eligibility for the subsidies to units that meet certain criteria and guide the types of units built by developers.

The shift towards demand side subsidies, while still requiring substantial public commitments, was expected to be a more effective use of resources and was supported by international organizations like the World Bank. Over the last two decades several developing and emerging countries have launched large scale housing subsidy programs with some demand side components (Buckley et al. 2016). However, despite the hope that these programs would deliver units that would better meet the needs of the households, a number of countries experienced substantial issues with the quality of the units delivered, their location and the long term success of the communities created.[1] The issues faced by countries trying to deliver adequate and affordable housing despite substantial commitments of public resources raise questions about how to improve affordable housing programs to increase their efficiency and ensure a positive welfare impact for recipients. A substantial literature has analyzed the outcomes of housing programs that over the last decades have subsidized the production of several millions of units (Buckley et al. 2016). The rest of this section briefly reviews some of the evidence about housing programs that took place in South Africa, Mexico and Brazil. It focuses on their locational outcomes and the common drivers that can explain why they resulted in the production of large scale, standardized developments on the peripheries of existing urban areas with issues of access to employment, infrastructures and local public services and the creation of neighborhoods that are having difficulty turning into desirable communities that foster spatial integration and intergenerational socioeconomic mobility.

3. South Africa

In South Africa, the National Housing Forum that took place between 1992 and 1994, and the 1994 Housing White Paper that translated it into policies, defined housing as a basic need with the right to "have access to adequate housing" ultimately included in the 1996 constitution (Huchzermeyer 2001: 305). The launch of South Africa post-apartheid national housing policy took place in the context of an extremely unequal society with a rapidly growing and urbanizing population that had large housing needs unmet by the market, making housing a top priority of the new government and putting pressure to deliver results rapidly.[2]

The definition of adequate housing in the Housing White Paper included not only the physical characteristics of the units but also their location and access to employment and local public goods (water, sewage, electricity) (Huchzermeyer 2001). However, the goal to deliver one million new houses within five years was largely pursued through a project-linked capital subsidy (over 80%) (Huchzermeyer 2001: 306). This mechanism provided a fixed subsidy amount to finance the land, the unit structure and the infrastructure. This approach delivered large-scale development of small standardized units on the periphery with limited connection to existing employment centers and contributed to reinforce patterns of race and class based spatial inequalities (Huchzermeyer 2001: 325).

Surveys of beneficiaries found limited levels of satisfaction with the units provided and their location (Napier 2009). Despite being given access to a new unit with connection to basic infrastructures, a substantial share of recipients chose to resell their units for less that the amount of the capital subsidy (which represented about two and a half years of the average recipient household income) and move back closer to their original settlement (Napier 2010). In addition, local governments were not given a sustainable source of funding to finance the continued maintenance and operation of infrastructures and local public services (Huchzermeyer 2001).

The issue of land provision was not effectively incorporated into South Africa housing policy and while there were mechanisms to ensure that the units subsidized would meet certain structural criteria there was no such mechanisms to ensure they were built in adequate locations (Huchzermeyer 2001; Napier 2009). As South Africa continues to urbanize, issues of providing sufficient housing to its new urban residents while fostering greater spatial integration remain pressing challenges.

4. Mexico

Mexico experienced substantial levels of urbanization earlier than South Africa, having more than half of its population living in urban areas by 1960, three-quarter by 2000 and 80% by 2016 (World Bank 2018). However, it also faces continued challenges in meeting the housing needs of its growing population.[4] Mexico faces a persistent housing deficit that large government programs, despite substantial success in delivering new units, have yet to close.

Since the 1970s, Mexico's housing finance system has been centered around pension funds for public and private workers (Housing Fund of the Social Security and Social Services for Public Workers [FOVISSSTE] and Institute of the National Housing Fund for Workers [INFONAVIT] respectively) dedicated to housing and that provide access to mortgages. In 2007, downpayment subsidies were implemented by the National Commission for Housing [CONAVI] and contributed to expanding access to mortgages, including for (formally employed) lower income households (Acolin and Kichik 2017; World Bank 2017). Over 1 million subsidies were allocated between 2007 and 2015 to support the purchase of new housing by households earning less than 5 times the minimum wage with over three quarters going to households earning less than 3 times the minimum wage (World Bank 2017). These demand-side subsidies were not formally designed to be project-linked as in the case of South Africa. However, it also encouraged the production of large developments of uniform housing units. This was due to the economies of scale associated with the standardized requirements that units needed to meet to be eligible for the program and to the price point at which units needed to be produced, which did not take land costs and their variation across locations into account (Acolin and Kichik 2017).

In a 2015 report, the OECD characterized many of the units provided through CONAVI's program as "far from city centers and disconnected from urban services and infrastructure" (OECD 2015: 18). As a result, households faced difficulties commuting to work and access to services became an issue in many developments. In addition, a number of the communities experienced extreme delays in being connected to basic infrastructures (with the developer, utility provides and local governments pushing the fault on each other) and construction defects. The location of the units contributed to high levels of vacancy and delinquency even if it was not the only issue as projects also faced problems with the quality of the construction (Monkkonen 2014). Monkkonen (2014) provides a measure of delinquency in peri-urban locations of 16 percent as of 2010. This suggests that, as has been the case in South Africa, a substantial number of households chose to

[1] This paper briefly reviews the experience of South Africa, Mexico and Brazil but other countries have faced similar challenges (OECD 2015; Buckley et al. 2016; Forsyth et al. 2017).

[2] Between 1990 and 2000 South Africa population increase from 37 to 45 million (a 2% annual growth rate) and its urbanization rate increased from 52 to 57%, reaching 65% by 2016 (World Bank 2018). The housing shortage was estimated in the 1994 Housing White Paper as approximately 1.5 million units and is now estimated to be 2.2 million units.

[3] There have been several iterations of the program that addressed a number of issues with the allocation of the subsidies and the characteristics of the units but location has remained a vexing issue (Napier 2009; Landman and Napier 2010).

[4] Mexico population grew by 26 million (from 102 to 128 million) between 2000 and 2016, a 1.4 annual growth rate (World Bank 2018). The increase in population means that despite adding 9 million units to the stock between 2000 and 2014, the combined qualitative and quantitative housing deficit still represent about 9.7 units as of 2014, although as a share of the stock it has decreased from 37 to 29% during that period (World Bank 2017).

abandon the units they had purchased despite having contributed substantial equity to them. The abandoned properties became a source of negative externalities as a number were squatted or used for illegal activities (Herbert et al. 2012; Monkkonen 2014).

Overall, by the early 2010s, the substantial commitment of public resources to make access to adequate housing affordable for lower income households through down payment subsidies and dedicated mortgage finance was not delivering housing units that met their beneficiaries' needs. In response the government introduced a number of reforms, including the introduction of a set of location criteria for the allocation and segmentation of the subsidies as discussed in further details in section III.

5. Brazil

Brazil, like Mexico and most Latin American countries, has long experienced high levels of urbanization with a 46% urbanization rate in 1960, reaching 81% in 2000 and 86% in 2016 (World Bank 2018). Its population grew from 175 to 208 million between 2000 and 2016, an annual growth rate of about 1%, which while still substantial is lower than it was in previous decades (2.2% over the 1960 to 2000 period). Housing needs remain substantial, with the housing deficit reaching over 6 million units or about 9% of the stock in 2015 (Fundação João Pinheiro 2017).

Following a number of local and national attempts at supply side programs, Brazil developed its own large-scale demand-side subsidies linked to credit access as an economic stimulus during the Global Financial Crisis (Acolin, Hoek-Smit and Magalhães Eloy 2018). The Minha Casa Minha Vida [MCMV] program introduced in 2009 aimed to support economic activity by quickly stimulating construction of new housing units. Between 2009 and 2015, over 3 million units were contracted under the program (Acolin, Hoek-Smit and Magalhães Eloy 2018).

Originally, three modalities of the programs targeted households at various income levels. For lower income households (Faixa I), the program finances units and recipients receive the title of the units after having contributed 5% of their income over ten years with minimum monthly payments of BRL25 or about US$8 (these levels have since been increased). Given the level of income of these households, this means the subsidies cover most of the costs associated with providing the units. For moderate income households (Faixa II and III) provides access to a mortgage with subsidized interest rates provided through Caixa, Brazil's main provident fund. For Faixa II and III units need to meet certain criteria but households can exercise more choice in selecting their units than under Faixa I in which recipients are essentially assigned a unit.

The MCMV program's national scale and the amount of funding associated with it made it the central component of Brazil's housing policy and it received wide political support as well as support from the construction industry. It has delivered millions of new units, however, as was the case with South Africa and Mexico, the location of these units was not part of the design of the program and the provisions for covering infrastructure costs were minimal. The levels of subsidies changed across areas, reflecting the differences in construction costs across larger and smaller cities but did not vary within metropolitan regions. Developers were given a price point they had to meet including their structure and land costs, providing an incentive to minimize the land costs. As a result, most projects consisted of several hundred or even thousand units built on the periphery of urban areas of even beyond the urban perimeters on large plots of undeveloped land with difficult access to infrastructures and occasionally in flood areas (Santo Amore et al. 2015).

Most evaluations of the program have focused on Faixa I. The evidence suggests that the units were not produced in areas in which the existing deficit was identified as most severe (Balbim et al. 2013). In addition, there are substantial issues with the location of the units (Balbim et al. 2015; Santo Amore et al. 2015). In particular, Santo Amore et al. (2015) conducted surveys of recipients and found that while most respondents were satisfied with their units in terms of size and quality (despite some prevalent issues with the heating system, noise and leaks) and in terms of access to basic infrastructures, a large proportion was dissatisfied with the location of the developments relative to their previous residence, long commute time (with most respondents experiencing an increase of 30 minutes or more) and lack of access to services and retail outlets.

Limited evidence exists about the financial performance of MCMV but Acolin, Hoek-Smit and Magalhães Eloy (2018) find an overall level of delinquency of 28% as of the end of 2015, which is even higher in peripheral developments. The level of delinquency for Faixa II and III is substantially lower (and the locations of these projects tend to be more central). Acolin, Hoek-Smit and Magalhães Eloy (2018) propose a number of hypothesis to explain the fact that almost a third of households would not be willing or able to pay 5% of their income towards housing but it seems that location is one of the driving forces behind the substantially higher rate of delinquency in projects located in the central city relative to those located in surrounding municipalities.

There are multiple reasons why while location has long been recognized as a key component of adequate housing, it has traditionally not been included in subsidized housing programs. One of the reasons is that well located land is generally scarce and/or expensive. Designing subsidies programs with a distinct land component that would allow for more generous subsidies in areas with higher land value would limit the number of units produced with a given amount of funding and would require substantial oversight to avoid overpaying for land. This trade-off between the location of the units and the number of units built requires careful analysis but providing units in areas where there is not demand for them is unlikely to be the optimal outcome. Progress in the availability of data to estimate land value can limit the risk of overpaying and public entities often have control over a substantial amount of underutilized land close to central locations that could be mobilized for affordable housing (Napier 2009).

Another reason is institutional, with housing professionals in charge of developing housing plans being often trained as architects or engineers with a focus on the quality of the structures rather than on how it fits in the urban planning and the fact that housing plans are often not coordinated with urban and infrastructure plans. Efforts are underway in several countries to coordinate housing, transportation and urban policy with support from international organization but evidence on their effectiveness remains sparse (OECD 2015; Forsyth et al. 2017; World Bank 2017).

Finally, the preference for detached single family structures rather than denser attached or midrise units and for programs that promote the ownership of new units rather than the upgrade of existing units or rental schemes (that are more often in apartment buildings) is common to many countries and is often shared by the population served and by the experts in charge of housing ministries (Buckley et al. 2016). This preference has resulted in programs that while providing relatively small units (often of 40 square meter or less) are intensive in their land consumption and require local governments to face higher costs in providing and maintaining the infrastructure and services for those developments (OECD 2015).

Issues with location are not limited to these three countries. In a 2012 analysis of affordable housing schemes in Latin American and Caribbean countries U.N. Habitat (2012: 68) identifies the location of the units produced and their lack of access to services as a common issue: "pressure to cut costs leads to choices of extremely peripheral land and inadequate housing services." And similar conclusions are found in Magalhães Eloy (2017) also for Latin America, Parby et al. (2015) for Sub-Saharan Africa and by the World Bank (2014) for South East Asia among other.

The next section reviews some of the foundations for proposing to include location and accessibility explicitly in the financing of affordable housing. It also discusses how progress in the availability of data to capture urban land use and to estimate land value enable including these criteria by leveraging existing information.

6. The Location Efficient Mortgage experiment and information needs

6.1. Location Efficient Mortgages

A potentially negative impact of poor location is on mortgage performance. In the 1990s, a number of organizations in the US started advocating for the development of "location efficient mortgages" [LEMs].[5] LEM would make households eligible for larger mortgages (through higher front end and back end debt to income ratio) and require lower down payments in locations with higher density and greater transit accessibility (Blackman and Krupnick 2001). The rational for this adjustment is that households in these locations are expected to face lower transportation costs, which decreases their monthly financial commitment and makes them less risky as borrowers at similar levels of DTI and LTV. The lower expected default rate in "efficient" locations could justify either decreasing the rate charged to borrowers or qualifying them for larger mortgages or lower down payments.[6]

In 1999, Fannie Mae accepted to launch a pilot in four large metropolitan areas (Chicago, Los Angeles, San Francisco and Seattle) that would fund up to $100 million in LEMs. Taking transportation saving into account in a household's income, the goal was to offer mortgages with front end debt to income ratio (housing costs to income) of a maximum of 35% (compared to 28% for standard mortgages), back end debt to income (all debt to income) of maximum 45% (relative to 36% on standard products) and down payments as low as 3% (compared to 5 to 20% on standard mortgages) (Blackman and Krupnick 2001:635). Taking into account the front-end loosening alone, a household would mechanically see the maximum loan they would qualify for increase by up to 25%. For example, a household with monthly income of $4,000 and no other debt purchasing a house with a 30-year mortgage at 5% annual interest rate would qualify for a mortgage of $208,635 based on a 28 maximum front end DTI but a $260,794 mortgage with a maximum 35% DTI. This different would make the product appealing for affordability constrained households.

Implementation of the LEM required estimating transportation costs based on location. In the Fannie Mae pilot, the estimated saving relative to an "inefficient" location was then added to the household income for qualifying the households (subject to the increased cap on their actual income). However, while there is evidence that car ownership decreases with transit availability and residential density (Holtzclaw et a. 2002), the nature of this relationship needs to be established more precisely and for different contexts. In addition, for the program to be successful there would need to be evidence that savings on transportation translated into lower default with a one to one relationship relative to income (meaning that an additional dollar of saving on transportation has the same effect as an additional dollar of income) and if not, what adjustment was needed to translate the expected transportation savings into income.

Fannie Mae's pilot program did not generate high volumes of loans, with only a few hundred mortgages issued by the time Fannie Mae stopped the program in 2006 (Chatman and Voorhoeve 2010). Another pilot program (the Smart Commute Mortgage), launched in 2002, offered a flat amount that was added to a household income purchasing a property within close proximity to transit access. A very limited number of mortgages were issued under this simpler program despite it being available in a broader number of markets and it also stopped in 2006 (Chatman and Voorhoeve 2010). Reasons for the limited number of mortgages issues have been attributed to the complexity of administering the programs (which were not incorporated into the standard underwriting processes), the limited number of lenders offering these mortgages, lack of familiarity and publicity around the new product and the fact that in many markets few locations qualified for substantial savings.

Limited evidence can be derived from looking at the performance of the loans originated as part of the pilots due to the limited number of loans (Chatman and Voorhoeve 2010). Attempts to directly estimate the relationship between location efficiency and default probability generally do not find significant effects and certainly not in the proportion required to affect DTI and down payment requirement to a significant extent (Blackman and Krupnick 2001; Kaza et al. 2016) although Rauterkus, Thrall, and Hangen (2010) find a lower risk of delinquency in high income areas with lower transportation costs.

A potential reason for the lack of evidence of substantial effect is that the model used to estimate transportation cost savings in the pilot programs seems to have substantially overstated the savings associated with efficient locations by comparing them to very low-density development, while the actual difference between locations for similar households are likely to be low (Blackman and Krupnick 2001; Chatman and Voorhoeve 2010). The savings may however be substantial in the context of affordable housing projects that are currently often located beyond the fringe of urban areas. Another reason is that households may not be allocating the potential transportation savings towards precautionary savings or housing costs but are instead committing them to other expenses. This might be a particular concern among lower income households who are more likely to be financially constrained and use any extra money available for immediate consumption. Kaza et al. (2016) find that the local availability of diverse jobs appears to have a positive effect on mortgage performance for low and moderate-income borrowers (potentially because proximity to more jobs provides more chances to find another suitable job quickly during an unemployment spell).

The rational for accounting for location when underwriting a household's ability to repay remains pertinent, but more information is needed to operationalize it in the context of countries with more limited car ownership and longer commuting times. The definition of

[5] As reported in Blackman and Krupnick (2001:635), "in 1995, three nonprofit organizations organizations – the Center for Neighborhood Technology in Chicago, the Natural Resources Defense Council (NRDC) in San Francisco, and the Surface Transportation Policy Project in Washington, DC – formed a consortium to develop LEMs" with support from the Department of Transportation, Department of Energy and Environmental Protection Agency as well as a number of foundations.

[6] One of the main reasons this approach was supported by the group of nonprofits is that it was seen as a way to incentivize denser development, limit sprawl and increase access to homeownership by low and moderate income households. See Chatman and Voorhove (2010) for further discussions of these goals and whether the LEM products may achieve them.

accessibility and how to measure it needs to be carefully considered. Pilot programs would be needed to gather performance information based on location that would be used to identify whether it is possible to make households eligible for larger loans in locations that have better access to transportation and employment (and if so by how much). This paper is not arguing for Location Efficient Mortgages as part of credit-linked affordable housing programs, but rather to take into account their rationale in order to incorporate location into these programs.

7. Urban expansion data now widely available

Progress in Geographic Information Systems and in land use classifications using remote sensing imagery makes it possible to create maps of urban expansions that differentiate between core urban areas and their periphery and identify the fringe of urban areas with great accuracy and timeliness (Angel et al. 2012; World Bank 2015; Acolin and Kim 2018). Classifying urban areas using census data has been a challenge for governmental and non-governmental agencies attempting to define urban boundaries and identify the share of the population living in urban areas. In addition, this data is rapidly outdated in the context of fast growing urban areas that can change dramatically during the 10 years that separate many censuses.

Satellite imagery enables identification of what areas are built up and classification techniques make it possible to differentiate between more densely and less densely built-up areas (Angel et al. 2012; World Bank 2015). The Urban Expansion Program led by Solly Angel at New York University shows the potential for creating standardized land use classification globally and using it for planning urban development.[7] The World Bank report on urban expansion in Southeast Asia also showcases how these tools can be used to track changes in urbanization over time for several countries.[8] It has become relatively affordable to obtain imagery at the required level of definition (10m or less) and computing power is available to process entire countries with limited resources. These technological changes enable the creation of national land use maps that can be updated on a yearly basis.

In addition, GIS shapefiles with information about existing infrastructure, transportation networks and employment centers are increasingly available in many countries or can be developed using existing administrative data (World Bank 2015. Acolin and Kim 2018). The combination of that information with the urban expansion data can be used to define areas that are eligible to receive subsidies or not based on their location relative to an existing urban fringe and to vary the levels of subsidies allocated based on that location.

In many countries, consistent property records and land value databases are not available (at any level or when available only in a few markets) but some estimates can generally be derived using property prices and deriving land value as the residual by subtracting estimated replacement cost for the structure. The development of online platforms for real estate listings like zapimoveis.com.br in Brazil, lamudi.com.mx in Mexico or OLX in a number of countries including Indonesia among many other can be leveraged to develop estimates based on a large number of observations, including often for unregistered or unpermitted properties. Further efforts are needed to develop reliable information about property and land prices for sub-metropolitan areas (and even metropolitan areas) in many countries but progress has also been made in that area. International organization are continuing to support efforts to increase the level of real estate property information available in the market and hopefully it will become more widely available in coming years.

The next section reviews Mexico's experiment with using location criteria to limit eligibility and varying the amount of subsidies to encourage development in more desirable locations.

8. Mexico's experience with incorporating location

8.1. Opportunities and challenges in incorporating location in other countries

By the early 2010s, Mexico faced a pressing need to adjust its affordable housing program to address the high levels of delinquency and vacancy in many of the development financed through CONAVI subsidies and INFONAVIT (and FOVISSSTE) mortgages. The communities created often still lacked access to basic infrastructures (water, sewer, electricity, gas) months or years after they were created, and their location made it very hard for households to reach their employment or access retail outlets and services. These structural problems combined with issues with the quality of the construction of units that had inadequate foundations or finishes and the social issues associated with high levels of vacancy required a massive inflection in the programs to reorient future development.[9]

The response to these challenges was articulated in the 2013-2018 National Housing Plan [PNV] and in the 2014-2018 Urban Development Plan [PND] that aim to promote more compact and sustainable development while preserving the affordability target of the previous housing program. One of the changes put in place to further these goals was to create Polígonos de Contension Urbana [PCU or contornos] to direct the development of affordable housing towards more desirable locations.

In their original iteration in 2011, the contornos consisted of concentric rings around the city center and areas beyond a certain distance were made ineligible for subsidies. While that approach was grounded in the monocentric city model that is part of standard urban economics in which all jobs are located at the center and households commute from the periphery, it did not adequately capture local conditions with the existence of important subcenters and geographic constraints that can affect the shape of cities. In subsequent iterations, the definition of the contornos was refined to create three distinct areas based on access to jobs, services and infrastructure.

The most central contorno (U1) is defined based on employment density (areas with at least 250 jobs and a higher concentration of jobs relative to the city average). The second ring (U2), is made of areas in which at least 75% of residents have access to water and sewage (capturing the availability of trunk infrastructures). The last ring (U3) is defined as a buffer expending out of U1 and U2 by 500m to 900 m depending on the size of the agglomeration (ensuring access to existing amenities and moderate connection costs to utilities and road networks). The contornos are updated yearly using objective census data for urban areas with more than

7 https://marroninstitute.nyu.edu/programs/urban-expansion

8 These measures show the pace of urban expansion over time, with urbanized areas increasing faster than population in most countries. This raises concerns of using land more effectively to support sustainable developments. Finding ways to obtain more compact urban development is crucial to attaining many of the SDGs. This is outside the scope of this paper. Although policies that would support the location publically funded housing closer to existing developed areas would likely also support denser urban forms and limit greenfield development.

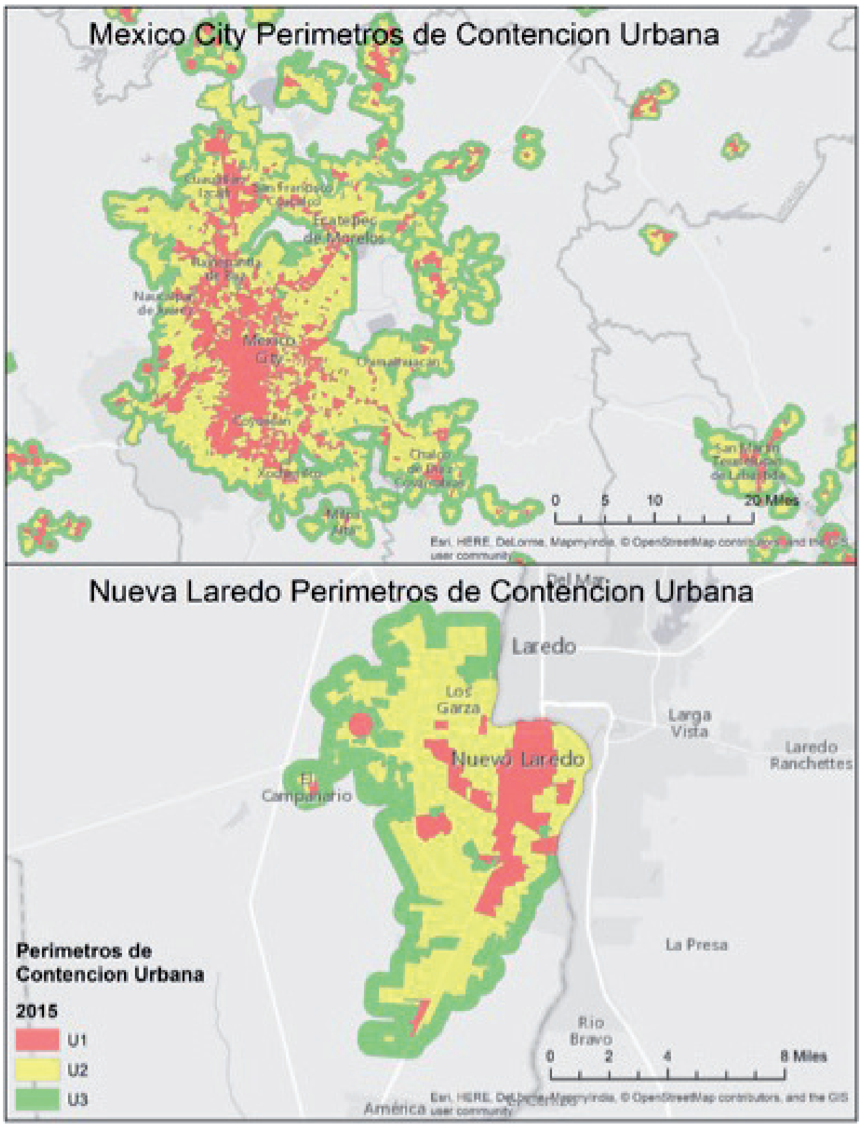
9 The government and its agencies also had to address issues with existing development as reviewed in Forsyth et al. (2017).

15,000 residents that form the national urban system (Sistema Urbano Nacional), representing 384 urban areas as of 2015 (SEDATU 2015).

As shown in Figure 1, the contornos capture the differences in patterns of urban expansion and land use across very different cities in terms of size and context such as Mexico City and Nuevo Laredo (on the border with the US). These maps, even if they are updated yearly can be used by developers to target their land acquisition. The contornos have been used to modulate the level of subsidies provided depending on the location of the project. The amount of subsidy can vary from 32 to 37 minimum wages depending on the contorno (and on whether the project features certain amenities or is in proximity to a number of amenities (health centers, schools, grocery stores, transit, sport and community center or parks). In addition, locations behind U3 are ineligible for any level of subsidies, preventing development in areas beyond the urban fringe. (Acolin and Kichik 2017).

The implementation of the contornos has had far reaching consequences, contributing to three of the larger developers going into bankruptcy and freezing development beyond the fringe (Acolin and Kichik 2017; Forsyth et al. 2017). The ability of the new standards to support better-located development remains uncertain and will need further analysis of the volume and location of new development currently under way. Current data available from CONAVI about the location of new project suggest that most of them remain concentrated in U3 with less than 20% located in U2 and less than 5% located in U1 (Acolin and Kichik 2017; World Bank 2017).

FIGURE 1 Mexico City and Nuevo Laredo Contornos, 2015



Source: CONAVI 2015

8.2. Opportunities and challenges in incorporating location in other countries

The approach adopted by Mexico of defining the locations that are eligible for receiving the subsidies and to differentiate the amount of subsidies to encourage development to take place in more desirable location is promising. Key challenges remain to ensure that this approach effectively delivers a substantial number of affordable housing units in well located areas in Mexico. Similar challenges would likely be faced by other countries attempting to support the development of housing units in desirable locations. Fewer units of a similar type can be delivered in more desirable locations for a given cost given higher land costs in those locations. However, there are a number of actions that can be taken to ensure that the location criteria do not freeze the production of housing and that better location is associated with better housing that meets their recipients' needs. Some of these actions are currently underway in Mexico with support of the World Bank (World Bank 2017) and can inform other countries interested in incorporating location explicitly to their affordable housing programs.

There are four main challenges that need to be effectively addressed by countries that want to incorporate location into their affordable housing plans:

1) Defining what measure of access they want to focus on and adopting a balance between encouraging infill development closer to the center and supporting greenfield development in areas that provide good access to existing employment centers and are in proximity to a range of amenities.
2) Providing the right level of incentives to encourage development in better locations while taking into account scarce resources.
3) Finding ways to improve the coordination between the different agencies in charge of housing and urban development at the national and local level.
4) Building the information and data infrastructure needed to reach these goals.

The first stage for incorporating location is to define what characteristics matter and how to track them. Mexico's approach focused on a few key variables: employment concentration, basic infrastructure (water and sewerage) and the distance to existing development. These variables are likely to be available in many countries and capture some of the key features through which location affects outcomes. They were complemented with additional features that can further define the desirability of location but cannot or do not need to be tracked systematically (proximity to amenities such as transit, schools, health center, retails, park). Having established the locations that are the most desirable, there is a need to then establish cutoffs between levels of desirability beyond which subsidies will not be available. It is also important to recognize that not all development will take place in the most desirable locations, particularly if the goal is to produce enough units to address the existing housing needs that still exist in many countries.

A balance needs to be found between infill and greenfield development. Forsyth et al. (2017) underscore the difficulty of supporting infill development due to land costs and the challenges of assembling land in central locations that make projects more complex and therefore costlier. Greenfield development will continue to play an important role. Land availability on the urban fringe and the lack of previous uses makes it more cost efficient to develop in these areas. An approach like the contornos can ensure that development take place in locations that are close to existing developed areas and infrastructure and will not generate negative long-term outcomes for residents and local communities. Combining the location restrictions with mechanisms that limit the size of individual projects and encourage the provision of retail facilities and other services as part of the development can further avoid the creation of large bedroom communities. It would also support the development of integrated communities offering housing, retail and other services along with employment opportunities.

Providing additional funding for developments in more desirable locations is a potential mechanism to compensate for higher land costs in those locations. To some extent, this is what Mexico is doing by increasing the level of subsidies available for projects in U1 relative to U2 and U2 relative to U3. This requires good information about local land costs to ensure on the one hand that the variations are sufficient to incentivize development and on the other hand that the additional subsidies are not too high and do not represent an inefficient use of scarce resources.

Beyond direct capital subsidies, non-monetary incentives exist to compensate for higher land costs: among them public land, land assembly, accelerated permitting and higher density (World Bank 2017). Public agencies often own a substantial amount of land in core locations that is not fully developed (older office buildings, rights of way along roads and transit lines, vacant land that was acquired for projects that were abandoned…). It is important to recognize the opportunity cost of using that land for the purpose of building affordable housing but that is a potential supply of land under governmental control. Using long term leases or public private partnership setups, this land can potentially be made available for residential or mixed-use development, with a mix of governmental use and residential units in different buildings or with market rate residential (or office) development used to cross subsidized the affordable units. Another approach is to develop mechanisms such as eminent domain to facilitate the assembly of land for the purpose of developing affordable housing by requiring landowners to sell their parcel (in exchange for compensation based on fair market value). The two other approaches a special permitting process that accelerates and smooths the approval of projects located in desirable locations and higher density allowance for affordable housing projects that allow developers to use the land more intensively[10] can be important factors. However, they generally require the cooperation of local governments who have control over land use and building permits.

The coordination between central and local governments and different agencies at each level is a broader issue of governance that affects urban development in general but is particularly salient in order to encourage development in specific locations. In Mexico, a ministry of territorial and urban planning [SEDATU] was created in 2013 that oversees both urban development and housing with CONAVI now falling within SEDATU's purview instead of being reported directly to the President. One of the goals was to improve coordination between the different actors in charge of urban development and housing, however differences in objectives and professional culture have limited that effort.

Different levels of government and agencies often have control over key aspects of the process of providing housing. The central government (either the housing ministry or directly the ministry of finance) generally control the financing of affordable housing plans (with state governments being also involved in federal or decentralized countries. The national department of transportation might also be in charge of providing the highways and larger roads. State or local governments (or public or private utility companies) are largely in charge of the provision of basic infrastructures (water, sewerage, electricity, gas, roads) and services (health centers, school, community centers, transit). Local governments are generally responsible for land use and building permits. This means they can support or block the development of additional affordable housing. Local governments are generally responsible for some of the ongoing costs associated with new developments but in the context of countries that do not have local fiscalism, they do not get direct increase in revenue from supporting the construction of the new units. Fiscal decentralization, particularly in systems based on local property tax in which local governments set rates and collect taxes can link new development with increased revenue.

Ways to incentivize local governments to support the development of new units in more desirable locations need to take into account the incentive system faced by local governments, create mechanisms that tie additional development to higher revenue for local governments (through property tax for instance) and provide them with information about the cost of providing services for different location and building types. The World Bank (2017) is currently involved with CONAVI in providing technical assistance to facilitate the collaboration between the national government and local governments on issues of land use planning and urban development. Such collaboration is needed in order to integrate and coordinate urban, housing and infrastructure development plans (World Bank 2017).

Finally, having addressed the conceptual and governance issues, a challenge to incorporating location is developing the required data and indicators. As part of the definition of the contornos, CONAVI had to invest in the development of a national geodatabases that provides information about a parcel's subsidy eligibility for all urban areas with more than 15,000 residents. The technical challenges associated with that effort were substantial, but within a few years, Mexico has been able to operationalize a definition of accessibility that captures key features for household welfare (proximity to employment centers and various amenities) and for the fiscal sustainability of the development (proximity to exiting trunk infrastructures. The database can also be used to guide urban policy more broadly and similar data efforts would certainly

[10] Santo Amore et al (2015) and Acolin et al. (2018) discuss some of the issues encountered in Brazil with providing affordable housing in the form of higher density buildings, such as condominium, including higher maintenance costs that lower and moderate income might not have the resources to pay. Higher density projects might be more suitable for rental developments (that are largely lacking in most affordable housing plans (World Bank 2017).

enhance the urban and housing policies in other countries as well.

The required data is likely to come from different sources and all indicators might not be available at the national level but instead require assembling local datasets. This effort to integrate the required data is essential to the implementation of the program and to tracking outcomes. The progress that has been made in geosciences, survey collection and exploiting existing administrative data makes that task more practical than it was a few decades ago. Mexico provides an example of the process needed to identify key indicators and collecting the required data (Forsyth et al. 2017) although further efforts are needed to develop indicators that can link local land use and planning processes and outcomes.

9. Conclusion

Governments in emerging countries are embracing large scale affordable housing programs. These programs aim to respond to the needs of populations that continue to grow and urbanize and the fact that in many countries, housing needs are not met for a substantial proportion of the population. However, many of the existing programs have resulted in the production of large scale housing projects beyond the fringe of urban areas. These locational outcomes limit the potential welfare gains for recipients, contribute to the creation of communities without strong socio-economic activity and result in substantial upfront and ongoing costs for local governments responsible for providing infrastructures and public services.

These outcomes took place despite affordable housing programs largely exhibiting a shift from supply to demand side subsidies, which was intended to provide units that better matched household demand by incorporating market signals. One of the reasons for these locational outcomes is that land is more expensive in more desirable locations and subsidy programs generally provide a flat amount of subsidy per unit (or vary it across but not within metropolitan areas).

As reviewed in this paper, in recent years, Mexico has developed innovative measures to incorporate location into its affordable housing program. It defined areas with varying level of priority for development and restricted subsidies to projects within certain locations. The incorporation of location was motivated by substantial issues with the earlier iteration of Mexico's affordable housing program and further evidence about the success of the shift is needed to evaluate its success.

The approach developed by Mexico is evidence-based and relies on datasets about urban expansion and infrastructure access that are available in a number of countries or for which substitutes can be produced using new geospatial analysis tools. Mexico's contornos have the potential to encourage better locations for affordable housing. Improving location is subject to important trade-offs between the number of units produced and their location. As reviewed in this paper, these trade-offs can be made less binding by developing non-monetary incentives (land assembly, facilitated permitting, increased density allowance). The success of the implementation of these incentives requires the coordination of federal, state and local government agencies to integrate urban, infrastructure and housing development.

Leveraging recent progress in data availability about urban expansion and infrastructure networks to improve the outcome of affordable housing schemes has the potential to create housing units that better serve their recipients needs and to better utilize the substantial resources allocated to affordable housing programs. This would also contribute to reaching Goal 11 of the SDGs by creating more sustainable cities and communities. The challenges that need to be addressed to do so require rigorous analytics and data development but are not unsurmountable.

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Issues and challenges for the housing sector in Bangladesh: strengthening specialized state-owned financing

By Debasish Chakrabarty

1. Introduction

Bangladesh, with nearly 160 million (2015) inhabitants on a landmass of 147,570 square kilometers, is one of the most densely populated countries in the world where 30% of the population resides in urban areas contributing 50% of GDP while the rest of the people live in rural areas depending mainly on agriculture for their livelihood. Surprisingly, Bangladesh has been showing sustainable real economic growth from the introduction of neo liberalization policies in the nineties and the economy remained resilient following the shock of global financial and economic meltdown of 2008 and the aftermath. On average, GDP growth since the new millennium has steadily been increasing at an average of 6% and real GDP is expected to grow by an average 7.5 % during the seventh five-year plan (2016-2021), bolstered by sustained gains in private consumption and investment. The government expects that GDP growth will be around 8% in the next fiscal year.

2. Government policy initiative and institutional infrastructure for housing

Bangladesh adopted its first National Housing Policy [NHP] recognizing the severe housing crisis in the country, and therefore, set national specific objectives focusing on inclusive and accessible housing for the low and middle-income groups, and prioritizing the needs of deprived, poor and shelter-less people. In 1999, this policy was developed so that all segments of people can get equal and healthy opportunities and safe residential and other utility services at a minimum cost (Islam, 2014). Meanwhile, the Government has declared the vision-2021 which has a clear focus on the arena of housing as 'Housing for All', one of the five basic needs of a human being. To implement the state's commitment to make proper housing available to all citizens and to develop houses, settlements and work places on a sustainable and equal basis as per the sustainable development goal [SDG], the national housing policy further revised and adopted a comprehensive National Housing Policy -2016 which included all the pertinent issues very meticulously. However, the implementation is likely to face several challenges and hence, there is a need to outline coherently the tools and techniques needed to overcome these challenges.

Bangladesh has been successful in implementing the millennium development goal and its continuation; the road map for implementation of the sustainable development goal has been set out in the goal (11.1) which declared that access for all to adequate, safe and affordable housing and basic services would be ensured and that slums would be upgraded by 2030.

Moreover, two medium term development plans- the Sixth Five Year Plan (2011-2015) and the Seventh Five Year Plan (2016-2021) are being undertaken for the implementation of Vision 2021, indicating the public housing strategies. The plan set several goals for the development of the housing sector, including development of low-cost housing and multi-story buildings.

As part of the Government initiative in providing direct housing facilities e.g. plots and flats, some city development authorities like RAJUK, CDA, KDA[1], National Housing Authority-dedicated organizations for planned urban development under the Ministry of Public Works and Housing are working. Several schemes for community housing have been implemented providing plots and flats to city and peripheral areas.

However, so far, the Government's intervention in the housing sector for the middle and low-income population remains very limited. The supply of housing stock by the public sector could not accommodate the rapidly growing population in Bangladesh. Furthermore, limited and inaccessible refinancing resources in the country constrains the government in developing public housing especially for the middle and low-income sectors. Consequently, support from development partners is critical to address the development needs of the housing sector.

3. Housing challenges in Bangladesh

To provide housing for 160 million people is, in fact, really challenging for a land-scarce country. National policy efforts can still not satisfy the increasing demand for housing all over the world as per the UN habitat standard. This situation is alarming in the case of a developing country like Bangladesh. The deficiency of housing is being exacerbated day by day by the overcrowding of the urban areas. At the same time, natural calamities and deteriorating affordability is/are worsening the standard of housing in rural areas. The large population and low land-person ratio exacerbates the housing shortage[2] in both urban and rural areas in Bangladesh, increasing the slums and low-quality housing provision in those areas (Islam, et al, 2008; Arnold, et al, 2013).

Meanwhile, Bangladesh has done tremendously well in some areas such as poverty reduction, clothing and health services. At the end of fiscal year (2016-17), the per capita income of the country rose to US$ 1610 (BBS, 2017). Gradually, the people's financial capacity is improving which leads to an increasing demand in the housing sector.

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[1] Acronyms for Rajdhani Unnayan Kartripakkha (capital development authority), Chittagong Development Authority, Khulna Development Authority respectively.

[2] The housing shortage is estimated in 1991 to be about 3.10 million units, composed of 2.15 million in rural areas and 0.95 million units in urban areas. The annual population growth rate of the city is 4.34% and the household size is 4.8 (BBS, 2001)

Issues and challenges for the housing sector in Bangladesh

The demand for housing in Bangladesh far exceeds the supply from the formal sector. The deficit is projected to reach 8.5 million units in 2021 if investment in the housing sector does not keep pace with the growth of population. A short snapshot is given in the following table to depict the picture of the housing deficit.

Most of the need is concentrated in the lower and lower-middle income groups. Rural demand (using an annual growth rate of 2%) could be as much as 3.5 million units per year (Only 2% of rural housing is characterized as permanent). Further, due to high housing prices and limited availability of land, the tendency to build houses on low-lying, vulnerable and hazardous sites, such as drainage channels, garbage dumps, railway tracks, etc. is prevalent. Construction practices also often use decaying, low quality and unsafe materials that can barely withstand natural hazards like storms or heavy rain.

TABLE 1 Urban housing deficit

YEAR	HOUSING DEFICIT IN URBAN AREAS	TOTAL URBAN POPULATION (MILLION)
1991	0.95 million units	20.87
2001	1.13 million units	28.81
2010	4.6 million units	43.43
2021	8.5 million units (projected)	60.00

Source: Household Income and Expenditure Survey, 2010; BBS, 2001; National Housing Authority, 2005

TABLE 2 Housing finance demand estimate (June 2016) (billion USD)

NAME OF ITEM	OUTSTANDING HOUSING LOANS (AS ON JUNE/2016)		
	Urban and Peri-Urban	Rural	Total
Market size	4.59	2.45	**7.04**

TABLE 3 Housing finance future demand projection (June,2016) (billion USD)

	2017-18	2018-19	2019-2020	2020-2021
Peri-Urban	3.5	3.6	3.7	3.8
Rural	14.00	14.5	15.0	15.5
Total	**17.5**	**18.1**	**18.7**	**19.3**

Source: Barriers Constraining the Low and Middle-Income Housing Finance Market in Bangladesh, WB & IFC Report, 2016.

4. The impact of large-scale urbanization on agricultural land

Accommodation for a huge population is squeezing the area of cultivable agricultural land very rapidly. Pressure is created by the development of industrialization, urbanization along with housing, mills factories, roads, schools, colleges, universities, hospitals and different public and private organizations that require vast areas of agricultural land. As a result, the areas/amount of agricultural land is decreasing. The amount of arable land per-capita was 42 decimal[3] in 1961, which was compressed/reduced to 12.35 decimal in 2015 as per World Bank data. It is claimed that every year around 1% of farm land is converted to non-agricultural use and due to that conversion, the reduction in the country's rice production is at least 0.86% per year (Quasem,2011). The share of the agricultural sector in GDP has come down from about 50% in 1972 to only 14.74% in 2017(BER, 2017). It is also found that the farmland conversion is predominantly happening for housing construction followed by roads and the establishment of business enterprises. Therefore, to sustain the agricultural land; there is a need for planned and proper management of cultivable land. The construction of vertical structures to serve various industries is a rational solution for optimization of land especially agriculture land. Furthermore, the price of land is exceedingly high and, during the last two decades, a preference for independent houses has almost been replaced by the demand for apartments and flats, especially in the urban areas.

Therefore, Government policy intervention on the use of agricultural land for housing is now a crying need of the time.

5. Challenges to the housing finance market

The cumulative demand projected for housing finance in Bangladesh over the next four years is 167% of the 2015 total of housing loans outstanding across Bangladesh's financial sector and possibly 6-7 times the total of current housing loan disbursements per annum. The consolidated housing finance demand projection for the next four years (2017-2020) broken down by geography and by source is summarized in the tables below.

Despite the high demand for housing finance in Bangladesh, the housing finance system is small and highly segmented. The ratio of housing finance to GDP is less than 5% (3.51%, 3.28%, and 3.23% in 2013, 2014 and 2015 respectively) while the housing loan penetration[4] is only 2.9%.

6. Financial intermediaries for housing finance

Housing loans are not popular in the commercial banking sector because of their long-terms. (Pal, and Hossain, 2014). The common practice of the commercial banks is collecting deposits and providing only short-term loans to organizations that have guaranteed returns. While there are housing schemes offered by commercial banks, these serve the top tier of the housing market, with houses built in the major two cities, Dhaka and Chittagong. The middle-income and upper low-income households mainly living in the periphery of Dhaka, Chittagong and other districts, towns and rural areas, and are historically underserved in terms of housing finance services. The comparative position of different financial institutions including BHBFC is summarized in the table below:

[3] A decimal is a unit of area commonly used in land measurement in Bangladesh equal to 435.6 square feet or 0.01 acre (40.46 square meters).

[4] The percentage of the adult population with an outstanding loan to purchase a home (data obtained from Global Financial Inclusion- FINDEX Database).

TABLE 4 Comparison of housing loan availability

NATURE OF COMPARISON	BANK		OTHER FINANCIAL INSTITUTIONS		
	State-owned commercial bank	Private-owned commercial banks	Micro-finance / NGO's	Non-bank financial institution	BHBFC
Coverage area	All over Bangladesh but concentrated in urban and peri-urban areas	Mainly focus in Dhaka (80%) and Chittagong (20%)	Rural areas of Bangladesh	Mainly cover Dhaka and Chittagong metropolitan areas	All over Bangladesh
Target population	All income groups are considered for housing loan but limited access for lower income group.	Only higher and higher middle-income group	Lower income group with limited ceiling.	Only higher and higher middle-income group can avail	All income groups except the landless
Rate of interest	Ranges: 10-13.50%	Ranges: 10-16.50%	18%	Range: 9.50-16.00%	8.50-10.00%

In recent years, private and state-owned commercial banks have been expanding their housing loan portfolios. These banks were seen as the dominant market players with the lion's share of the loan portfolio. In addition, two private specialized housing finance companies also provide a significant number of loans. They access funds for their operations by taking long term deposits including some contractual deposit schemes. But all those private sector players concentrate their financing in major cities especially Dhaka and Chittagong, targeting the top tier of income earners.

The key player in the government housing financing sector is the Bangladesh House Building Finance Corporation [BHBFC]. It is the only government institution serving the low-and middle-income segment with a wider geographic coverage beyond the Dhaka and Chittagong metropolitan areas. The corporation is a state-owned enterprise [SOE], which specializes in providing government low-cost credit facilities for construction, repair and remodelling of houses and apartments.

While housing microfinance has emerged in Bangladesh as an attempt to bridge the gap in housing finance for the poor, yet, the microfinance industry remains predominantly focused on providing loans for income generating activities. The four main microfinance institutions in Bangladesh, in terms of members and market share, are Grameen Bank, BRAC, ASA, and Proshika. Grameen Bank pioneered the rural housing loan program that provides basic building materials for a simple new house for which repayment could take place over a 15-year period (Sarker, et al 2008).

Grihayan Tahbil, literally means 'housing fund', is a government refinancing project which supplies funds at a lower rate to the Non-Government Organizations (NGOs) for disbursing credit mainly to the lower income people for semi-pucca and tin-shade houses[5] in rural areas. Though this scheme has become popular with the poor villagers, there is strong discontent with the inadequate loan ceiling as well as the high interest to the end/ultimate borrowers due to the transaction costs of operation. Hence, the institutional reshaping is a must for effective servicing of the targeted population.

Although these several potential sources of housing finance for mid- and high-income consumers exist, housing finance still remains a critical bottleneck for most low-income families.

Total outstanding housing loans from banks and financial institutions as of end June 2016 amounted to BDT 562.9 billion which was 9.1% of total credit to the private sector. It is observed from table 5 below that BHBFC had an amount of BDT 30.1 billion in outstanding housing loans as of end June 2016. The main source of BHBFC's funds is paid-up capital by the Government and the proceeds as received by selling Government guaranteed debentures to different organizations. As BHBFC is regulatorily constrained in getting funds as well as disbursing funds only for residential houses, the organization did not match the pace of the demand among the aspiring households. Recently, BHBFC has made several attempts to seek funding from international financial agencies e.g. IDB, ADB, JICA etc. An overview of housing loans is shown in the table below:

TABLE 5 Outstanding loans in the housing sector

SL. NO.	LENDERS	OUTSTANDING AS OF END JUNE (IN BILLON BDT)					
		FY14		FY15		FY16 (P)	
1	**Specialized housing finance providers:**	59.30	13.50%	63.60	13.08%	70.40	12.51%
	BHBFC	29.70	6.74%	30.30	6.23%	30.10	5.35%
	Delta-Brac Housing finance	26.40	5.99%	28.70	5.90%	33.40	5.93%
	National Housing Finance	3.20	0.75%	4.60	0.95%	6.90	1.23%
2	**Banks:**	358.00	81.25%	392.00	80.59%	449.50	79.85%
	Private Commercial Banks	231.80	52.61%	262.30	53.93%	309.20	54.93%
	Schedule Commercial Banks (SCB)	95.60	21.70%	108.70	22.35%	119.30	21.19%
	Other Banks (foreign and specialized)	30.60	6.94%	21.00	4.32%	21.00	3.73%
3	**Other Financial Institution:**	23.20	5.27%	30.80	6.33%	42.90	7.62%
4	**Micro Credit Lenders:**						
	Grameen Bank	0.04	0.01%	0.02	0.00%	0.07	0.01%
TOTAL		**440.50**	**100.00%**	**486.40**	**100.00%**	**562.90**	**100.00%**

Source: Bangladesh Bank Provisional

[5] These are housing types classified on the basis of construction materials; Semi-pucca (semi-permanent) means a housing type where walls are made partially of bricks, floors are cemented and roofs are of corrugated iron sheets. Tin shade means another housing type where walls are mainly made of bamboo, woods and occasionally bricks and floors are of mud brick and roofs are of corrugated iron sheets.

7. BHBFC, as pioneer facilitator in housing affordability

To synchronize/comply with the state policy as a state-owned pioneer institution in the housing sector, BHBFC extends/offers financial services to all citizen especially low and middle-income groups who are facing difficulty in gaining access to finance. To get the finance from BHBFC, the pre-requisite is the proper implementation of an approved plan from a competent authority with essential utility services. Therefore, this finance assists the clients not only in building quality housing but also in accessing utility services like electricity, energy, sanitation and water supply. By dint of that, BHBFC is contributing towards improving the living standards of the huge population as well as developing planned urbanization. A short picture of BHBFC's services for facilitating housing need through financial inclusion is provided below:

TABLE 6 Glimpse of loan services delivered by BHBFC

SL. NO.	PARTICULARS	NUMBER			AMOUNT IN (BDT CRORE)		
		2016-17	2017-18 (As of April 2018)	Cumulative (As of April 2018)	2016-17	2017-18 (As of April 2018)	Cumulative (As of April 2018)
1	Loan Applicants	1107	1463	110645s	—	—	—
2	Loan Sanction	1301	906	80699	353.42	363.48	6808.36
3	Loan Disbursement				278.51	305.93	6035.07
4	Sanctioned Housing Units	5318	4105	207096	—	—	—
5	Beneficiaries	31908	24630	12,42,576	—	—	—

7.1. Capital base and contribution to the economy

Both of the authorized and paid-up capital of the Corporation are BDT 1100.0 million. The Corporation collects its funds from the Government as deposits and credit, which are being regularly repaid. At present, the Corporation has a nil-default record for repaying liabilities. A proposal for strengthening the capital base by upgrading the authorized capital from BDT1100.0 million to BDT10,000.0 million is under active consideration by the Government.

BHBFC operates its loan program mainly based on the recovery of its outstanding loans. Therefore, the recovery process is important to provide/carry on smoother recycling of capital. Due to the proper monitoring and efficiency in operation, BHBFC's profit as well as the amount of tax paid on profit has increased in recent years. The Corporation has been contributing to national economic development by paying the tax on profit regularly. It is worth mentioning that BHBFC received the Tax Card Award of National Board of Revenue [NBR] in 2010-2011 as 10th highest tax paying organization in the corporate sector.

7.2. Service foci and target groups

BHBFC's strategic aim is to serve the underserved the lower and middle-income segment of population in Bangladesh whereas other financing agencies place emphasis on the upper segment to enhance profitability. The housing market is in partial equilibrium in the housing eco-system where the Banks and NBFIs serve the people with the average household income of Tk 60,000.00, whereas BHBFC always strives to penetrate into the low and middle-income group. It does not give importance to monthly income for repayment, rather emphasizing the return from the rent of the house. Furthermore, BHBFC provides the longest repayment period to lighten the burden of monthly repayment from current income.

BHBFC also follows the recommendation of many policy bodies by adopting policy instruments to make housing more affordable by providing concessions such as subsidized finance to the targeted segment (lower and middle-income group) for the purchase/building of their first house. There is large potential demand for housing finance particularly from the lower to middle-income segments, but this is not yet translated into realizable transactions fully due to some constraints focused in the aide memoire[6].

Recently, BHBFC has taken visible steps to achieve more inclusion of this wide sector of population in relation to its financial service, such as launching some new products including 'Pallima' (The rural housing loan scheme) and 'Krishak Abashan' (Farmers housing loan scheme). More than sixty percent of its credit is being provided in rural areas where the low and middle-income group [LMIG] mostly resides and is underserved. With the present expanded activities, the proportion of service provision will increase significantly in favor of LMIG as well as rural and peri urban areas over the time period.

7.3. Recent institutional developments

The impact of the rise of construction material's price is the increased construction cost of the building. Moreover, the income level, honor and social dignity of the potential clients are upgraded which eventually uphold the repayment capacity of the people. Considering all these perspectives, BHBFC has increased the ceiling of loan amount per single applicant from BDT. 5.0 m to 10.0m for house construction and from BDT. 4.0 m to 8.0 m for individual flat purchase.

To make the access to housing finance more affordable to the low and middle-income segment of people, BHBFC has reduced its lending interest rate from 12% in the top two metropolitan areas to 9% and from 10% in other areas of the country to 8.50% which is the lowest lending rate in the country.

The expatriates/non-resident Bangladeshi [NRB], farmer class in the country side, rural citizens with the least resources, are developing their homes with self-finance because of financial constraints. There is no observable/visible home loan scheme for those classes of the people from public or private financial institutions. Considering the above context and synchronizing the implementation of policy 'housing for all' adopted in the vision-2021 and 2041 of government, BHBFC has recently brought seven new products into its basket which will hopefully speed up the supply of loans relative to the rising demand for BHBFC loans.

"Probash Bondhu" housing loan scheme for expatriate/non-resident Bangladeshi [NRB].

"Pallima" housing loan scheme for rural people.

[6] Aide memoire by an ADB consultation mission.

"Nagarbondhu" housing loan scheme for the citizen of Dhaka and Chittagong metropolitan areas.

"Abashan Unnayan" loan scheme for completing the construction works of the incomplete house.

"Abashan Meramat" loan scheme for repairing of the constructed house/flat.

"Krishak Abashan" loan scheme for the improved housing for farmers.

"Flat Registration" loan scheme for the registration cost of purchased flat.

To extend the services of the corporation to the doorstep of the people and bring the excluded population into financial inclusion, the oraganogram[7] as well as the institutional structure has been reformed. The staff of the Corporation has been increased from 795 to 1297 and the number of offices has been expanded from 31 to 125.

7.4. Adopting a special scheme for deepening services

Realizing the scope of peripheral housing development, BHBFC, meanwhile, has taken the housing project focusing on the peri-urban housing. To adopt Group Housing Model for specific segments of the population such as Garments workers, Teachers' communities in the close vicinity of their working place, BHBFC's efforts are attracting attention from many development partners because of their support for this type of program. BHBFC has already signed agreements with different public universities such as Rajshahi University, Chittagong University, Islamic University, Kushtia Islamic University etc. for community housing schemes. With these agreements, the teachers and staff of these universities have effectively gained access to BHBFC's financial service. Meanwhile, BHBFC has had a successful meeting with the apex body of housing developing companies REHAB [Real Estate and Housing Association of Bangladesh] for the housing scheme for the Garments workers in the close vicinity of their working place. This financing scheme would be carried out to finance any housing model such as the rental model, rent-to-own and the ownership model.

To mitigate the housing problems of government employees who predominantly fall within the LMIH group, the Government has recently approved a policy for subsidizing housing finance for them through the banking channel which is going to implement from the current fiscal year 2018-19. Along with four other state-owned commercial banks BHBFC has been enlisted/nominated as the implementing agency for extending this subsidized financing scheme.

7.5. Development in customer service and compliance

To ease the credit system and to improve the quality of customer service, a 'Help Desk' with all modern and online appliances has already been opened in the headquarters of BHBFC. Moreover, the quality of customer services has increased by providing "one stop service" in all field level offices. Besides, a complaint box has been opened in all offices.

In order to maintain a close monitoring system of overall activities of the corporation "retrospective, evaluative and special meeting" has been arranged with the officers from various departments. Recently the managing authority has started to exchange views through video conference with field offices. Thus, accountability has been established within the total activities. To improve the transaction system, a digital cash management solution has been installed so that the borrower can easily repay their installments through automated electronic fund transfer from their own operating bank accounts.

To address the information asymmetry, BHBFC has recently accelerated its public relations activities and provides access to information through participating audio-visual media, direct interactive public programs e.g. housing finance fairs, which will be impetus for disclosing information to its clients and will correct the information asymmetry significantly. Moreover, in order to bring all activities into a central database "Data Center" has been installed at head office under ICT division. To digitalize the entire loan system, the E-home loan service program is being developed which will speed up the loan underwriting/sanctioning and recovery process very significantly.

7.6. Promotion of affordable, low cost and green housing

Realizing the unmet demand for low cost and affordable housing, BHBFC is discussing with the Housing and Building Research Institute [HBRI]-the dedicated institute for housing technology innovation for accelerating low cost and affordable housing finance in Bangladesh. BHBFC intends to take an appropriate housing finance scheme for affordable and low-cost housing. In addition to this initiative, BHBFC is also corresponding regularly with the nationally renowned institutions like Infrastructure and Development Company Limited [IDCOL] and Department of Environment to promote environment friendly house building technology.

Moreover, BHBFC is interested in the incorporation of/incorporating world recognized modern and low-cost methodology in housing construction like Koto Technology. Meanwhile, BHBFC senior officials have visited many housing schemes in order to share knowledge of the low-cost housing technology e.g. Malaysia, Singapore, Thailand, Australia, India.

7.7. Importance of vertical expansion to save the cultivable land

BHBFC is very concerned with saving land which is crucial for the food security of the country and must be balanced against the need to mitigate housing need. The popular building construction fashion in rural areas is traditional, unplanned and horizontally directed which is extremely land consuming. BHBFC's set/established objective is to facilitate the expansion of rural housing with multistoried planned building complying with the land policy of Bangladesh. Keeping the national interest central to its policy implementation, BHBFC has taken steps to augment its finance in those areas by drawing on resources available to development partners. One such initiative is "Rural and peri urban housing finance project "where total costs amount to EUR 140.35m and where the finance from Islamic Development Bank is EUR 94.75m. The financial agreement between the Bangladesh Government and IDB has been signed and the project will be implemented during the upcoming/current fiscal year.

The main objective of the project is to provide financial and technical assistance to the rural and peri-urban people of Bangladesh to enable them to construct land-efficient multi storied residential buildings and to protect cultivable agricultural land providing better dwellings with essential utility facilities. A significant advancement in the housing

[7] An **organogram** is just another name for an organizational chart. In short, it's a diagram that shows the structure of an organization and how the various positions are related to each other.

sector will be accomplished with the implementation of this project. Moreover; the resultant saving of agricultural land through using the vertical expansion of housing in the implementation of the project is estimated at 185.75 hectares which will help to sustain the food security of the country. Elsewhere, discussions are going on with the Asian Development Bank [ADB]about financing more peripheral people under the its initiative titled "Bangladesh Housing Finance Facility[8]" and the Japan International Cooperation Agency [JICA] about financing in low cost and affordable housing finance in Bangladesh through BHBFC.

8. Conclusion

Bangladesh has just celebrated the upgrading of its status from least developed country to lower-middle income country this year which demonstrates the improvement in many economic and social indices. With the development of state capacity, the obligation to take the necessary steps to ensure the quality of, and improvements to housing, has been recognized as a constitutional responsibility to the citizens of Bangladesh. The Government has taken various initiatives in the context of policy support and housing supply in line with the prime minister's proclamation- 'Housing for all', 'land efficient housing and healthful', 'safe and affordable housing' coordinating the policy instruments mentioned above-the National Housing Policy, Vision 2021 and Sustainable development Goals [SDG] etc.

The ever-increasing shortage of quality housing is not only a national phenomenon, it is an international concern. The situation is more acute in a country with a small land mass like Bangladesh where the price of land is so high which in turn puts upward pressure on the price of housing. Therefore, housing affordability is worsening for the low and middle-income segment of the country where 40% of household income is consumed in accessing housing. On the other hand, due to the cheapness of traditional building technology houses are being extended horizontally in the rural and peri urban areas, which is absorbing agricultural land and reducing the land available for crop production. This is becoming a silent threat to the food security of the population. Nowadays, this issue is being clearly articulated in the discussions of various forms of policy makers and in a few policy initiatives attempts are being made to preserve the land mass for food production.

It is widely agreed that the government housing supply is meager compared to the huge need of a large population. Therefore, the financial support is recognized as vital if homes are to become more affordable. There are several private and public housing financing institutions in the market which are extending their services to assist house construction. Still the market is segmented, urban biased and in partial equilibrium and the gap between the supply and demand is enormously increasing. Housing finance is mostly concentrated in the top city areas. As a key player in the market, the specialized institution Bangladesh House Building Finance Corporation has extended its finance into markets prioritizing the demand of peri-urban and rural areas. Several credit schemes have been adopted which include the lower-income segment of people within the scope of financial services. In addition, more importance is being given to the vertical expansion of housing in order to save/preserve cultivable land and thus to mitigate the threat to food security. Although this organization is suffering from funding constraints in the face of accumulated demand, the ensuing fund inflow from international development partners will hopefully improve its financial capacity to ease the access to housing finance for LMIH.

Beyond of its financial schemes, BHBFC's initiatives for incorporating the land-efficient, low cost and environmentally friendly methodology within the basket of building technology will impact positively on housing affordability and land conservation in Bangladesh.

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Housing finance in Tajikistan

↳ By Eugen Doce

1. Housing sector

The housing sector in Tajikistan has several defining characteristics that make it similar to most of the countries of Eastern Europe:

Due to large scale privatisation, following the Privatisation Law on Housing of 1995, the home ownership rate is very high. Over 97% of the housing stock at the end of 2014 was in private ownership.

Cities are dominated by the prevalence of multi-family buildings whereas detached dwellings prevail in rural areas. The latter are also predominantly self-constructed dwellings; such buildings do not necessarily apply existing building codes and techniques but are rather built with local materials (like mud bricks or even clay etc.). Such practice makes them often vulnerable to severe natural conditions (landslides, earthquakes etc.).

New housing construction has gone through different periods of dominance by government or private sector. Following the aftermath of the civil war in 1997, the construction sector was dominated by the reconstruction and repair of damaged units. Both government and NGOs assisted during the reconstruction period; house prices during this period were low. Since 2002, the residential construction sector has been dominated by the private sector. Starting in 2012 residential construction is booming in Dushanbe, the capital city, which the authorities have plans to reconstruct.

After a slight decline during 2015-2016 (due to the negative effect of crises in Russia) prices for apartments in Dushanbe stabilised and start from USD 500/m² (depending on location, design and the quality of construction). Considering that typically the minimum size of an apartment is 50m², the minimum price for an apartment starts at USD 25,000.

Only a small proportion of the new units sold are financed through mortgage finance. Usually developers ask the homebuyers to pay upfront at least 50% of the apartment costs and the remaining 50% is paid in tranches as construction work progresses. However, the absence of proper legal protection makes it risky for homebuyers to engage in such transactions. Thus, during recent years many families have lost their investments.

The Agency for Construction and Architecture, a public body, is responsible for issuance and appliance of building codes and standards. The Agency has under its guidance several departments that are responsible for licensing, design, quality control, certification and registration of finished construction. New building standards and codes were introduced in 2015. Nevertheless, as in other post-Soviet countries their proper implementation is questionable.

Buildings are typically built by mainly using cement, timber and red bricks (or concrete blocks). Construction of new cement plants contributed to a decrease share of imported cement. The Construction and Architecture Committee of Tajikistan estimates Tajik cement production will reach four million tons by 2018, completely meeting domestic demand and allowing cement to become a significant export item. However, the majority of other construction materials are imported. Materials usually are imported from neighbouring countries like Kazakhstan, Uzbekistan, Iran, China and even Russia. Due to a newly built thermal power plant the majority of the buildings in Dushanbe, including new construction, are linked to a central heating system.

Although the Government recognizes its role in the provision of housing as stipulated in the National Development Strategy or the Housing Code, its role has been diminishing. Furthermore, the Housing Code requires some updates as in its existing form, the Government is supposed to provide housing solutions for the entire population. Such provision is not compatible with the existing realities of Tajikistan; in other countries governments have long withdrawn from taking over full responsibility for providing housing to the entire population. Their role is merely to provide shelter only to vulnerable people and support the enabling environment (laws, regulatory framework) for incentivising the private sector (construction and housing finance) to get more involved[1]. In practice, in Tajikistan the housing problem is often solved through allocating land parcels to households for home construction. Thus, during the last 25 years more than 120,000 hectares of land were allocated for such proposes. However, given the limited supply of arable and construction land (93% of the territory consists of mountains) the Government took the decision to limit this practice. In addition, the decree of the Government prohibits construction of residential buildings with less than five stories in cities and administrative/regional centres; an urban concentration process is ongoing.

On a strategic level, the demand for housing in Tajikistan is expected to grow in the future, fuelled mainly from the following factors:

- Channelling of income from remittances in the construction sector; a substantial part of the remittances goes into home improvement or maintenance;
- Low availability of living space per inhabitant; Tajikistan has a large dormant demand;
- High population growth rate (over two percent per year);
- Widespread under-maintenance of multi-family buildings; the housing stock is ageing; hence families are constrained from investing in maintaining their comfort level and instead keep their utility bills under control.

2. Land property rights

Land in Tajikistan is in full ownership of the State. This is embedded in the Art 13. of the Constitution and Art. 2 of the Land Code which assign land ownership rights as well as the natural resources (water, forest and what's beneath the soil) to the State. Private persons are allowed to hold and transfer usage rights on

[1] In 2010 the new Housing Code concept was drafted which addresses these issues. However, up to date it still is not adopted.

land, however they are not allowed to have full ownership of land. Given the limited resources of arable and construction land an appropriate management of resources is required.

The Land Code of the Republic of Tajikistan stipulates the rules for the allocation and usage of land, bodies responsible for land management (Chief Land Department and State Land Inspection with their relevant local bodies), payments due for land usage and the compensation for withdrawing land rights.

The Land Code divides the land into the following categories according to use: farming; residential; industrial, transport and defence; conservation; wood reserves; water reserves; and State land reserves. Furthermore, the Land Code recognises two types of land users:

Primary land users. These can be judicial or physical persons who have land plots either in form of unlimited lease (in terms of time) or life-long inheritable tenure;

Secondary land users. These can be judicial or physical persons who have land plots used on land-lease terms. The term of the lease can be for up to 20 years.

The code restricts foreigners' first-tier land use rights to 50 years, while Tajik individuals and entities have indefinite first-tier land use rights. Foreigners may request second-tier land use rights from the government similar to the first-tier rights of Tajik individuals and entities. Tajik first-tier land use rights holders may also grant foreigners lease agreements for up to 20 years. Ownership of rural land use rights can be particularly opaque, since many nominally privatized former collective farms continue to operate as a single entity. Many of the new owners do not know where their land is and do not exercise their property rights.

A United States Agency for International Development [USAID] project aimed at improving land registration for farming has seen positive results in the last year and could be replicated to other sectors. Issuance of land use rights certificates to individuals as part of the government's farm restructuring process has been moving forward and is almost complete. These certificates show where each person's land use rights are within a dekhan farm.[2] Donor efforts have improved the rural population's knowledge of their own land use rights and have provided support to defend them. Nevertheless, disputes over land use rights continue to exist, particularly when the leader of a collective farm resists other farmers' requests to leave and start their own family or individual dekhan farm.[3]

3. Registering titles on immovable property

Until the passing of the Mortgage Law in 2008, transfer of property rights was regulated under the Civil Code. Although this could allow for transfer among physical and judicial persons, the Civil Code could not cater for the creation of a mortgage, in particular when financing from banks was involved. This is now addressed in the Mortgage Law that entered into force in 2008. Specified forms of the mortgage contract with the minimum elements in it are specified by the law. All mortgage contracts have to be notarised[4]. Although this can add up to 1.5% of the property value being transferred, the involvement of a notary is a prerequisite for the validity of the property transfer as well as protection of the buyer.

For the registration of a mortgage following is required:

- name and address of mortgage(s) and mortgagee(s);
- date of conclusion or coming into force of agreement on mortgage or date of emergence of mortgage following from a Law;
- Nature and degree of obligations provided for by the mortgage;
- brief description of the subject of mortgage (typically the loan contract);
- details of rights of mortgager for the subject of mortgage (typically the loan contract).

The period for registering a mortgage should not exceed the maximum of 20 days foreseen in the law. These are registered with the State Registry office. This ensures that the legal basis for registering mortgages is sound. However, even when secured interests in property do exist, enforcement remains an issue. Moreover, implementation problems are recognized by financial institutions and authorities and they have tried to address them.[5]

4. Construction sector

The construction sector in Tajikistan has developed rapidly in the past seven years and continues to grow. The construction sector mostly consists of privately-owned companies. Construction companies generally avoid loans and financial instruments from domestic commercial banks due to high interest rates (30 percent and higher). Prior to 2003, the sector attracted little investment due to the unstable business environment and lingering effects of the 1992-97 civil war. In 2014, the sector accounted for 10% of GDP.[6]

The main client is the government, which commissions the vast majority of construction in Tajikistan. Using financing from the state budget and foreign loans (primarily from China), it has commissioned hydro energy projects, road building, and other infrastructure

TABLE 1 Investment in construction in Tajikistan in billion USD

	2008	2009	2010	2011	2012	2013	2014
Domestic investment	0.4	0.52	0.62	0.96	0.66	0.79	1.01
> state investments	0.3	0.45	0.56	0.5	0.42	0.47	0.59
> private investment	0.09	0.07	0.06	0.46	0.22	0.32	0.42
Foreign investment (includes off-shore-held but locally owned entities)	0.8	0.52	0.35	0.23	0.18	0.33	0.29
Total investments	**1.19**	**1.04**	**0.97**	**1.19**	**0.82**	**1.12**	**1.30**

Source: State Statistics Committee, 2015

[2] Dekhan farms are a form of organised and combined land resource utilisation from farmers/ peasants in the rural areas; land ownership is still vested with the state, however farmers have permanent inheritable land use rights.

[3] www.export.gov/article?id=Tajikistan-Protection-of-Property-Rights

[4] The notary system is cumbersome; notaries may decline to authorize agreements if they do not meet their set standards.

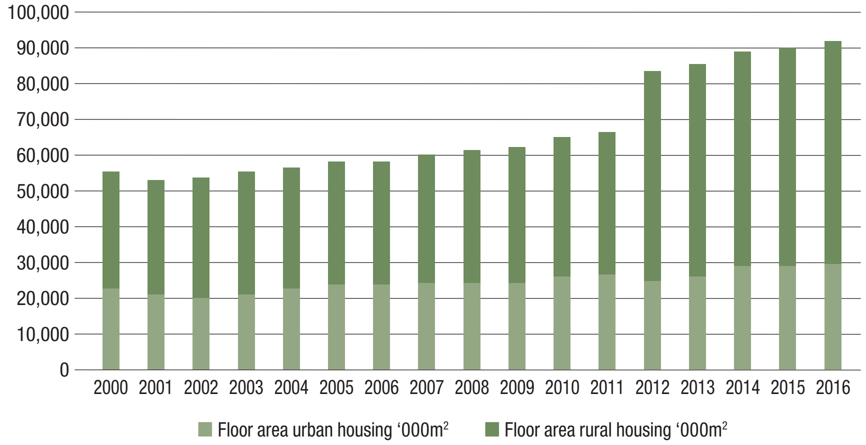
[5] Problems are mostly of an administrative nature in the registration process which takes longer than what is stipulated in the by-laws – this has been confirmed by banks. Another challenge is inability to mortgage land usage rights – though the legislation allows for it, the absence of necessary by-laws makes it impossible to apply it in practice.

[6] https://www.export.gov/article?id=Tajikistan-Construction-Equipment

construction. However, Government contracts make up a relatively small percentage of the housing market. Following a 20% budget revenue shortfall in the first quarter of 2015, the Tajik government placed a moratorium on construction spending, negatively impacting construction sector growth in 2015.

Due to a relatively underdeveloped banking sector, many Tajiks prefer to invest in real estate, and home construction is active in the suburbs and rural parts of the country. Although most large-scale construction is done by Italian, Chinese, Turkish, and Russian companies, local construction companies are growing as well. Domestic firms are mainly involved in building housing, schools, and hospitals, and in renovation projects.

CHART 1 Availability of residential construction in Tajikistan ('000 m²)



Source: National Committee of Statistics[7]

5. Demand side for housing

Tajikistan has reached the construction levels that it had prior to independence from the Soviet Union few years ago. The situation is similar compared to other post-soviet countries (Azerbaijan, Armenia, Kyrgyzstan etc.) that saw a complete halt of construction activities in the '90s, with a rebound in the '2000s.

What is remarkable for Tajikistan, is the large proportion of residential construction in rural areas compared to urban areas. The majority of residential construction is taking place in rural areas by using simple traditional techniques based on use of clay bricks and pre-fabricated iron sheets for roofing. This is largely induced by the strong control over land leasing and the lack of a true free market for land (due to lack of ownership) that indirectly influences the free movement of people. Such distribution has remained stable over the last decade and is not expected to reverse dramatically as long as the agricultural sector remains the most labour-intensive sector in the country.

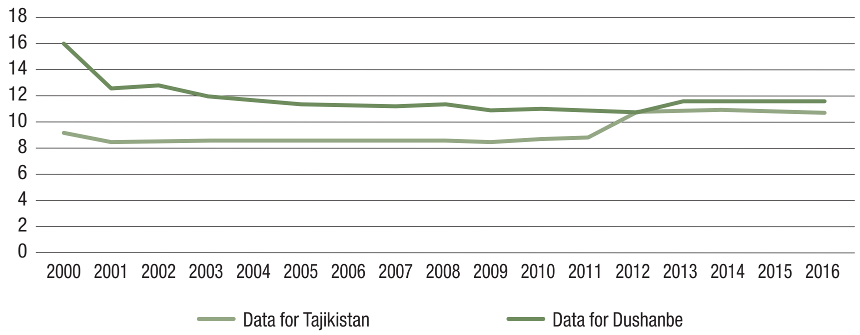
In terms of living space per inhabitant, Tajikistan has enormous catch-up potential. With just over 10.7m² living space per inhabitant, Tajikistan does not only lie way behind compared to EU values (24 m² on average; Germany at 42m²) but falls short even compared to neighbouring countries (Kyrgyzstan 12m², Kazakhstan 17m²). Certainly, the living space per inhabitant is closely linked to social factors, behaviour and consumption patterns that make it differ from country to country (or region to region).

TABLE 2 New residential construction in Tajikistan in '000m²

	2010	2011	2012	2013	2014	2015	2016
'000 m²	1.1	16.6	11.2	11.7	13.9	11.6	10.3

Source: National Committee of Statistics

CHART 2 Living space per inhabitant



Source: National Committee of Statistics

This can easily be observed even within the country where living space in Dushanbe appears to be more "abundant" than the country average.

The demand for housing is strongly influenced by income levels; housing is rather regarded primarily as a place for living and the factors of wealth creation, increasing savings or retirement security are of secondary importance. According to the data published by the Agency for Statistics of Tajikistan, the average monthly wage in the economy at the end of 2017, was TJS 1,300. Variations exist among different industries. While in the financial sector and the construction sectors wages can reach TJS 4,000 and TJS 2,500 respectively, in the agriculture sector, the main job creation vehicle in the country, the average level is TJS 600 (app. USD 60). Such low-income levels in rural areas make people revert to incremental construction (when money is available) instead of buying finished structures. In terms of distribution of income, data from the same agency shows that only 42.4% of the population have incomes in excess of TJS 1500 (or USD 150) per month.

[4] By SMI, for claimants of all qualifying means tested benefits.

[5] Office for National Statistics (2017), *Family Spending in the UK: financial year ending march 2016.* Office for National Statistics

TABLE 3 Income distribution in Tajikistan

INCOME SEGMENT	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
< TJS 300	89.9%	77.5%	76.1%	65%	68.1%	9.8%	3.8%	1.2%	1.4%	1.4%	1.5%	—
TJS 300-900	10.1%	22.%	23.9%	25.5%	25.5%	64%	50%	39.5%	39.9%	35.4%	24.4%	12.9%
TJS 900-1500	—	—	—	5.4%	4.7%	26%	31.1%	44.8%	33.7%	28.9%	30%	44.5%
> TJS 1500	—	—	—	4.1%	1.7%	—	15%	14.3%	24.9%	34.2%	44%	42.4%

Source: Agency for Statistics Tajikistan

TABLE 4 Availability of housing finance products

ITEM	ESKHATA	ARVAND	FMFB	IMON	SPITAMEN
Type of loan	Purchase, renovation, construction	Purchase, renovation, construction	Purchase, renovation, construction	Purchase, renovation, construction	Purchase, renovation
Max. amount	350,000 TJS (equiv in USD)	50 000 TJS	USD 25,000 (av. USD 10,000)	USD 3,000	150,000 USD
Max. term	120 months	120 months	120 months	120 months	72 months
Interest rate	26% TJS, 18%USD	36%	<28%	<28%	15%
LTV	70%	66%	75%	n.a.	70%
Currency	USD/TJS	TJS	USD/TJS	TJS	USD
Insurance	n.a.	n.a.	n.a.	n.a.	n.a.
Collateral	Mixed	Mixed	Property	Mixed	Financed property

Source: Information from financial institutions

Based on the data, it is worth to noting that income levels in Tajikistan have continuously grown in the last years. Furthermore, a "migration" to the high-income segments sounds a realistic assumption. In addition, remittances play a crucial role in smoothing consumption patterns here by complementing the low incomes as evidenced from the official statistics. Nonetheless, we will not consider such complementary income for calculation purposes yet.

Rental housing is a less widespread tenure in Tajikistan. Though rental apartments exist in the cities, these are mostly utilised by expats.

6. Housing finance supply

Housing loans are considered to be a rather new phenomenon on the financial landscape in Tajikistan. Only a few financial institutions have products intended to finance home improvements or purchase. Not all of these institutions offer such products on a large scale and the institutions do not intend to grow intensively in the area in the upcoming years. The reasons for such limited development of housing finance portfolios are simple:

a) affordability limitations on the customer's side, and

b) lack of long-term financing resources, in particular in local currency, on the institutions' side.

The institutions active in housing finance include: First Microfinance Bank, Eskhata Bank, Spitamen bank, MDO IMON international and MDO Arvand. While Spitamen Bank targets mainly urban areas, the other players are active in both urban and rural areas. This comes naturally as these are involved in the Housing Finance in Rural Areas Program financed by German KfW Bank.

Competition seems to be moderate or almost non-existent given that only a few institutions offer housing loans. No information is available about whether customers do look at multiple offers before deciding on a loan. However, considering that financial institutions tend to offer housing loans only to their best or existing customers, it is reasonable to assume that customers do not necessarily compare offers.

The main characteristics of the housing products offered in the market are presented below.

6.1. Housing Finance in Rural Areas Programme

The Housing Finance Programme has the overall goal of contributing to the improvement of housing and living conditions of middle and lower income households in Tajikistan by increasing and improving the supply of housing loans in local currency, which would in turn contribute to the deepening and widening of the financial sector of Tajikistan. The German and the Tajik Governments agreed on the allocation of a loan of up to EUR 14 million (in two phases) to the MEDT for on-lending to partner financial institutions [PFIs]. Four financial institutions (two banks and two microdeposit organizations) as Partner Financial Institutions. The PFIs used the loan funds for extending housing loans in local currency to low and middle-income households in rural areas with the goal of improving the access to adequate housing finance for construction, renovation, expansion or purchase of housing stock. In addition to MEDT loan the PFIs agreed to contribute an additional 40% to housing loans out of their own deposit base as well as set interest rates on housing loans no higher than 28% per annum (in that period, housing loans in local currency were offered at interest rates of 36-42%). The Programme's loans were available only to households where income per household member did not exceed a certain amount.

The first phase of the Programme (with 7 million EUR loan to MEDT) started in September 2014. During following 2.5 years the PFIs disbursed more than 4,200 loans totalling around 100 million TJS (around 13 million USD) both from KfW and their own resources. The vast majority of loans were for rural housing, incremental construction/extension and renovation (by essence very close to typical housing microfinance). Based on the results of the first phase KfW made a decision to continue the Programme (phase 2) which started in May 2017 and is continuing today.

7. Regulatory framework for housing loans

In terms of the regulatory environment, no particular regulation exists from the National Bank of Tajikistan [NBT] in respect of housing finance loans. The NBT has introduced recommendations on housing lending which relates to assessment of a borrower and collateral, required documents, etc. These include minimum information standards that have to be included in the loan contract, maximum amounts to be lent compared to the value of the property to be financed, ratios on the income vis a vis the mortgage debt etc. The effect of such standards is to increase transparency and ease of comparison among different banks[8].

Housing loans do not enjoy any particular treatment in terms of regulatory capital in Tajikistan. Although loans with a mortgage as underlying security are considered to be safe assets, their risk weight is 100%. According to Basle I regulation the risk weight of mortgage loans was 50%; Basle II recognized a risk weight of 35% in its standard approach.

[8] By doing so the regulators do not only contribute to an increased standardisation of processes and procedures but also to an increase of the competition among different lenders.

Flemish housing policy and outcomes: new directions after the reform of the Belgian State?

By Sien Winters

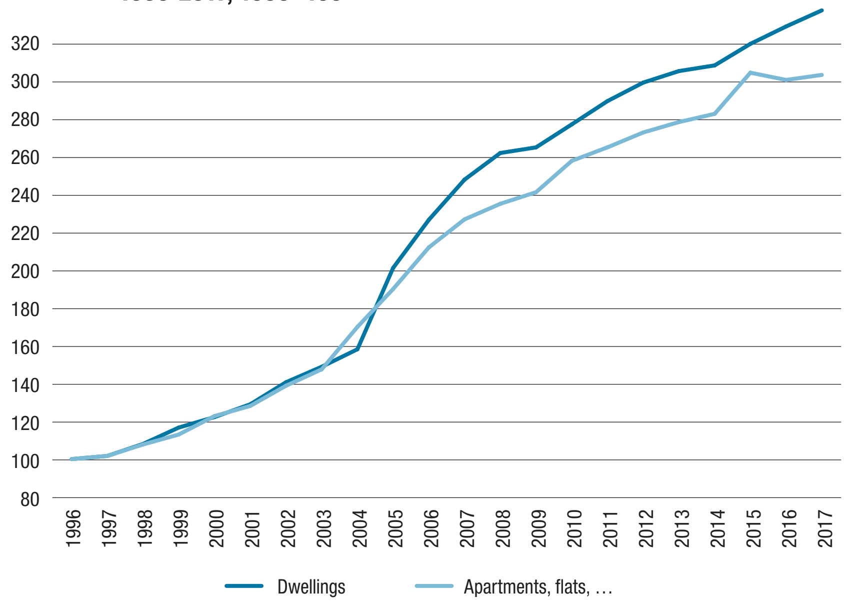
1. Introduction

Flanders, the largest of the three Belgian Regions, is one of the most prosperous regions of Europe. Compared to the two other Belgian Regions and many European countries, it has a good average standard of housing quality and affordability (Winters & Heylen, 2014). Since the reform of the Belgian state in the 1980s, housing policy has been a competence of the Regions. In 1997, the Flemish Housing Code was approved by the Flemish Parliament and since then this Decree has formed the foundation of Flemish Housing Policy. Contrary to the preceding Belgian policy that was mainly driven by economic objectives, the starting point of Flemish housing policy is the constitutional right to decent housing, and the policy assigns priority to the housing needs of low-income households. In this review we briefly describe the Flemish housing policy since the transfer of housing competence to the Regions and evaluate the outcomes of this policy with respect to the main housing policy objectives of housing quality and affordability. But before we embark upon the policy discussion, we will give a short overview of the main developments in the Flemish housing market over the last few decades.

2. Main developments in the Flemish housing market

When discussing housing market dynamics, price evolutions are among the most important indicators. In Flanders, as in many other countries, we saw a strong increase in house prices prior to the financial and economic crises of 2007/8 (see figure 1). The rate of increase accelerated particularly strongly from 2005. What is remarkable is that when prices dropped in most European countries in 2007/8, the growth of house prices in Flanders slowed only temporarily, with prices once again increasing in 2009. Nominal prices in 2017 were more than three times their level in 1996. Behind the price increases are the well-known fundamentals: increasing household income and decreasing interest rates, but also changes in the tax regime (Vastmans et al, 2014). Winters & Van den Broeck (2016) find reasons for the limited reaction to the crisis in the typical nature of the Flemish housing market (a market with mainly small investors, see below), prudent mortgage behaviour (safeguarded by the mortgage law) and a strong social security system, which made Belgium in general more resilient to the economic shock.

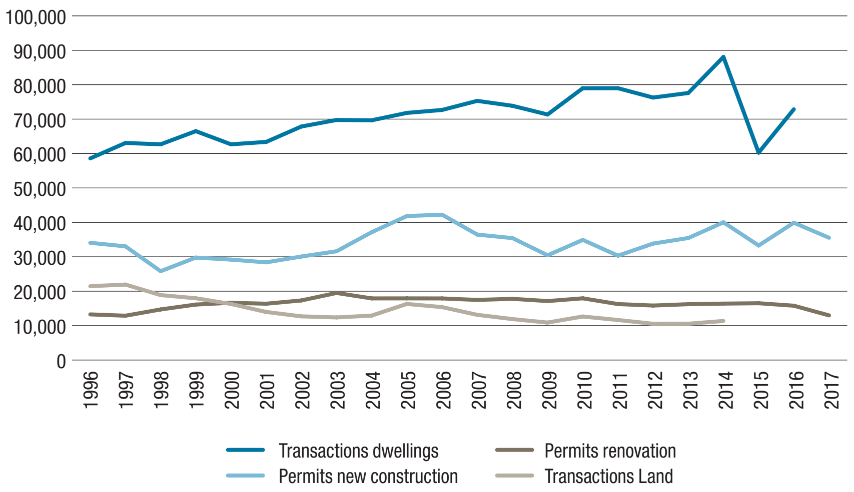
FIGURE 1 Prices of dwellings and of apartments, flats, etc. in Flanders, 1996-2017, 1996=100



Source: FPS Economy – Statistics Belgium, own calculations

It is for the same reason that new construction activities and transaction activities in Flanders were not severely hit by the crises. Figure 2 shows an increase in transactions from 58,000 in 1996 to almost 90,000 in 2014. The big drop in transactions in 2015 is probably the effect of the reduction of the Woonbonus (mortgage tax relief) in Flanders since January 2015. The announcement of this measure in Summer 2014 accelerated transactions during the second half of 2014, leading to an increase for 2014 and a sharp drop in the year thereafter. New construction activities remained fairly stable over the years with the number of new building permits issued oscillating between 30,000 and 40,000 per year. In contrast to events in a number of other countries, there was no boom in new residential building in Flanders during the period of strong price growth before 2008. Instead, there was only a slight upward trend during the five years before the crisis and a retreat to an average per year after the crisis.

FIGURE 2 Number of transactions (dwellings and land) and number of building permits (new construction and renovation)*, Flanders, 1996-2017

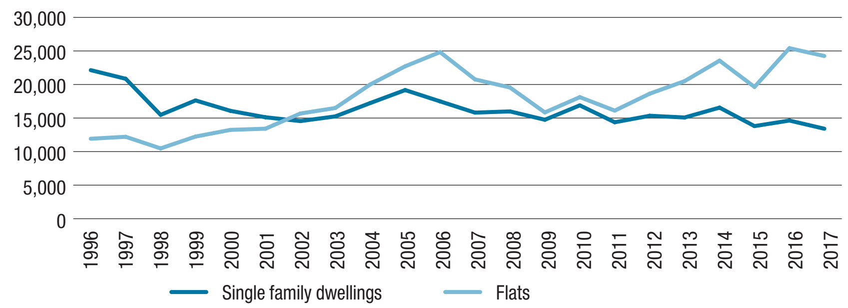


* number of dwellings for building permits, number of buildings for renovation

Source: FPS Economy, Statistics Belgium.

During the last few decades, the nature of the Flemish housing market has changed significantly. Traditionally, private households in Flanders (and Belgium in general) mainly viewed residential property as a stable and secure long-term investment and house building was almost completely self-fulfilling. Most households had the habit of buying land early on in their housing career and then having their own house built on that land. The majority of households also remained in their house for a whole generation. Transactions during their housing career were discouraged by high transaction costs. However, over the last few decades, real estate became a more attractive investment for making capital gains, and private (more profit-driven) developers acquired an increasing part of the market. The increasing house prices and decreasing interest rates (which imply low returns on alternative investments) are a rather probable reason. Additionally, in 2002, the Flemish government reduced transaction tax and made paid transactions tax (for owner-occupation) deductible from tax on the subsequent purchase of a dwelling. It is in this context that younger generations became more willing than their predecessors to buy a small house or apartment early in their housing career with the goal of selling it later in life in order to buy a larger apartment, or a single-family dwelling. New construction seems to have become an option mainly in later life (Winters et al, 2015). Another trend is that the share of commercial developers has gradually increased, and indeed project development now seems to have become the main way of new construction. This goes hand-in-hand with a changing housing typology. Single family dwellings remain the dominant dwelling type (70% of the stock), but since 2002 the number of building permits for apartments has outweighed the number of permits for single family dwellings (see figure 3).

FIGURE 3 Number of building permits for new construction of single family dwellings and flats, Flanders, 1996-2017



Source: FPS Economy, Statistics Belgium

It is often said of the Belgians that they are 'born with a brick in their stomach', which means that they have a strong intention to become a homeowner. In this respect, Flemish households can be considered very successful. The share of owner-occupation increased from 41% in 1947 to 74% in 2005, when it reached its peak. It did decline slightly in the years thereafter, but the latest EU-SILC figures once again show a slight increase. Parallel with the increasing share of home ownership, the private rental sector gradually lost the significance it had had shortly after the war. In a former contribution to this journal (Winters, 2010), we have shown how the private rental market in Flanders grew poorer and how this can be related to policy choices. A private rental policy was almost completely absent. The share of social housing remained more or less constant, at a level of 6%. In what follows, we will briefly describe the policy for each tenure type.

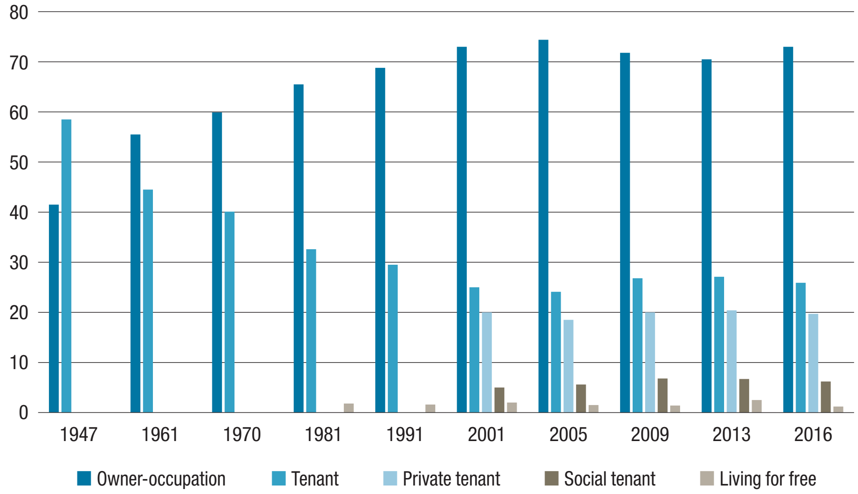
3. Flemish housing policy in a nutshell

3.1. Home ownership as the favoured policy

Several authors have described how the main focus of Belgian housing policy was on home ownership right from the first housing law of 1889 (Goossens, 1982; Deschamps, 1997, De Meulder et al., 1999). They explain this policy choice by reference to the supremacy of the Catholic Party, which had the view that owning a single-family dwelling was important for a stable family situation. The State provided tax incentives and premiums for the construction and purchase of workers' dwellings and cheap loans for the acquisition of dwellings by large families. The Socialists on the other hand advocated the construction of social dwellings which were rented. However, compared with other European countries, investment in social rental housing remained limited. Even when, after the Second World War, housing policy throughout Europe gained a role in reconstruction and as an instrument against economic depression, Belgium primarily opted to stimulate the construction of private housing for owner-occupation.

In 1980, the competence for housing policy was transferred from the Belgian state to the three Regions: Flanders, Brussels and Wallonia. However, it took a considerable time before the Regions had their own legislation and institutions. It was only in 1997 that the Flemish Housing Code was approved. The constitutional right to decent housing, which was added to the Belgian constitution in 1993, became the main goal for Flemish housing policy. Housing

FIGURE 4 Tenure, in % of households, Flanders 1947-2013



* before 2001 'living for free' was included in private tenants

Source: Descamps (1997), Heylen (2015), EU-SILC 2016

affordability, housing quality and residential security in the Flemish Housing Code were defined as the primary objectives, and the housing needs of low-income households were assigned priority. Right up to the present day, this Flemish Housing Code is still the main legal basis of Flemish housing policy.

The transfer of competence and the shift of policy objectives towards the right to housing did not however have a significant impact on home ownership policy. On the contrary, fiscal incentives for owner-occupied housing were actually increased. In 2002, the competence for transaction taxes was transferred to the Regions. In the years thereafter, Flanders (like the two other Regions) reduced its rates and put new exemptions in place, many of which favour owner-occupation. At the federal level, the reform of personal income tax in 2005 was of primary importance. However, from then on imputed rents on dwellings for owner-occupation financed by a mortgage were no longer subject to personal income tax. Even so, all reimbursements and other costs (including interest payments, capital repayments and life insurance premiums) could be deducted from taxable income up to a limit. Compared to the former system of income tax deductions, this so-called 'woonbonus' meant that the average benefit per household almost doubled (Damen et al, 2014; Goeyvaerts et al, 2014; Heylen, 2016). For other than owner-occupied dwellings, the principle of levying tax on income from housing after the deduction of costs remained. For these dwellings, net income is taxed on the 'cadastral value', which is added to the income. The cadastral value is a publicly assessed value for income of the property, which is however far below the real market value of the dwelling[1]. Rental property and second homes favour the same tax incentives (from the federal government) as other kinds of long term savings, but are included in the same basket, which in many cases is filled with other savings, so that in practice the advantages are much lower.

In 2014, a subsequent step in the reform of the state was the transfer of competence for tax benefits for owner-occupied housing in personal income tax to the Regions. However, budgets were transferred only at the level of 2014, while budgetary costs for the woonbonus were expected to increase dramatically over the years to come. Changes were inevitable. Moreover, a research report published during the period of the Flemish coalition discussions in June 2014 (Goeyvaerts et al, 2014) showed the ineffectiveness and the adverse distributional effects of the woonbonus. One month later, the Flemish coalition agreement was concluded and included an important reform. From 1 January 2015, the woonbonus for new loan contracts was reduced by a third and the deduction at the marginal tax rate was replaced by a deduction at a flat tax rate of 40%. Reforms in the Walloon and Brussels Regions followed in the years thereafter. Notwithstanding this reform, the woonbonus remains important in financial terms, representing on average a subsidy of EUR 2,137 per year for those receiving it (Heylen, 2016a).

Moreover, the focus on home ownership is visible in a wide range of other policy instruments. Immovable property in Flanders is taxed in several other ways, and for most taxes, deductions and exemptions for owner-occupiers are in place. The most important are exemptions on transaction taxes for owner-occupation, representing a budget that (in 2012) was higher than the total budget for social housing (Haffner et al., 2014). Additionally, the Flemish Government provides a free 'insurance guaranteed income' to all households concluding a mortgage, which guarantees mortgage payments during a period of three years in case the borrower's income is reduced as a result of unemployment or invalidity.

Alongside these general (non-targeted) incentives for owner-occupation, Flanders has some targeted instruments that aim to stimulate owner-occupation. Households with an income below a threshold can apply for a 'social mortgage credit' provided by public and semi-public mortgage institutions. The interest rate is dependent on income and household composition. Every year around 4,000 households are granted such a mortgage, mainly for the purchase of a dwelling. Until a few years ago, the building of social dwellings with the purpose of selling to a targeted group was also subsidised, but these subsidies are no longer available. Another important instrument favouring homeowners is the renovation premium, which only excludes the highest income groups. In 2016, a total of 16,179 households received this premium, with an average amount of EUR 5,656 per household (Heylen, 2016).

Since most people consider home ownership as the ideal in Flanders, the growing proportion of owner-occupied dwellings is usually regarded as a success story. Yet the growing proportion of owners is not an unmitigated success. Not all income groups have equally enjoyed increasing home ownership. Since 1976, the percentage of owners has only increased in the two highest income quintiles. In 2013, the ratio of owners in the lowest income quintile was 45%, which is 38 percentage points below the highest income quintile (Heylen, 2015).

3.2. Social rented housing

Access to social rental housing in Flanders is restricted to low income groups. When compared internationally, the share of social rental housing in Flanders (6%) is small, but quality seems to be fairly high (although we cannot

[1] Winters et al (2015) estimate that for Flanders, the cadastral value is only 20% of the market value.

verify this with comparable international data). Half of the stock is single family dwellings. Very large social housing estates are almost non-existent in Flanders. Problems with living conditions are exceptional.

Social housing in Flanders is provided by two types of organisations: Social Housing Associations [SHA] and Social Rental Agencies [SRA]. SHAs build and buy houses and rent them to low-income groups. This type of organisation originated back at the end of the 19th century, but the sector mainly developed after the Second World War (Winters & Elsinga, 2008). At the end of 2016, there were 100 SHAs active in Flanders, which together owned 153,312 social dwellings. The SHAs rent these homes according to the rules laid down in the (in this case Flemish) social housing regulation. These rules determine, among other things, who qualifies, which priorities apply in allocation and how the rent is set. Dwellings are allocated in principle on a first-come, first-served basis, but various priority rules apply. The SHAs are legally autonomous companies, but as a result of detailed regulations, their autonomy is severely limited. New homes are added to the social housing stock mainly through new construction, although SHAs can also purchase existing dwellings or new residential properties from private developers.

Social Rental Agencies [SRAs] do not own houses themselves, but rent houses on the private market and let them out to vulnerable groups. The origin of the SRAs goes back to the mid-1980s and can be found in a blend of low public investment in social housing, the housing consequences of the economic crisis and the changes in the family structure (De Decker, 2002). SRAs were founded dominantly by welfare institutions and became institutionalised during the 1990s. At the end of 2016, 48 recognised SRAs were active and were managing a total stock of 9,143 dwellings. The agencies agree reasonable rents with the landlord and guarantee the landlord a regular rental income and proper maintenance (De Decker, 2002; De Decker, 2009). Also, for these homes, allocation is determined by Flemish rules, but the allocation is based on a point system that assigns points according to the level of housing needs. In line with their origin, and meanwhile also demanded by regulation, SRAs spend more time on guidance for their tenants and candidate tenants than SHAs. The dwellings of SRAs are almost all owned by small private landlords and their location is well spread out. Recently, the Minister proposed to the Flemish Parliament an expansion of the housing stock of SRA through new construction by private project developers.

Expansion of the social rental housing stock in Flanders still enjoys political support. In 2009, the Decree on Land and Building Policy (*Decreet Grond- en Pandenbeleid*) set the ambition to build an additional number of 43,000 dwellings for social renting[2]. All municipalities received a 'social target', which is a minimum number of extra social dwellings in their territory, and the progress is monitored annually. Public and private developers were obliged to include a minimum number of social dwellings in new large developments, but this measure was abolished after a judgement by the European Court.

Renting from a SHA means renting far below the market price. According to administrative data, the average social rent for SHA dwellings in 2013 was EUR 283 per month, which was EUR 260 below the average estimated market rent (EUR 563). The rent is income-dependent and therefore the average subsidy decreases as income rises. SRA tenants on the other hand pay a rent that is slightly below the market rent. But if they comply with the conditions, they can receive a housing allowance (see lower). In 2013, 67% of all SRA tenants received such a housing allowance. According to administrative data, the average subsidy was EUR 183. This is EUR 77 less than the average in-kind benefit a SHA tenant receives. Particularly for the lowest income groups, the difference was high. At that time, the housing allowance still decreased as incomes rose. However, as a result of adjustments to the system in 2014, the subsidy is no longer dependent on income and the average allowance has also decreased (Heylen, 2016a).

3.3. Private rental policy

Accounting for only 5% of the Flemish housing budget, support for the private rental sector remains extremely limited (Haffner et al, 2014). Unlike most European countries, Flanders has no general housing allowance. For a long time, there was only a housing allowance available for households with a very low income that moved from a 'poor' to a 'good' private rental dwelling. Since 2007, the allowance has also been granted to households moving to a dwelling rented by a SRA (see higher). And since 2012, there has also been a similar allowance for households that have been on the waiting list for social housing for more than five years (since 2014, more than four years). However, the extent of these housing allowances remains limited. In July 2017, only 23,348 households (0.6% of all households) received such an allowance.

Additionally, the Flemish government sets minimum quality standards for dwellings and there are a number of policy instruments to enforce this quality in the private rent. The Flemish Housing Inspection, together with the municipalities, checks the quality of rental dwellings and imposes fines in cases of infringements of the quality regulation. But here too, only a small number of dwellings are affected. One of the problems is finding good and affordable dwellings for relocating the households that have to leave the dwellings subject to fines.

4. Housing outcomes

4.1. Housing quality

During the last few decades, housing quality has clearly improved in Flanders. In 1981, 28.7% of dwellings still lacked 'basic facilities' (running water, a flushing toilet and bathroom or shower) (Vanneste et al., 2007), while such dwellings have now all but disappeared (Vanderstraeten & Ryckewaert, 2015). Based on a composite quality indicator, the share of dwellings rating as 'good' increased from 58% in 2001 to 70% in 2013 (Vanderstraeten & Ryckewaert, 2015).

The improving quality is partly the result of demolition and new construction. As explained above, a large part of new construction consists of apartments. Many of these apartments are bought as an investment and then let out on the private rental market. This evolution explains the increasing share of good quality dwellings in the private rental market. Another explanation for the increased quality is renovation by owner-occupiers. Shortly after buying a dwelling, half of the new owners carry out major renewals on roofs, walls, electricity, sanitary facilities, etc. (Heylen et al, 2015).

However, the increasing share of good quality dwellings does not mean that the bad quality ones have disappeared: the share of 'bad' or 'very bad' dwellings has stayed more or less the same since 2001 and in particular the private rental market has a substantial number of substandard housing units (Vanderstraete & Ryckewaert, 2015). Humidity is another problem that does not seem to be going away. According to EU-SILC 2016 data, 15% of households in the Flemish Region

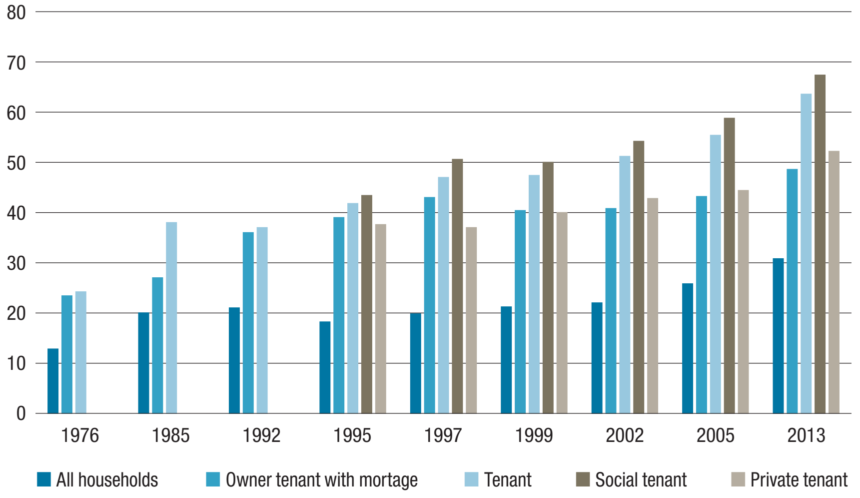
[2] Since 2009, the target for social rental dwellings has been adjusted a few times. The actual target is to build 45,000 dwellings by 2025.

are in homes with a leaking roof, damp walls or rotting door/window frames. Some experts see an explanation in improved insulation.

4.2. Housing affordability

In the last few decades, housing expenses have represented an increasing share of household income. In figure 5 we show the share of income spent on housing. For tenants this is rent and for owner-occupiers the mortgage debt servicing. For all households, this share rose from 6.5% in 1976 to 15.5% in 2013. Over the entire period, the rent for tenants represented a higher share of their income than mortgage debt servicing for owners. It should be noted that for owners with a mortgage, the debt service includes capital repayments, so these expenses are actually a kind of saving (building up wealth), which is not the case for the tenants.

FIGURE 5 Average housing expenditure-to-income ratio, Flanders, 1976-2013



Source: Heylen et al (2007), Heylen (2015)

Of all considered groups, social tenants are in the most difficult situation. Their rent-to-income ratio is above the rent-to-income ratio of private tenants every year and this notwithstanding the low social rents (see above). The explanation for their more difficult situation lies in the very low average income of social tenants, which is a consequence of the strict selectivity of social rental housing in Flanders.

A difference in income also provides an explanation for the different evolution between tenures. While in 1976 there were hardly any differences between the incomes of tenants and owner-occupiers, in 2013, the equivalent disposable income of owners was 40% more than the income of tenants (Heylen, 2015). In the same period, both average mortgage debt service costs and rent have increased, but in proportion to income the rent has increased more.

The average expenditure-to-income ratio is not the best measure for detecting affordability problems. It is better to look at the share of households paying more for housing than a pre-set maximum[3]. How much that maximum should be is arbitrary. In Flanders, 30% is a fairly generally accepted standard. According to the latest figures available (EU-SILC 2016), the share of households paying more than 30% of their disposable income on rent or mortgage debt service was 20%, with large differences between tenants and owners. While one in two private tenants (50%) pays more than 30% of the income on rent, for only 23% of the owners with a mortgage do repayments exceed the 30% standard. Affordability problems for owner-occupiers are more marked during the first years of the loan contract (Heylen, 2016b). The vast majority of mortgage loans have fixed interest rates for the whole term of the contract and in the course of this term the share of the mortgage debt service costs as a proportion of income gradually declines. Moreover, 39% of the households are outright owners (Heylen, 2015). At retirement age, a large proportion of Flemish households are outright owners and we find relatively few affordability problems for this group. For older tenants, on the other hand, the problems are all the greater. In 2013, 62% of the private tenants aged 65 years and older had a rent-to-income above the 30% standard.

5. Discussing the future; the orientation of Flemish housing policy

The evaluation of the outcomes forces us to think about a more effective housing policy. We discuss possible reorientations for the different tenure types and add some considerations with respect to fiscal policy and long-term planning.

A first discussion concerns the favourable treatment of home ownership. As we have described, tax benefits and subsidies for housing acquisition are widespread in Flanders. Vastmans et al (2014) provide evidence that the *woonbonus* pushes up house prices and in this sense is ineffective for stimulating home ownership, while it is also redistributing income from the less-off to the better-off (Heylen, 2016a). The same probably also holds for a number of other tax incentives. The question therefore arises, assuming that home ownership remains a policy objective, of whether it would be more effective to stimulate home ownership with more selective measures (like social mortgage loans). A more selective allocation of subsidies will generate fewer price effects and will therefore probably have more effect on the decisions of households.

Most problems in the Flemish housing system are arguably to be found in the rental market, where there is a shortage of good and affordable dwellings for low-income groups. In the last few years, there has been increasing interest in the private sector in investments in rental property. But this does not seem to contribute to a better housing situation for poor households. Fining infringements, as the Flemish Housing Inspection does, does not seem to be sufficient. As long as there remain a large number of low-income households that cannot afford the minimum housing quality, there will probably remain a demand for a substandard housing stock (Winters & De Decker, 2009).

Expansion of social housing or expansion of the system of housing allowances can provide solutions. Social housing in Flanders is of high quality and selectively targeted to low-income households. The income dependency of rents also makes social housing an effective policy instrument (Winters & Elsinga, 2008; Heylen, 2016a). However, financial shortages among housing associations threaten the investment

[3] Or to the share of households for who the income that is left after housing costs are paid is below a minimum standard for decent living (see e.g. Heylen, 2015).

plan included in the Decree on Land and Building Policy (Mallants, 2018). And even this plan is far from sufficient to cover the needs. Based on minimum standards for affordability and quality, Heylen (2015) calculates that an extra 250,000 households would be in need of social housing. Larger budgets therefore need to be made available. In addition, more resources will be necessary to adjust the older dwelling stock to meet the quality standards and the energy requirements.

However, even in a situation where all necessary budgets were available, the SHAs would not be able to extend their housing stock as much as necessary in a short period of time. Opportunities for partnerships with private industry and private investors can be explored further. Already some time ago (Winters, 2005), we argued in favour of a targeted system of housing allowances for the private rental market. In this proposal, the allowances are assigned to tenants who rent accommodation from a private landlord through an intermediary organisation, as in the Social Rental Agencies model. In 2007, the Flemish housing allowance, which until then was only available for households moving from a bad to a good or better adjusted dwelling, was extended to SRA rentals. However, as explained above, the number of beneficiaries remains quite low. On the other hand, the number of dwellings rented by the SRAs remains rather limited. To stimulate private landlords to rent their accommodation to an SRA (and social tenants), several tax and other benefits have been introduced. Since January 2017, new construction of dwellings that will be let out by an SRA enjoys a reduction of VAT from 21% to 12%. Moreover, a new Flemish Decree is being prepared, which aims to provide project developers with more guarantees for receiving the rent, and targets the building of 1,000 new dwellings.

As far as the private rental sector is concerned, we expect that more tenure neutrality would also have a positive impact. A more neutral treatment means not only that tax advantages between tenures become more equal, but also that owner-occupied dwellings are taxed in the same way in terms of personal income tax. Re-introduction of the principle of levying tax on imputed rent after the deduction of costs (the system used before 2005 and which is still in place for rented dwellings) might also be considered for application to owner-occupied dwellings (Haffner & Winters, 2016). Moreover, there is a need for a re-estimation of the cadastral value, so that it reflects the real market value of the dwellings. Other recommendations in the tax domain are, among other things, to reduce transaction taxes and to increase recurring taxes. This is expected to increase mobility within the housing market and within the labour market, as concluded by Isebaert (2013), and to contribute to employment and economic growth, as the European Commission and OECD also argue (see for instance Zwart, 2015).

Ongoing evaluation of housing policy by academics, stakeholders and civil servants is intended to contribute to a better insight in housing market developments and the effects of policy measures. A positive evolution in this sense is that in early 2018, the Flemish Government accepted the Flemish Housing Plan. This plan starts from an exploration of trends and challenges and sets targets for affordability, quality and access to housing for all. So, for instance, one target is that in 2050 all dwellings must meet the minimum quality standards included in the Flemish Housing Code. One of the weaknesses is that there are no financial commitments or action plans included in the Flemish Housing Plan. It will be the responsibility of the future governments to establish action programmes in the first year of each legislature and to attach the necessary budgets in this regard. Future Flemish housing ministers are expected to update the informative part of the plan and to monitor the progress.

When it comes to decisions concerning policy instruments, without any doubt the discussion concerning budgets will arise and the risk that no far-reaching decision will be taken is just around the corner. Public support for stimulating home ownership remains widespread and politicians who dare to fiddle with it risk adverse reactions from their voters. Moreover, the average voter may not be in favour of a policy from which mainly low-income households and other disadvantaged groups will profit. The road to a guaranteed right to housing still seems to be a long one.

6. Conclusion

With the reform of the Belgian state in the 1980s, competence for housing policy was transferred from the federal state to the Regions. Contrary to the preceding Belgian housing policy, which was also driven by economic goals, Flemish housing policy starts, in principle, from the constitutional right to decent housing. In the Flemish Housing Code this is defined in terms of affordability, quality and residential security. Low-income groups are assigned priority. The transfer of competence in the 1980s was followed by the introduction of new policy objectives and new instruments, which in practice did not however mean a break with past policy. A milestone in Flemish housing policy was the reform of the *woonbonus* in 2014. However, this decision was mainly driven by the objective of reducing expenditure and did not result in equivalent increases of budgets for more effective housing policy instruments, such as social rental housing and social mortgage loans. Housing policy decision making in Flanders seems to be a case of gradual small steps forwards, often taken long after the needs are detected. The ambition to plan strategically and for the long term, as is the aim of the Flemish Housing Plan, will hopefully provide a new approach and a clearer direction for moving forward.

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Affordable housing: A case of land ownership in the Andaman and Nicobar Islands

↳ By Sanjay Kumar

1. Introduction

The Indian federal government aims to provide housing to all by 2022[1] under PMAY (Pradhan Mantri Awaas Yojana) through credit linked subsidies[2]. The scheme has two components – urban and rural – and works slightly differently in these two. In urban areas, financial institutions are roped in to fund multi-storied buildings to increase the supply of affordable housing. Thus, in urban areas, an individual directly buys a flat in a building and becomes eligible for the housing subsidy under the scheme without any need to buy land individually. But in rural areas, the funds are directly provided to an individual beneficiary to construct a house on land owned by him. However, for the landless, the federal scheme, like its previous incarnation IAY (Indira Awaas Yojana), mandates the states to allot land in favour of eligible beneficiaries. However, in practice, allotment of any land is rare. Even NITI Ayog, a think tank of the government, noted that eligible landless poor households are left out because it is operationally more convenient[3]. Thus, in a double whammy, an eligible landless poor household misses out not only on allotment of land but also on the housing subsidy.

In the Andaman and Nicobar Islands [ANI], during 2013-14, when I was posted as the Deputy Commissioner, for the North and Middle Andamans, the administration faced a similar challenge. Despite availability of funds under the IAY housing scheme, most of the eligible beneficiaries could not get any support because they were landless. This article shares the case of a few such landless beneficiaries who lived below the official poverty line and came together to buy a large piece of land to make individual plots affordable for them. The intent of the article is to show that the primary cause of landlessness in India is not the high cost of land but rather the immense and costly official and legal hassles the buyer has to go through.

2. Background of Andaman and Nicobar Islands

ANI have some peculiar features, unique history and a particular pattern of settlement. Lying around 1500 km away from the mainland, ANI is an archipelago of sprawling 572 islands, forming an 800 km long arch in the Bay of Bengal, out of which only about 36 are inhabited.

The islands are administered as a Union Territory by the President of India through a Lt. Governor, with the Headquarters at Port Blair. In 2006, Andamans district was bifurcated into two viz. North and Middle Andamans [NMA] and South Andamans [SA]. The third district, i.e. Nicobar is home to a native tribe – the Nicobarese and out of bounds for outsiders. Port Blair is in South Andamans and formed the core of the British penal settlement.

In ANI, the British set up a stable penal settlement in the mid-19th century. Earlier, the islands were mostly inhabited and ruled by the Great Andamanese. However, their number reduced from about 5,000 at the time of arrival of the British to close to 50 now primarily due to a series of wars and the outbreak of diseases brought by outsiders[4].

The present settlement in SA island was part of the penal settlement. However, nearly all of the settlements in NMA district came into being after Indian independence in 1947. Post-independence, India received a massive influx of Hindu refugees from the newly-created Pakistan. The government decided to settle some of these refugees in ANI with a promise of 10 acres of agricultural land to each family. In March 1949, SS *Maharaja* brought the first two batches of East Pakistan refugees (present-day Bangladesh) to the islands under a colonisation scheme of the government of India[5]. However, clearing of thick forest vegetation in the inhospitable islands proved much more difficult than what was anticipated by the planners. In a breach of the promise, the original settlers got only 5 acres of agricultural (paddy) land and 5 acres of hilly land.

However, the voluntary migration of refugees in ANI, and especially in NMA, continued long after the abandonment of the settlement scheme. The later migrants had little option but to encroach on the forest land.

In the early 1990s, the government of India decided to regularise all those encroachments in forest land that had come up before 1978. Under this new scheme, each family was entitled to keep land up to 2.5 acres. However, the remaining households (who encroached after 1978) had no rights, and their lives remained on tenterhooks as the Supreme Court of India had ordered their eviction from the forest land.

The population of NMA district is 105 thousand as per the 2011 census, spread over an area of more than 3000 sq. km. Consequently, the remote and dispersed nature of pockets of habitations pose lots of administrative challenges in provisioning of civic infrastructure. Ironically, the revenue land comprises of only about 12% of the total geographical area of

1 https://pmayg.nic.in/netiay/Uploaded/English_Book_Final.pdf

2 http://d.researchbib.com/f/0nq3q3YzyuMJ1yYzAioF9ALKA0MKWOMT1cov9lpTkiLJETo2kxMKViFHcQFHlHKmN5KmNkKmN5Zv9WFxAWElEsZQysZQSsZQxlYaOxMt.pdf

3 http://niti.gov.in/writereaddata/files/document_publication/ESP-Report_0.pdf

4 https://www.survivalinternational.org/tribes/great-andamanese

5 The Andaman and Nicobar Islands in the 20th Century - A Gazetteer by Kiran Dhingra, OUP.

the NMA as the remaining area is the reserved forest. Hence, one of the constant public demands is to get more forest land cleared for the settlements of post-78 encroachers and the descendants of settlers. Unfortunately, fresh allotment of land is extremely rare mainly because of the Supreme Court strictures against any de-reservation of forest land.

3. Assessment of land in NMA

Let us assume that a below the poverty line [BPL] family would need a plot of 100 sq. meters for a homestead. NMA district is rural. Such a BPL family needs to buy agricultural land to build a house. Is the cost of 100 sq. meters of agricultural land in a rural area prohibitive? As per rough calculations, the cost of 100 sq. meters of agricultural land is unimaginably low.

For example, let's consider the real estate prices of agricultural and pasture land in the US as they reflect reality better as compared to official circle rates in India. As per 2017 report of United State Agriculture Department[6], the average price of US farmland (including for the building over it) is $3080/acre and the average for pasture land is around $1350/acre. The actual price may be more or less of this amount.

At this rate, in the US, the cost of 100 sq. meters of pasture land is $33, and of agriculture land is $77. However, can anyone buy land at this price? Possibly not, as in the ordinary course, no one sells land in lieu of such a small amount of money. Even an advocate's fees to draft a sale deed will be more than the cost of land.

The price of agriculture land in most of rural India, including ANI, is quite similar to the above-discussed case of the US. Even in Delhi, the official rate of agriculture land is Rs. 5.3 million per acre[7]. At this rate, the cost of the plot of 20 sq. meters (the size of plot of the World Bank 'sites and services' project uses in Delhi) comes out to be around Rs. 27,000 ($390). Theoretically, the land remains relatively affordable even if the official rate is presumed to be a tenth of the real market price as under the PMAY the government has promised a central grant of Rs 1,50,000 per economically weaker family in the urban area[8].

Still, in ANI and elsewhere, a lot of encroachers and slum dwellers fight costly and lengthy legal battles to get some legal security against eviction. In most of these cases, the cost of litigation is a lot higher than the cost of buying a similar piece of land. Thus, the cost of land or the capacity to pay is not the primary factor of landlessness. In this case, the following assumptions were made:

- Agriculture landowners do not sell their landholdings piecemeal (unless the land is involved in illegal and furtive subdivisions on the urban fringes). However, the collective purchase of a large piece of land makes the cost of an individual plot relatively affordable.
- In ANI, the transaction cost (including legal fees) of buying a small piece of land sometimes could be much more than the actual cost of land.

4. Implementation of Affordable Housing Model in NMA

In 2013-14, in ANI, people who lived below the poverty line [BPL] were eligible for a financial grant of Rs. 75,000 to construct a pucca house of minimum 20 sq. meter. However, the administration faced challenges in disbursing the grant as most of the remaining eligible beneficiaries did not possess any land. Although the scheme envisioned the allotment of land to the landless, there was no plan to allot land to such beneficiaries.

In NMA, the cost of land was very low and the cost of litigation very high. The proposed financial grant was many times more than the probable cost of the land. Back of the envelope calculations showed that the cost of a small piece of land (100 sq. meter) was about one-tenth of the amount of the financial support an eligible beneficiary would receive, i.e. Rs. 75,000. This quandary was an opportunity as well as a challenge. If, somehow, eligible beneficiaries could be convinced to buy land then in return, they would be able to get an amount much higher than their initial investment. But to test this hypothesis, someone would have to perform the following roles:

- **Advocacy:** In ANI, most of the 'landless' are encroachers of forest land. They often spend their lifetimes in fighting legal battles to retain that piece of land. Thus, convincing such litigants to let go of their adversarial rights and drop their legal fight against the might of the state needs strong advocacy.
- **Aggregation:** Agricultural land is usually sold in large lots. As a practice, generally, the owner sells his entire holding or a substantial part of it. To benefit from the collective purchase, someone needs to aggregate the interested buyers who may be unrelated and scattered and, severally unaware of any prospective sale.
- **Facilitation:** In India, procedural hassles and costs (including that of an advocate's fees) of buying a small piece of land could be prohibitive in such small transactions. Thus, someone has to enable and assure hassle free and less cumbersome transactions at minimal cost.

4.1. Phase-I Advocacy

Initial attempts to directly talk to the public received a lot of emotive responses. For example, once I floated a similar idea in an open meeting at Kadamtala village in NMA district. Many attendees demanded regularisation of their more than 20 years old encroachments. I stated that future regularisation was very unlikely. Instead, I suggested they buy land to give a stable future to their children. My response agitated people and evoked strong emotions even though they had only received evasive replies and false promises from the politicians and officials in the previous two decades. They were not in the least ready to listen to the suggestions even though the calculations were straightforward and simply put.

I realised that the idea needed more nurturing. I shared it with people who were active in public life, i.e. mainly elected representatives, activists and journalists. They were in the right place to individually convince people. The main target audience were BPL households who were eligible to receive the housing subsidy. The main idea was to convince them of the fact that they would get more in return (as a housing grant) if they bought a piece of land instead of litigating endlessly.

In my early interactions with the local elected leaders, the idea seemed to be the ultimate vote

[6] https://www.usda.gov/nass/PUBS/TODAYRPT/land0817.pdf

[7] https://indianexpress.com/article/india/circle-rates-of-agricultural-land-to-be-based-on-location-4689206/

[8] https://pmaymis.gov.in/PDF/HFA_Guidelines/hfa_Guidelines.pdf para 6.1

winner to them. Sadly, their initial enthusiasm died soon as most of the eligible beneficiaries were dispersed all over the district and fell outside their electoral constituencies. Also, most of their existing voters might not be positively disposed to the idea of a habitation of people from the economically weaker section in their neighbourhood.

However, the idea still caught the imagination of many public-spirited individuals including local elected officials. Several others came back to me to confirm the feasibility of such a proposal. This two-way communication continued and helped me in refining and fine-tuning the concept.

4.2. Phase-II Aggregation

Finding a willing seller was not a difficult task. In the 2010s, the land prices appreciated many times in ANI along with the skyrocketing number of tourists. Even without much price differential from the mainland, most of the buyers were speculative investors looking for idyllic locations in these pristine islands. The issue was to convince locals to sell their land to landless islanders rather than outsiders. Fortunately, the local elected representatives were able to convince the willing sellers.

The most difficult task in this phase was to aggregate the willing buyers. Even after much advocacy, someone needed to aggregate the possible beneficiaries. At this stage, Shri Bikash Paul, a part-activist and a part-journalist, played a very active role. Even though many elected representatives convinced a few willing buyers, he enthusiastically brought a list of eligible beneficiaries along with public records to confirm their BPL status. Initially, the list was short, but gradually, within a few months, the list was long enough to buy a large piece of land collectively.

Shri Bikash tied up with a willing seller too. Both were from the same village. The seller who offered her land was an elected block Pramukh of Panchayat Samiti, Mayabandur. This was not a desperate sale but a transaction at market price. But although her offer greatly facilitated the experiment it proved contentious in the long run due to her local political rivalry. She carved out a total of 45 plots of 200 sq. meters each out of her around 2-acre plot in a Hari Nagar village of Mayabunder Tehsil. Around 39 plots went to the BPL households who were eligible to get the housing subsidy. Most interestingly, even though the whole transaction happened at a market rate, most of the BPL households still think that somehow the government subsidised their purchase. Individually, as apparent from the sale deeds, each one of them paid Rs. 20,000 (a little less than $300) for a 200 sq. meters plot.

4.3. Phase-III Facilitation

High transaction costs cause many small transactions to happen ‘off the record.’ As the district head of the departments of deed registration and land administration, my assurance that no one would face unnecessary official hassles proved credible. This promise may sound nominal and obvious, but the following excerpts from an official report[9] throw some light on the property registration departments in India,

“It has been primarily looked upon as a revenue earning Department, and there has been no systematic effort to address the harassment and problems of the public and institutions arising from the routinised administration of the existing legal provisions.”

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“The public perception of harassment and delay, not to mention allegations of corruption, is due, as much to high rates of duty, as the problems of securing approvals, the cost and time involved in the purchase of stamps and stamp papers, limited outlets for securing stamps, inadequate space for office, storage of records and reception of public, inadequate information to the public on duties and procedures, lack of adequate staff and modern equipment, and the lack of people-friendly approach.”

Previously, I had undertaken a lot of procedural reforms to expedite conventional procedures including avoiding any need to come through any legal practitioner. Consequently, this transaction happened through a standard sale deed written by a local activist based on the published template. Soon after the registration of the deeds, mutation of their names in official land records was completed without much delay. After mutation, these BPL households became proud owners of a piece of land.

5. Critical assessment

This concept is not unique or rare. Critically, one can compare it with nearly universal mushrooming of unauthorised settlements around the periphery of a city that is common in India (Schenk 1993)[10], and also widespread in other third world countries (Durand-Lasserve and Royston 2002)[11]. Nearly all unauthorised settlements arise when illegal subdivisions of (mostly agricultural) land are sold as plots either directly by landowners themselves or by land colonisers especially when the area is under acquisition proceedings. Also, because of the illegality of subdivisions, plot owners cannot get legal permission to build upon those plots (Banerjee 2002: 46)[12], and thus the construction over such lands becomes illegal too.

However, in the case under discussion, the implementation was very different. Transactions were strictly legal, thanks to an enabling legal provision in 2012. This provision reduced the legally permissible minimum area for the sale of agricultural land from 1000 to 200 sq. meters. This experiment is more similar to the ‘sites and services’ model propagated by the World Bank in the 1970s. “The central concept of the sites-and-services project is a shift of focus from providing houses to providing serviced lots[13].”

Although the ‘sites and services’ model succeeded in creating planned and affordable housing for the poor or middle-class migrants to the large cities, the model lost favour amongst academics and financiers, and later the approach got dropped altogether. The main criticism revolved around the long gestation period, complex implementation, leakages to non-poor and the remoteness of the sites as compared to the jobs opportunities. Also, the experts looked down upon the low quality of the housing stock. Peattie[14] held that,

“in the sites-and-services project, government plays the land assembly role which would otherwise be assumed by the squatter organisation or illegal subdivider …. Except for, perhaps, some ancillary social services... things then proceed much as they would have in the informal processes of the squatter settlement or illegal subdivision.”

However, recent studies (of WB projects in Mumbai and Chennai) found full occupancies

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9 Economic Reforms and the Stamp Act, May 1995, National Institute of Public Finance and Policy, New Delhi, Page 94.

10 Schenk, Hans, “The Urban Fringe of Bangalore City, India.” The Indian Geographical Journal 68, no.1 (1993): 1-9.

11 Durand-Lasserve, Alain, and Lauren Royston. Holding their ground: secure land tenure for the urban poor in developing countries. London: Earthscan Publications, 2002.

12 Banerjee, Banashree. “Security of tenure in Indian cities.” In Holding their ground: secure land tenure for the urban poor in developing countries by Alan Durand-Lasserve and Lauren Royston, 52-58. Earthscan Publications, 2002.

13 Lisa R. PeattieSome second thoughts on sites and services. Habitat International, 6 (1/2) (1982), pp. 131-139

14 Lisa R. PeattieSome second thoughts on sites and services Habitat International, 6 (1/2) (1982), pp. 131-139

and thriving communities living in the same plots that were earlier vacant. Early criticism of such projects proved false and misplaced. According to the latest research, the World Bank wrongly deemed that these projects had failed.

Possibly, the above-discussed case is prone to suffer similar criticism in future. In the following paragraphs the case is critically examined to explain possible pitfalls similar to 'sites and services' models:

1. **Long Gestation Period:** In the sites-and-services projects, initial delay happened due to the inability of the government to make land available which was because of the delay in acquisition of land. Also, people take a long time to settle on these plots. In most of the projects, after allotment of sites, people gradually settled, and most of the houses came up incrementally. In the case of NMA, since no land acquisition was involved, the transfer of land happened quickly. The house construction will happen gradually.

2. **Remoteness of sites:** Urbanisation in India is a long-drawn-out phenomenon. The sites which seemed remote earlier, now form the core of some metropolitan cities. Projects on remote sites put a burden of transportation cost to go to work sites. However, in the case of NMA, the residents have already been living in sites more remote than the one they have bought the land in. So, remoteness of sites isn't an issue in this case.

3. **Low Quality of Construction:** Low quality of construction with hardly any building standards is a pointed criticism of sites-and-services projects. In the case of NMA too, one can infer that people will hardly follow any building standards.

   While setting planning standards, a model of elitist urbanism was favoured while ignoring the housing needs of lower-income groups (Rishub 2002)[15]. These informal markets often cater to the poor. Planning standards inherited from colonial administrations are higher than the financial capacity of the poor people to comply with them. Thus, the only viable option is to depend on informal channels to deal with in land and construction (Gilbert, 1990; Mehta & Mehta, 1989)[16].

4. **Leakages to the more affluent:** This could be a concern in a government-funded programme. In a private initiative, the market will ensure self-exclusion due to the remoteness of the site and small plot sizes. The more affluent would hardly invest in a remote agricultural site due to its lower speculative value.

6. Replicability

Upon reading this article, one may wonder if land is so affordable then why affordable housing seems difficult to achieve?

Studies have shown that in India if every family of four gets 1000 sq. ft of land, then less than one percent of the total land is occupied[17]. Thus, it is not the shortage of land that is driving the prices up. The primary reason behind the shortage of land and the pumping up of prices is the restricted supply due to extremely complex land laws and their implementation (called – Permit Raj)[18].

The experiment can be replicated anywhere ad nauseam if the farmers and landowners drive the urbanisation instead of the government officials and regulators. Once the master plan is approved, the landowners can take charge of taking it forward with minimum hassles from regulatory bodies. For example, in Delhi, the monopoly of Delhi Development Authority [DDA] in supplying land for housing purposes has led to a land shortage for any further development in the housing sector and DDA itself failed to meet the ever-increasing housing demand from all sections of society[19] (Pugh, 1991).

When an individual, whether it is a civil servant or any private person, leads such ventures his motive is usually suspected and frowned upon. In such cases, intervention of donor agencies can provide credibility to such projects. The main reason behind these suspicions against such projects is the significant jump in the agricultural land value as soon as its land use status is changed from agriculture to residential or commercial. Facilitation by reputed agencies can help get rid of such suspicions and doubts and instead provide credibility. Also, if the land comes with small areas and locational disadvantages it may automatically keep non-intended beneficiaries away.

Having said that, one notable point is that the donor agencies should shift their focus away from large metropolitans and towards smaller urban centres to prevent the *fait accompli* beforehand in the form of unmanageable slums. Spending more money and efforts in securing affordable housing in Tier II or Tier III cities may be a much cheaper alternative[20] as opposed to multi-billion-dollar large-scale housing projects for slum clearance. In any case, multi-storied housing projects are beyond the maintenance capacity of intended beneficiaries and may face a fate similar to that of public housing projects in the US where public interest lawsuits led to the demolition of scores of public housing projects[21].

7. Conclusion

This model is simple and replicable. In fact, such projects happen all around the cities but, in most cases, illegally and surreptitiously. Consequently, regulators take decades in planning to regularise such unauthorised settlements with little success. The key to affordable housing is land ownership and allowing people to build their houses themselves.

This case presents a market-driven solution. The creation of affordable housing needs facilitation and enabling provisions more than the capital. There is a need for legal reforms for the jettisoning of present practices and adopting a locally suitable mode of property transactions (Soto 2000: 198). The recipe of affordable housing seems simple, but still, governments and donor agencies focus more on financing the projects rather than undertaking legal reforms.

In the words of De Soto himself[22]:

"if all this [the agenda of legal reforms] sounds more like an anthropological adventure than the basis for legal reform, it is because knowledge about the poor has been monopolized by academics, journalists, and activists moved by compassion or intellectual curiosity rather than by the nuts and bolts of legal reform" (Soto 2000: 198).

15 Rishub, Neelima. "Policies for tenure security in Delhi." In Holding their ground: secure land tenure for the urban poor in developing countries, by Alan Durand-Lasserve and Lauren Royston, 37-58. Earthscan Publications, 2002.

16 Gilbert, Alan. "The cost and benefits of the illegality and irregularity in the supply of land." In The transformation of land supply systems in Third World cities, edited by P. Baross, J. J. van der Lindenpp, Aldershot: Avebury, 1990. Mehta, Meera, Dinesh Mehta. Metropolitan housing market: a study of Ahmedabad. New Delhi: Sage Publication, 1989.

17 http://openlib.org/home/ila/MEDIA/2007/house_truths.html

18 Land Price, Bubbbles and Permit Raj. Gurbachan Singh. https://doi.org/10.1177/0974929216683115

19 Pugh, Cedric. "Housing and Land Policies in Delhi." Journal of Urban Affairs vol. 13, no. 3 (1991): 367–382. doi:10.1111/j.1467-9906.1991.tb00261.x.

20 https://www.hdfc.com/blog/emergence-tier-ii-and-tier-iii-cities

21 Turner M A, 1998, ``Moving out of poverty: expanding mobility and choice through tenant-based housing assistance" Housing Policy Debate 9 373 ^ 394

22 Soto, Hernando De. The mystery of capital: why capitalism triumphs in the West and fails everywhere else. New York: Basic Books, 2000. pp 198

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